

Audit and Risk Assurance Committee Agenda

Thursday 3 September 2020 at 5.00 pm
The meeting will be conducted virtually via Microsoft Teams

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- 1. Apologies**
To receive any apologies for absence.
- 2. Declarations of Interest**
To receive any declarations of interest from members relating to any item on the agenda, in accordance with the provisions of the Code of Conduct and/or S106 of the Local Government Finance Act 1992.
- 3. Minutes**
To confirm the minutes of the meeting held on 9 January 2020 as a correct record.
- 4. Revised Annual Governance Statement 2018/19**
To review and approve the Council's revised Annual Governance Statement for 2018/19.
- 5. Statement of Accounts 2018/19**
To review and approve the Council's Statement of Accounts for 2018/19.
- 6. Audit Findings Report 2018/19**
To receive and consider the findings of external auditors.

David Stevens
Chief Executive
Sandwell Council House
Freeth Street
Oldbury
West Midlands

Distribution:

Councillor Bostan(Chair);
Mr M Ager (Vice-Chair and Independent Member);
Councillors Allen, Hevican, M Yaseen, Jarvis, Moore and Preece.
Mr H Doyle and Mr J Hussain (Independent Members).

Contact: democratic_services@sandwell.gov.uk

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Minutes of the Audit and Risk Assurance Committee

**9 January 2020 at 5.00pm
at Sandwell Council House, Oldbury**

Present: Councillor Bostan (Chair);
Mr Ager (Independent Vice-Chair);
Councillors Allen and Hevican;
Mr Doyle and Mr Hussain (Independent Members).

Apologies: Councillor Jarvis, Moore and Preece.

1/20 **Minutes**

Resolved that the minutes of the meeting held on 19 September 2019 are approved as a correct record.

2/20 **Strategic Risk Register Update**

The Committee noted an update on the Council's strategic risks and the arrangements in place to manage them.

The register currently included 13 strategic risks- six red risks and seven risks assessed as amber. It remained the case that the following risks, which related to the uncertainty around government funding, which the Council had little scope to mitigate against, remained red:-

Risk 4c - Demand for Children's Social Care
Risk 27 – Funding and Resource Allocation
Risk 40 – School Place Planning
Risk 52 - Better Care Fund and Public Health Grant

In relation to Risk 50 – Commonwealth Games Aquatics Centre - the Executive Director – Resources confirmed that the project remained within budget.

3/20

Adult Social Care, Health and Wellbeing Directorate Risk Register

The Interim Director – Adult Social Care presented the Adult Social Care, Health and Wellbeing Directorate’s Risk Register and updated the Committee on the mitigations in place to manage the risks.

There were nine strategic risks on the register, none of which were currently Red. The Committee noted that Risk 37 – Delayed Transfers of Care – had been downgraded from Red to Green and that Sandwell was currently the second best performing authority in the country. However, the risk would remain on the register due to the fluidity of the healthcare system.

In respect of Risk 3 - Strategic Workforce Development – the Committee heard that work was taking place with human resources to understand current and future workforce requirements, with a focus on ensuring that the workforce was representative of Sandwell’s demographics. The Interim Director – Adult Social Care agreed to provide the Committee be a breakdown in relation to the current workforce’s black and minority ethnic (BAME) profile.

In relation to Risk 25 – Supply Chain Resilience – the Committee was informed that the introduction of the National Living Wage had brought about more detailed discussions with providers about their financial sustainability, which had given the Council a clearer picture of the sustainability of the market as a whole. This had also allowed the Council to review the rates it paid to providers to ensure sustainability. There were over 1,000 voluntary and community sector organisations in Sandwell with an array of different grant arrangements in place. In addition, the Council had contractual arrangements in place with a number of domiciliary care providers and residential and nursing homes. The Committee was assured that a regular programme of contract monitoring was in place, with the largest value contracts receiving the most attention.

In relation to Risk 30 – Liberty Protection Safeguards – the Council had begun preparations for the incoming new legislation before it had received royal assent, so the Council had a good level of understanding of its implications. This risk had therefore

Audit and Risk Assurance Committee – 9 January 2020

been downgraded from red to amber whilst practise guidance was awaited.

4/20

External Audit Progress Report and Sector Update

The Committee received a progress report from the Council's external auditors, Grant Thornton, along with a summary of emerging national issues and developments.

The 2018/2019 audit of accounts was not yet complete due to a number of technical matters as a result of changes to the Chartered institute of Public Finance and Accountancy (CIPFA) Code of Practice. This had caused delays across the whole sector, affecting over 200 local authorities. The two key areas where work was still being undertaken were in connection with valuation of property plant and equipment (PPE) and Sandwell Land and Property Company (SL&P). Changes to the CIPFA Code of Practice meant that closer scrutiny was required on how the evaluation of PPE was calculated.

In relation to SL&P, this was considered an unusual arrangement for a local authority, and Grant Thornton had different views to the Council's previous auditors (KPMG) on how this should be accounted for. A revised accounting paper was being prepared for consideration by external auditors. It was likely that material adjustments would be required to both the Council's and SL&P's accounts. The Committee was assured that there were no concerns about fraud, however SL&P accounts had not previously been subject to audit, due to reliance on the small company exemption. This exemption would no longer apply due to the value of the adjustments, so an audit was now required, which would need to be undertaken before the opinion on the Council's accounts could be issued, as the SL&P accounts would need to be consolidated into the Council's group accounts.

It was anticipated that Statement of Accounts and External Audit reports 2018/2019 would be submitted to the next meeting.

Audit and Risk Assurance Committee – 9 January 2020

5/20 Internal Audit Progress Report

The Committee noted the work undertaken by the Council's Audit Services from April to December 2019.

Of the 12 audits carried out, six Limited Assurance opinions had been issued and one Inadequate. While there were no systematic concerns and relevant managers had undertaken to address all recommendations. The Committee noted the detail of the issues raised and the measures that had been put in place to address them.

Compliance with the General Data Protection Regulation (GDPR) continued to be a key focus in many audits and this remained a Red risk on the Strategic Risk Register. The Committee was informed that external organisations with contractual arrangements with the Council, where appropriate, were re-visited within a 12-month period of the audit and the audit client worked with the teams to help them embed recommendations. The Head of Audit undertook to ascertain what training these organisations had received/delivered in terms of GDPR compliance.

6/20 Internal Audit Charter

The Committee received the Internal Audit Charter for review.

The Charter was based on the Chartered Institute of Public Finance and Accountancy's (CIPFA) model charter and reflected the requirements of the Public Sector Internal Audit Standards.

The Charter set out the definition, mission and the method of working for Internal Audit along with reporting lines.

There were no changes proposed to the Charter.

Members felt that the Charter needed to be more explicit in relation to the Council's role in auditing external organisations that the Council contracted with. The Committee was informed that the Council had separate charters in place in relation to the Children's Trust and other large organisations.

Audit and Risk Assurance Committee – 9 January 2020

Guidance was awaited from CIPFA on revisions to the Internal Audit Code of Practice and the Charter would be reviewed at the appropriate time to reflect this.

Resolved that, subject to an amendment to include an additional section in reference to the Council's contractual arrangements with third parties being included at the time of the next review, the Internal Audit Charter be approved.

7/20

Counter Fraud Update

The Committee received an update on the recent areas of counter fraud activity that the Council's Counter Fraud Unit had undertaken.

The Committee congratulated the team for its thorough investigations and work with the Police in relation to a high profile fraud investigation at Annie Lennard Primary School, which had resulted in the conviction of eight people working at the school and connected to people working at the school. Procedures to recover the losses under the Proceeds of Crime Act were now being implemented and authorities were confident that the full value of the losses would be recovered through charges on properties and freezing bank accounts for example.

This had been a unique case involving the two most senior staff responsible for finance and governance at the school colluding with each other and a number of suppliers. This had enabled key preventative controls, such as separation of duties to be bypassed. The audit programme had been extended to ensure that additional checks were carried out on suppliers. Fraud training for head teachers and governing bodies would also be enhanced.

Direct Payment fraud continued to be an area of significant risk due to the large amounts of money being managed by service users. There were a number of measures in place to mitigate these risks, including closer working between the Direct Payments Team and the Counter Fraud Unit. The Counter Fraud Unit had also received specialist training on conducting such investigations.

Audit and Risk Assurance Committee – 9 January 2020

8/20

The Council's Process for Gas Safety Within Council Owned Public Buildings.

The Committee received an update on progress implementing internal audit recommendations in relation to the undertaking of gas safety checks in Council properties.

Three key issues had been identified as part of the audit carried out in September 2018 and the Committee noted progress on implementing the recommendations:-

- 1) There had been delays in correlating gas safety certificates with the Council's systems and the contractor. It was confirmed that safety checks had been carried out within the required timescales, however, there had been delays in the certificates being issued.
- 2) There had been access issues in some cases, due to the presence of asbestos. Whilst asbestos would continue to be an issue, processes were now in place to ensure timely removal to enable access.
- 3) As part of the Council's role as corporate landlord, the service processes had now been implemented to ensure that that tenants were aware of obligations to complete the checks.

It was also reported that there was a project underway to understand the full implications for the Council around all compliance responsibilities in relation to its different roles as landlord, employer, statutory provider or a combination.

9/20

Exclusion of the Public and Press:

Resolved that the public and press be excluded from the rest of the meeting to avoid the possible disclosure of exempt information under Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006 relating to an individual.

Audit and Risk Assurance Committee – 9 January 2020

10/20

Local Government and Social Care Ombudsman - Investigation into a complaint against Sandwell Metropolitan Borough Council

The Committee noted the outcome of the investigation by the Local Government and Social Care Ombudsman regarding a complaint in relation to children's services.

The complaint had been received by the Children's Services directorate in August 2017, prior to the operation of Sandwell Children's Trust. As the complaint had progressed to an Ombudsman complaint, the Children's Trust had become involved after its inception. The Council's Director of Children's Services and Sandwell Children's Trust's Chief Executive were present and addressed the Committee.

The Ombudsman had issued its final report in November 2019 and Section 31(2) of the Local Government Act 1974 required the LGSCO's report to be presented to an appropriate committee within three months of receipt. The LGSCO had not yet made its full report public however.

The Chief Executive of the Children's Trust reported that all recommendations within the report had been addressed. The Trust had reviewed its complaints procedures and the way it engaged with complainants and was developing a quality assurance process.


The Director – Children's Services reported that Children's Services directorate had also reviewed its complaints processes and significant improvements had been made. There were few examples of such cases and it was hoped to avoid any more in the future.

(Meeting ended at 6.27 pm)

*Contact Officer: Stephnie Hancock
Democratic Services Unit
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REPORT TO AUDIT AND RISK ASSURANCE COMMITTEE

03 September 2020

Subject:	Revised Annual Governance Statement 2018/19
Director:	Rebecca Maher – Acting Section 151 Officer
Contribution towards Vision 2030:	
Contact Officer(s):	Narinder Phagura Business Partner - Audit, Fraud, Risk and Insurance narinder_phagura@sandwell.gov.uk

DECISION RECOMMENDATIONS

That Audit and Risk Assurance Committee:

1. Reviews and approves the council's revised Annual Governance Statement for 2018/19, which is attached as Appendix A.

1 PURPOSE OF THE REPORT

- 1.1 The council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The framework requires the council to prepare an Annual Governance Statement in order to report publicly on the extent to which it complies with its code of governance on an annual basis, including how it has monitored the effectiveness of the annual governance arrangements in the year, and on any planned changes in the coming period. Every local authority must prepare a governance statement to accompany its Statement of Accounts.

2 IMPLICATIONS FOR SANDWELL'S VISION

- 2.1 The Sandwell Vision is at the heart of everything the council does. The completion of the Annual Governance Statement and addressing issues arising from it, will contribute to the ambitions that make up the vision, by ensuring that a strong governance framework is in place.

3 BACKGROUND AND MAIN CONSIDERATIONS

- 3.1 The governance statement was initially approved by the Audit and Risk Committee on 25 July 2019. However, as a result of the delay in finalising the 2018/19 Statement of Accounts, it has been updated in order for it to operate up to the date of the approval of the 2018/19 Statement of Accounts.
- 3.2 The council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 3.3 In discharging this overall responsibility, the council is also responsible for putting in place proper arrangements for the governance of its affairs and which includes arrangements for the management of risk.
- 3.4 The council has adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government and completes and publishes a governance statement with its statement of accounts.
- 3.5 The governance statement is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can only provide therefore, reasonable and not absolute assurance of effectiveness. The governance statement is 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.
- 3.6 The statement is signed by the Chief Executive and the Leader of the Council, who have a responsibility to ensure that the document is supported by reliable evidence and accurately reflects the council's internal control environment.

- 3.7 In 2018/19, to support the preparation of the statement, each Executive Director completed an assurance statement to identify any areas of significant weakness and the measures that have been or will be put in place to address them. In addition to this, all Cabinet Members also completed Member Assurance Statements to identify any areas for improvement.
- 3.8 The governance statement has been prepared using the assurances provided by Executive Directors and other assurances obtained including external and internal audit, the strategic risk register, Ofsted and other external reviews.
- 3.9 The statement includes details of the areas where the council has significant governance issues arising and includes a plan detailing the actions that are being or will be taken to address these areas of weakness has also been included. Updates on the progress made in implementing these actions will be presented to the Audit and Risk Assurance Committee throughout the year.

4 THE CURRENT POSITION

- 4.1 The council, in accordance with statutory requirements, completes a governance statement on an annual basis and it is published with the statement of accounts.

5 CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)

- 5.1 The governance statement has been reported to the respective directors.

6 ALTERNATIVE OPTIONS

- 6.1 It is a statutory requirement for the council to produce a governance statement. As such, alternative options do not need to be considered.

7 STRATEGIC RESOURCE IMPLICATIONS

- 7.1 There are no direct financial and resource implications arising from this report.

8 LEGAL AND GOVERNANCE CONSIDERATIONS

- 8.1 The council is required to prepare a governance statement to report publicly on the extent to which it complies with its code of governance, including how it has monitored the effectiveness of the governance arrangements in the year and on any planned changes in the coming period. The council's governance statement must accompany its Statement of Accounts.

9 EQUALITY IMPACT ASSESSMENT

9.1 It was not necessary to undertake an Equality Impact Assessment.

10 DATA PROTECTION IMPACT ASSESSMENT

10.1 It was not necessary to undertake a Data Protection Impact Assessment.

11 CRIME AND DISORDER AND RISK ASSESSMENT

11.1 There are no direct risk implications arising from this report.

12 SUSTAINABILITY OF PROPOSALS

12.1 There are no direct sustainability issues arising from this report.

13 HEALTH AND WELLBEING IMPLICATIONS (INCLUDING SOCIAL VALUE)

13.1 There are no direct health and wellbeing implications from this report.

14 IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND

14.1 There is no direct impact on any council managed property or land from this report.

15 CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

15.1 The committee is requested to review and approve the governance statement for 2018/19.

16 BACKGROUND PAPERS

16.1 None.

17 APPENDICES:

Appendix A – governance statement for 2018/19.

Rebecca Maher
Acting Section 151 Officer

Annual Governance Statement 2018/19



Note to the 2018/19 Annual Governance Statement

This Annual Governance Statement was originally prepared and approved by the Audit and Risk Assurance Committee on 25 July 2019, in order to accompany the 2018/19 Statement of Accounts prior to their sign-off.

However, there has been a significant delay in the final sign-off of the 2018/19 Statement of Accounts as a result of issues in respect of Sandwell Land and Property Limited.

By the time of the final sign-off of the 2018/19 Statement of Accounts, the draft 2019/20 Annual Governance Statement which forms part of the draft 2019/20 Statement of Accounts has already also been prepared. Therefore, to avoid significant duplication of the 2018/19 and 2019/20 Annual Governance Statements, this Annual Governance Statement largely reflects the position for 2018/19 at the time it was approved in July 2019. Brief references to any significant changes or issues since this date are noted below, but the detail in respect of these matters is included in the 2019/20 draft Annual Governance Statement.

Since July 2019, there have been a number of new and emerging issues that have come to the council's attention that may impact upon the assumptions made in the 2018/19 accounts, alongside the issues referred to above which resulted in the delay to the sign-off of the Statement of Accounts.

These new issues focus predominantly around Brexit and Covid-19 related matters and whilst the details around this are being addressed in the 2019/20 Annual Governance Statement, the assumptions for the 2018/19 Statement of Accounts have been reviewed in light of these issues. The impact of both issues, in particular the unprecedented significance of Covid-19 began to be addressed towards the 2019/20 year-end and continue to be so into 2020/21.

The risks associated with these issues are being monitored through regular financial and governance reporting and also form a key part of the council's risk management process.

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. 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 robust arrangements for the governance of all its functions and the effective discharge of its duties and obligations, including the implementation of appropriate arrangements for the management and mitigation of risk.

The Council has a [Code of Corporate Governance](#), which was revised in line with the latest principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. The principles have been adopted in this statement. A copy of the current 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 outlines the Council's culture and values and comprises the systems and processes by which the Council is directed and controlled and details those 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 and ultimately the desired outcomes.

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 2019 and up to the date of approval of the annual report and Statement of Accounts.

The Governance Framework

The Council's Vision 2030 outlines ten ambitions for the long-term future of the Borough of Sandwell.

This Framework is consistent with the seven core principles of the CIPFA/ SOLACE framework. Key elements of Council systems and processes form part of the Council's Governance Framework (as detailed in the Code of Corporate Governance) and the table below sets out the evidence relied upon that provides assurance that the CIPFA/ SOLACE framework has been complied with.

Core Principles of the CIPFA/ SOLACE Framework	Governance Framework Providing Assurance	Assurances Received	Issues Identified
<ul style="list-style-type: none"> Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law. Ensuring openness and comprehensive stakeholder engagement. Defining outcomes in terms of sustainable economic, social, and environmental benefits. Determining the interventions necessary to optimise the achievement of the intended outcomes. 	<ul style="list-style-type: none"> Annual review of the Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer) Corporate and Directorate business plans Medium term financial plan Corporate risk management strategy Strategic risk-register and assurance map Scrutiny arrangement Codes of conduct Schemes of delegation Partnership framework Standards and Member Development Committee Audit and Risk Assurance Committee Internal audit plan External audit plan Independent external reviews (e.g. Ofsted, CQC) HR Strategy 	<ul style="list-style-type: none"> Statement of Accounts External Audit- Report to those charged with governance (ISA 260) Report Annual Internal Audit Report Review of the Effectiveness of Internal Audit Annual and periodic Reports to the Ethical Standards & Member Development Committee Member and Executive Development Programmes Ofsted – monitoring visits LGA Corporate Peer Review follow up January 2019 Ofsted Annual Report of HMCf of Education, Children's Services and Skills Annual Local Government Ombudsman report Annual Fraud Report Director of Public Health Annual Report 	<ul style="list-style-type: none"> Children's Services Resilience of the Medium Term Financial Strategy Compliance with Contract Procedure Rules and Allocation of Grants Data Protection Act 2018 (incorporating the General Data Protection Regulation) Cyber Security School Place Planning

<ul style="list-style-type: none"> • Developing the entity's capacity, including the capability of its leadership and the individuals within it. • Managing risks and performance through robust internal control and strong public financial management. • Implementing good practices in transparency, reporting, and audit to deliver effective accountability. 	<ul style="list-style-type: none"> • Business planning and performance management framework • Learning and Development Plans • Communication Strategy • Confidential Reporting Code (Whistleblowing Policy) • Counter Fraud and Corruption Strategy • Customer Services system • Information Governance Framework • Executive Management Team, Cabinet Member and directors' assurance statements • Procurement and Contract Procedure Rules and Financial Regulations • Committee management information system (CMIS) • Information Governance Board • Strategic Partnership Board • Operational Partnership Board • Improvement Board • Electoral Participation Select Committee • Sandwell Sport and Leisure Built Facilities Steering Group • Commonwealth Games 2022 Steering Group • Standards Working Group 	<ul style="list-style-type: none"> • Sandwell Safeguarding Children's Board Annual Report • Sandwell Safeguarding Adult's Board Annual Report • Scrutiny Annual Report • PSN certification • Investors in People • Employee engagement survey • Ofsted inspection of Children's Services • Planning Committee Annual Report • Corporate Parenting Board Annual Report • Sandwell Leisure Trust Annual Performance Report 	
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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.

Please read the section below in conjunction with the note to the AGS provided at the start of this statement.

The key changes to the Governance framework during 2018/19 or after the year end but prior to this statement being produced include:

- The Sandwell Children's Trust went live on 1 April 2018. The Trust delivers children's social care services for the Council, with the statutory duty remaining with the Council. The Trust has day-to-day operational independence in the management and delivery of these services and is managed by a board of non-executive and executive directors.
- During the year the Leader of the Council stepped down from the role and was replaced on an interim basis by the Deputy Leader, with a new Leader being formally elected at the Full Council meeting held on 5 March 2019. Following this, a further new Leader was elected following the May 2019 local elections. *(A further update on this matter is included in the 2019/20 statement)*
- On 3 July 2019, the council's Chief Executive resigned. The responsibilities of the role were continued by the Interim Chief Executive who was later appointed as Chief Executive.
- A number of standards matters in relation to member conduct were concluded in 2018.

- A Standards Working Group has been set up to review the Code of Conduct, the arrangements for dealing with standards allegations and to review the member register and declarations of interest.
- A new member Development Programme has been devised and implemented that focuses on the development, learning and support needs of Elected Members.
- There have been permanent appointments to the post of Director of Regeneration and Growth and Director of Public Health and the Leadership Team.
- A Sandwell Sport and Leisure Built Facilities Strategy Steering Group and a Commonwealth Games 2022 Steering Group were set up in May 2018 to consider the current leisure provision in Sandwell and the establishment of an aquatic centre for the Commonwealth Games.
- An Electoral Participation Select Committee was established in May 2018 to consider electoral registration and participation in Sandwell with a view to increasing it.
- The Information Governance Board has been established and has a key role in ensuring compliance with the Data Protection Act 2018 (incorporating the General Data Protection Regulation).

The Review of Effectiveness

Please read the section below in conjunction with the note to the AGS provided at the start of this statement.

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 Elected 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 and Risk Assurance Committee; the Ethical Standards and Member Development Committee; the Scrutiny function, and reports made by the Council's external auditors and other review agencies and inspectorates (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 no key non-compliances 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.
- A number of outstanding standards investigations were completed during the year and these were reported to the [Ethical Standards and Member Development Committee meeting on 28 September 2018](#).
- During the year, Member and Executive Development Programmes have been developed and implemented that have been designed by Members and focus on their development, training and support requirements from both a corporate and personal councillor perspective.

- The Council's external auditors Grant Thornton are auditing the Statement of Accounts for 2018/19 and will provide an independent 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.
- 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 is able to confirm that its financial management arrangements do conform. The Chief Financial Officer has been involved in preparing 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.



- The Council's Anti-Money Laundering Policy was updated to reflect the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and included the introduction of a reduced cash limit from £8,000 to £2,000, identifying nominated officers to assist the Anti-Money Laundering Reporting Officer with their duties, and increasing staff awareness on the importance of carrying out due diligence enquiries and reporting concerns of money laundering.
- In October 2016, the Council was advised of the Governments Statutory Direction (under section 479A of the Education Act 1996) to appoint a Children's Services Commissioner to improve children's social care services and also to set up a new arrangement in the form of a children's trust to deliver children's social care services for a period of time. The Sandwell Children's Trust went fully operationally on 1 April 2018. The Trust while owned by the Council has day-to-day operational independence with regards to its management and the delivery of children's social care services and is managed by a board of non-executive and executive directors. The statutory duty to provide children's social care services however, remains with the Council. As such, comprehensive governance arrangements are in place to enable the Council to monitor progress of the Trust, consider performance and operational issues on a regular basis, and hold the Trust Board to account.

- In the Trust's Statement of Internal Control as published in their 2018/19 Annual Report and Financial Statements, it was noted that the Internal Auditors provided reasonable assurance that the Trust had adequate and effective risk management and internal control processes. The Trust's external auditors Grant Thornton audited the Statement of Accounts for 2018/19 and provided an unqualified independent audit opinion of the financial statements for the Trust.
- In January 2018, the Council participated in a Local Government Association Corporate Peer Challenge. The review made 12 recommendations in areas including strengthening the arrangements for partnership working to deliver the Vision 2030; strengthening the influence the Council has beyond the borough boundary and across the region; the Council's approach to long term financial planning; leadership team development; conducting a governance review and the development of town plans. A follow up visit was made in January 2019 and reported that significant progress had been made against the recommendations made.
- In November 2018, the Council conducted an employee engagement survey to understand how employees felt about their jobs and working for the Council. The survey achieved a response rate of 63% and achieved an employee engagement index of 70%, a 5% increase on the previous survey.

Opinion for 2018/19

We have been informed by the sources noted above on the result of the review of effectiveness of the Governance Framework, that while there has been a delay in the finalisation of the statement of accounts, 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 2017/18 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 carried forward and included in the 2018/19 issues.

Progress of the Governance Issues from 2017/18

The table below describes the governance issues identified during 2017/18 (which were reported in the 2017/18 Annual Governance Statement) and the progress that has been made against the implementation of actions to address these issues, during 2018/19. For any issues carried forward (in order to avoid duplication), the details of any further progress made during 2019/20 is included in the draft 2019/20 Annual Governance Statement

Key Area for Improvement	Update on Position and Implication for the 2018/19 Annual Governance Statement
Children's Services Sandwell Children's Trust went live on 1 April 2018, the Council still has the statutory responsibility for children's services. The Trust has been contracted to develop children's social care so that	The Trust is working with a multi-agency Improvement Board which oversees progress against the 17 recommendations for improvement which came from the Ofsted inspection in January 2018. The Board was chaired by the CEO of Doncaster Children's Trust, from April 2018 to January 2019 and the Department for Education (DfE) has appointed a new independent chair who took up the role in May 2019. The Improvement Plan is being regularly updated.

<p>it is rated requires improvement by 2020 and good by 2022.</p>	<p>A robust performance management framework is in place. An Operational Partnership Board has met monthly since April 2018 to monitor the Contract between the Council and the Trust. A Strategic Partnership Board meets quarterly, with both Boards providing effective support and challenge.</p> <p>The Chair of the Trust Board has attended two meetings of the council's Education and Children's Services Scrutiny Board. A full review of the first year of operation was presented to the Scrutiny Board in September 2019 prior to a report to Cabinet in October 2019.</p> <p>Regular Ofsted monitoring visits have recognised that progress is being made "from a low base". In addition, these visits have noted that staff were responding to a clear vision for improvement and the Trust was recognising where it needed to improve its services.</p> <p>The Youth Offending Service, delivered through the Trust, was inspected in September 2018 and rated 'good' and Adoption Services were inspected in January 2019 and rated as 'requires improvement'. However, the inspection of Fostering Services continues to be inadequate.</p> <p>Carry forward</p>
<p>Resilience of the Medium Term Financial Strategy (MTFS)</p> <p>Council approved a balanced budget for 2018/19, but savings of £6.5m for 2019/20 and £6.4m for 2020/21 were needed. Projects were to be established to deliver the savings required.</p> <p>In addition, work was to continue in the implementation of the vision for the Council for 2030 and the development of a new Performance Management Framework to replace the scorecard, which will measure progress against the vision and outcomes achieved.</p>	<p>The majority of services across Sandwell ended the 2018/19 year in surplus and carried forward combined surpluses of approximately £22m to future years.</p> <p>A balanced budget for 2019/20 was approved by Council on 6 March 2019.</p> <p>In the medium-term, there remain significant uncertainties and lack of clarity over local government funding and plans for the future. The Fair Funding Review announced by government will assess and update spending needs and tax raising capacities and set new baseline funding allocations for local authorities with a view to transitioning to the new system. A budget challenge group has been established, which comprises all directors and meets monthly to discuss the medium-term budget and to identify and assess options for increased income generation.</p> <p>The other major risk to the resilience of the budget strategy remains the financial implications of increasing demand in Children's Social Care.</p> <p>In the January 2019 follow up, the peer review team reported that 'Vision 2030 is embedded within the Council and has empowered staff'. It noted there should be a continued focus on 'a route map for delivery, alignment of resources and measures of success to support the realisation of aspirations'. To this end, a borough wide conference to take forward Vision 2030, took place in July 2019.</p> <p>Carry forward</p>
<p>Land Sales and Other</p>	<p>A new protocol for the disposal of Council owned land and buildings is being embedded into the Council's processes.</p>

<p>Matters</p> <p>There were a number of ongoing matters relating to land issues and other matters.</p>	<p>Included within this is the Land and Asset Management Committee which is working well and is supported by an officer group. All land sales and leases within delegated authority are signed by both the Executive Director of Neighbourhoods and the Director of Regeneration and Growth.</p> <p>Work on assessing compliance with the new protocol for the disposal of Council owned land and buildings will be ongoing. A number of standards investigations have been completed and were reported to the Ethical Standards and Member Development Committee meeting on 28 September 2018.</p> <p>Complete</p>
<p>Compliance with Contract Procedure Rules and Allocation of Grants</p> <p>Three limited assurance internal audit reports were issued on Grants within Neighbourhood Services, Grot Spot Funding and Off Contract Spend within Grounds Maintenance and Parks and Green Spaces. A comprehensive review of Neighbourhood Services, considering the findings of the audit reports was undertaken and an action plan developed to address these matters.</p>	<p>Off contract spend is monitored at six monthly intervals across Housing and Communities. Reports are provided to the director and all service managers. These reports are discussed and monitored at senior management team. The amount of off contract spend has reduced significantly in this area.</p> <p>New procedures have been implemented for the differing grants/funding with senior officers having sign off responsibility and member consultation taking place. Additional resources have been put into the team to ensure a stronger focus on monitoring and spot-check audits are being undertaken. A compliance audit against the ISO procedure has been completed and no significant issues identified. A monitoring process is underway to monitor spend and regular budget meetings are held with finance.</p> <p>Previous audit recommendations are being worked upon and Audit Services will be conducting a follow up review.</p> <p>Carry forward</p>
<p>Business Continuity</p> <p>To ensure that the Council has in place a framework for its business continuity planning arrangements, to ensure that it is able to maintain the delivery of critical services in the event of an emergency.</p>	<p>All business continuity plans, and emergency plans are being reviewed on an annual basis. The Resilience Unit has developed and delivered/ scheduled training sessions/exercises for all directorates to ensure the business continuity service plans in place are fit for purpose and that service managers/managers are familiar with them.</p> <p>A large multi-agency exercise took place on 8 March 2019 which involved testing some of the emergency plans.</p> <p>Complete</p>
<p>Data Protection Act 2018 (incorporating the General Data Protection Regulation)</p> <p>On 25 May 2018, the new Data Protection Act 2018 came into force which is a direct replacement for the Data Protection Act 1998 and applies to all public and private bodies in the United Kingdom. GDPR has been</p>	<p>Specialist Information Governance support has been secured and a diagnostic exercise undertaken to review the work to date and determine what other actions are required to ensure the Council's information governance arrangements are robust.</p> <p>The Information Governance Board has been refreshed and a revised action plan devised and agreed by the Executive Management Team.</p> <p>The diagnostic also considered requisite actions required to ensure Elected Members understand their information governance duties and obligations.</p>

<p>incorporated into domestic legislation through the 2018 Act. The Act applies to the collection and processing of personal and/or sensitive personal information. Non-compliance could result in fines of up to £17million for the council.</p>	<p>The outcome of this diagnostic process has resulted in a four-phased action plan being developed, that monitors and manages all information governance activities</p> <p>An Information Governance Project Team, chaired by the Director of Law and Governance and Monitoring Officer (and Senior Information Risk Owner (SIRO)), has been established to support the Information Governance Board and manage the activities falling within the four-phase action plan.</p> <p>The Council has taken requisite steps to ensure compliance with the NHS Toolkit on information governance and a successful submission was made as required ahead of the 31 March 2019 deadline.</p> <p>Carry forward</p>
<p>Cyber Security</p> <p>The Council has undertaken an exercise to assess itself against the “10 Steps to Cyber Security” to ensure it has a co-ordinated approach and understanding of its existing cyber security controls or those available to it. The review highlighted areas where the Council required improvement.</p>	<p>The redesign of ICT services now includes a Cyber Security & Connectivity Services team. The Team Manager is responsible for monitoring incoming cyber security threats and ensuring our infrastructure is well maintained.</p> <p>All service architecture managers responsible for ICT technologies, are establishing a proactive patching and update schedule to ensure security updates are promptly uploaded to all platforms. As part of the Citrix improvement plan, the technology was recently patched to the latest version.</p> <p>The Windows 10 refresh programme was completed in December 2018 ensuring non-Citrix users were deployed with new devices with enhanced security measures.</p> <p>Additional security measures have been applied to email systems to enhance protection of messages to and from our public-sector partners.</p> <p>Sandwell ICT has established a regional Cyber Security Working group to collectively discuss potential vulnerabilities and produce mitigation plans.</p> <p>ICT is a member of the Information Governance Project Team (as well as already being a member of the Information Governance Board) and provides updates and seeks approval on security concerns.</p> <p>Governance and Business Support Services within the Law and Governance Directorate lead on the e-learning packages for raising awareness of cyber security and general data protection regulations which was completed by over 95% of council based staff prior to the 2018/19 year end as required.</p> <p>There is a suite of organisational policies and procedures which outline to employees of the Council the appropriate ways of managing information and computer systems. This will be supported by the procurement of an e-learning software tool which will allow the roll out of training to all staff quickly, timely and effectively. It will be used to provide regular awareness and updates on good practice and includes “testing” to ensure adequate knowledge is embedded in our workforce.</p>

	<p>A new cyber security governance regime was introduced in March 2019.</p> <p>Carry forward</p>
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Significant Governance Issues and Action Plan for 2018/19

Based on the Council's established risk management approach and system of internal control, 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
<p>Children's Services</p> <p>The Trust continues to implement improvements arising from previous inspections but received 3 compliance notices following a regulatory inspection on fostering by Ofsted. An Ofsted monitoring visit in June 2019 removed two of the compliance notices and a re-inspection will take place in September 2019. An inspection of adoption services by Ofsted gave a judgment of requires improvement to be good and made recommendations on how this could be achieved. An inspection of Youth Offending Service gave a good judgement.</p> <p>Although the Trust went live from 1 April 2018, the Council still has a statutory responsibility for children's services. The contract between the Council and the Trust requires children's social care to be assessed as requires improvement by 2020 and good by 2022. The Trust will continue to work with improvement partners, to support its development. The Council is establishing a client function to monitor delivery of the contract via a performance management framework and other methods, including the Strategic Partnership Board which meets quarterly and the Operational Partnership Board which meets monthly.</p> <p>The Trust's outturn position for 2018/19 is an overspend of £6.3m and a key task will be to manage its budget when recognising the increased demand on services.</p>	<p>Executive Director of Children's Services 2020</p>
<p>Resilience of the Medium Term Financial Strategy (MTFS)</p> <p>Central government's failure to publish details of the Comprehensive Spending Review or detailed plans for the future local government funding formula is creating unprecedented uncertainty around funding allocations. Once details are published, plans will be drawn up.</p>	<p>Executive Director of Resources Following publication of details by government</p>
<p>Compliance with Contract Procedure Rules and Allocation of Grants</p>	<p>Executive Director of Neighbourhoods 2020</p>

<p>A compliance audit against the ISO procedure has been completed with no significant issues identified. A monitoring process is now underway to monitor spend and regular budget meetings are held with finance.</p> <p>Previous audit recommendations are being followed up by Audit Services and the findings from this will be used to populate an action plan and will be reported back to the Audit and Risk Assurance Committee.</p>	
<p>Data Protection Act 2018 (incorporating the General Data Protection Regulation (GDPR))</p> <p>A four phase action plan has been approved by the Senior Information Risk Officer (SIRO) to ensure the council is able to meet the Information Commissioner's 12 step guide to GDPR compliance activity. Progress against the plan is being reported to the Council's Information Governance Board, which is chaired by the SIRO.</p>	<p>Director of Law and Governance & Monitoring Officer 2020</p>
<p>Cyber Security</p> <p>Cyber Security remains a fast-moving issue and the Council needs to be pro-active in managing, monitoring and reacting to the risk of on-going threats in order to:</p> <ul style="list-style-type: none"> • protect its ability to deliver services, particularly critical services for a significant period of time, • prevent the loss of corporate and sensitive personal data (including bank details) • prevent enforcement action • reduce the risk of significant financial loss and reputational loss. 	<p>Executive Director of Resources 2020</p>
<p>School Place Planning</p> <p>The Council has a statutory duty to provide sufficient school places. The current focus is on secondary schools where an additional 660 places are required by September 2020. The Council is considering its options as to how to address this issue.</p>	<p>Executive Director of Children's Services Director of Education, Skills and Employment September 2021</p>

Certification

To the best of our knowledge, and subject to the note included at the beginning of this statement, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. We have taken steps during 2019/20 to address the above matters to further enhance our governance arrangements and where required, we propose to continue with further improvements in these matters during 2020/21. 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 Maria Crompton, Deputy Leader of the Council

A handwritten signature in black ink, appearing to read 'M Crompton'.

Date:




David Stevens, Chief Executive

A handwritten signature in black ink, appearing to read 'David Stevens'.

Date:

REPORT TO AUDIT AND RISK ASSURANCE COMMITTEE

3 September 2020

Subject:	Statement of Accounts 2018/19
Director:	Rebecca Maher – Head of Finance/Acting S151 Officer
Contribution towards Vision 2030:	
Contact Officer(s):	Rebecca Maher, Head of Finance/Acting S151 Officer Rebecca_maher@sandwell.gov.uk Clare Sandland, Finance Service Manager/Acting Deputy S151 Officer Clare_sandland@sandwell.gov.uk

DECISION RECOMMENDATIONS

That the Audit and Risk Assurance Committee:

1. Authorises the Chief Financial Officer, in consultation with the Chair and Vice-Chair of the Audit and Risk Assurance Committee (ARAC) to agree any changes which may be necessary in order to ensure the finalisation of the external audit currently being concluded by the Council's external auditors, Grant Thornton, to ensure completion of the Statement of Accounts.

1 PURPOSE OF THE REPORT

- 1.1 This report presents the Statement of Accounts and accompanying Management Representation Letter for 2018/19 for approval.

2 IMPLICATIONS FOR SANDWELL'S VISION

- 2.1 Each of the Council's 10 ambitions are engaged across this Report; the Council's financial status helps to underpin the Council's Vision 2030 and associated aspirations.

3 BACKGROUND AND MAIN CONSIDERATIONS

- 3.1 In accordance with the Accounts and Audit Regulations 2015, the Council's 2018/19 Statement of Accounts was approved by the Council's Section 151 Officer (Darren Carter) on 30 May 2019.
- 3.2 A copy of the unaudited accounts was displayed on the Council's website and a period of public display advertised in accordance with regulations. The accounts were placed on public display between 3 June 2019 and 12 July 2019 and were available for inspection during this period.

4 THE CURRENT POSITION

- 4.1 The audited Statement of Accounts for the year ending 31 March 2019 is attached as Appendix 1. These accounts have been prepared in accordance with the International Financial Reporting Standards based Code of Practice on Local Authority Accounting. The Management Representation Letter is attached as Appendix 2.
- 4.2 Several audit adjustments have been required and these are reflected in the revised Statement of Accounts in Appendix 1. These are outlined in the Audit Findings Report, presented by Grant Thornton under a separate agenda item of this meeting.
- 4.3 The Narrative Report at the beginning of the Statement of Accounts provides a concise statement of the Council's current financial position and an explanation of the core financial statements.
- 4.4 The main reason for the delay in presenting the Statement of Accounts to the ARAC is due to the council's new auditors Grant Thornton having a different opinion about how the wholly owned company, Sandwell Land and Property (SL&P), should be presented within the accounts. This has created significant additional work for both parties. Grant Thornton will cover this further as part of the presentation of the Audit Findings Report.
- 4.5 ARAC members should be aware that the draft Statement of Accounts for 2019/20 has now been published on the Council's website and this will be presented to the committee in late November. This contains an updated financial position for the Council.

5 CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)

5.1 No consultation with customers and stakeholders is necessary.

6 ALTERNATIVE OPTIONS

6.1 There are no alternative options to be considered.

7 STRATEGIC RESOURCE IMPLICATIONS

7.1 The council's financial position is set out within the Statement of Accounts for 2018/19.

8 LEGAL AND GOVERNANCE CONSIDERATIONS

8.1 The Accounts and Audit Regulations 2015 require a formal resolution by ARAC to approve its 2018/19 Statement of Accounts by 31st July 2019, however there have been some delays as detailed in the Audit Findings Report.

8.2 The audit also highlighted some legal procedural anomalies with regard to the share issues and land transfers that took place between the council and SL&P which are being rectified as a separate piece of work and do not affect the financial position reported in the Statement of Accounts.

9 EQUALITY IMPACT ASSESSMENT

9.1 There is no requirement for an Equality Impact Assessment.

10 DATA PROTECTION IMPACT ASSESSMENT

10.1 There are no Data Protection issues arising from this report.

11 CRIME AND DISORDER AND RISK ASSESSMENT

11.1 There are no crime and disorder issues arising from this report.

12 SUSTAINABILITY OF PROPOSALS

12.1 There are no issues around sustainability in this report.

13 HEALTH AND WELLBEING IMPLICATIONS (INCLUDING SOCIAL VALUE)

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

14 **IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND**

14.1 There is no impact on any council managed property or land.

15 **CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS**

15.1 The Statement of Accounts for 2018/19 and Management Representation should be approved in order for the council to meet its legal obligations.

15.2 Given the possibility that issues raised either at today's meeting or subsequently may require the Statement of Accounts to be amended it is recommended that delegated powers be given to the Chief Financial Officer in consultation with the Chair or Deputy Chair of this Committee to agree any final changes to the Council's Statement of Accounts 2018/19. It should be noted that the only changes that will be made under these delegated powers will relate to amendments agreed with the Council's external auditors Grant Thornton.

16 **BACKGROUND PAPERS**

16.1 CIPFA Code of Practice on Local Authority Accounting and associated guidance.

17 **APPENDICES:**

Appendix 1 – Statement of Accounts 2018/19

Appendix 2 – Management Representation Letter 2018/19



Rebecca Maher
Head of Finance/Acting S151 Officer



Statement of Accounts

2018/19

STATEMENT OF ACCOUNTS CONTENTS

Audit Opinion	1
Narrative Report Introduction	4
Narrative Report	5
Statement of Accounts;	
Statement of Responsibilities for the Statement of Accounts	18
Comprehensive Income and Expenditure Statement	19
Balance Sheet	21
Cash Flow Statement	23
Movement in Reserves Statement	25
Notes to the Accounts	27
Housing Revenue Account	114
Collection Fund	122
Group Accounts	126
Governance Statement	137
Glossary	150

AUDIT OPINION

AUDIT OPINION

AUDIT OPINION



MESSAGE FROM THE EXECUTIVE DIRECTOR OF RESOURCES

Local Government is facing enormous challenges. Nine years of austerity has left councils managing increasing demand for our services whilst having significantly less resources available to deliver those services. The sector deserves enormous credit for the way it has managed this seemingly impossible challenge.

Two important national factors have helped this process:

1. A grudging understanding by national politicians and the public that austerity has an impact on services;
2. The stability provided by a 4-year funding settlement allied to a local government funding formula that has remained largely unchanged for 5 years.

We can no longer rely on either of these factors for the following reasons:

1. The Prime Minister's seemingly premature announcement of the 'end of austerity' has not been backed-up with additional funding being made available.
2. 2019/20 is the last year of the previous funding settlement and there is no date fixed for the announcement of the next settlement.
3. The Government has embarked on a review of the local government funding formula that is creating unnecessary instability and which appears designed to move a greater share of funding to county councils.

As a result, local government is facing a period of huge uncertainty. My personal view is that this should be the key focus of our national public sector financial bodies, rather than their constant focus on the notional valuation of assets that have no material value in a local government context.

Sandwell Council is in a good position to manage our way through this uncertainty. Our finances continue to be well managed and we still have a reasonable, albeit reducing, level of reserves. We have a clear sense of purpose and optimism based around our 2030 Vision. We have a highly committed and engaged workforce, led by a permanent senior management team.

Financially, our biggest risk continues to be the Sandwell Children's Trust. The financial implications of the increase in demand for children's social care services requires a national solution – it cannot be managed by individual councils. It is to be hoped that national government understands this and takes some action as part of the comprehensive spending review.

Finally, I want to put on record my thanks to the whole of the finance team who have been responsible for the production of this Statement of Accounts. The team is roughly half the size it was back in 2010 but the knowledge, dedication and commitment of the team continues to be a credit to Sandwell.

Darren Carter, CPFA
Executive Director of Resources
March 2019

About Sandwell

The Borough

Sandwell is part of the West Midlands Conurbation and sits proudly at the heart of the Black Country. We are one of the seven local authorities that make up the West Midlands Combined Authority.

Sandwell is home to strong and vibrant communities. Our growing population (currently 325,460) is diverse with more than 34% of our population from ethnic backgrounds. Our six towns of Oldbury, Rowley Regis, Smethwick, Tipton, Wednesbury and West Bromwich have distinct identities and characteristics. Sandwell's rich past and multi-cultural heritage is central to its uniqueness and continues to shape its future.



Sandwell is, however, an area of widespread deprivation with huge and increasing demand for council services. Many Sandwell residents including our children and young people experience poor outcomes; 36.5% of children in Sandwell live in poverty. The Council has an ambitious plan to tackle these challenges and ensure every child and young person can realise their full potential.

The 2030 Vision

In 2030, Sandwell is a thriving, optimistic and resilient community. It's where we call home and where we're proud to belong - where we choose to bring up our families, where we feel safe and cared for, enjoying good health, rewarding work, feeling connected and valued in our neighbourhoods and communities, confident in the future, and benefiting fully from a revitalised West Midlands.

These words underpin the Sandwell 2030 Vision, setting out an ambitious agenda for what we are going to achieve in the coming years.

Ambition 1

Sandwell is a community where our families have high aspirations and where we pride ourselves on equality of opportunity and on our adaptability and resilience.

Too many Sandwell children live in deprived households – and this restricts social mobility from one generation to the next.



Children growing up in households where a parent does not work, or has low skills, are more likely to be out of work, in low income jobs or have a low level of education attainment themselves.

Our ambition is to break this cycle by 2030. To do this, we need to:

- improve children’s life chances;
- have high expectations of children to achieve; and
- raise aspirations in schools and at home.

Ambition 2

Sandwell is a place where we live healthy lives and live them for longer, and where those of us who are vulnerable feel respected and cared for.

Sandwell people have less healthy lifestyles than the national average.

People are living longer but are often in poor health as they get older – we want people to live well for longer.



Everyone can help make this happen. By 2030, we will:

- all be taking more responsibility for improving our own health and the health of our families;
- have excellent co-ordination between social care and the NHS;
- have a strong approach – with all partner organisations – to prevent ill health and improve long-term health and wellbeing; and
- be doing well in protecting our most vulnerable adults and children.

Ambition 3

Our workforce and young people are skilled and talented, geared up to respond to changing business needs and to win rewarding jobs in a growing economy.

Sandwell's low level of skills and qualifications is holding back people from achieving their potential.



Having the right skills is important for people to get better paid jobs, and this is likely to become ever more important as lower skilled jobs will be at risk from automation.

For Sandwell people to take up the jobs and opportunities available in 2030, we must:

- make sure people have the right mix of skills to equip them for the future job market;
- provide the right training – including the right balance of high-quality vocational training, apprenticeships and academic provision; and
- nurture links between education and business to fully understand what the job market needs and tailor it accordingly.

Ambition 4

Our children benefit from the best start in life and a high quality education throughout their school careers with outstanding support from their teachers and families.

Giving children the best start in life through a good quality, well-rounded education is vital to increasing their life opportunities and social mobility.



Our aim is that by 2030:

- high-quality primary and secondary education will be attracting and keeping young families in Sandwell;
- we will be expecting more for our children;
- the quality of teaching will be much better;
- technical and vocational education will have dramatically improved, with strong co-operation between schools and colleges; and
- parents will be more involved and schools will be excellent at developing skills to prepare children for life and raising their aspirations.

Ambition 5

Our communities are built on mutual respect and taking care of each other, supported by all the agencies that ensure we feel safe and protected in our homes and local neighbourhoods.

Sandwell's violent crime and anti-social behaviour levels are currently similar to the national average.



More will be done in the coming years to reduce crime and anti-social behaviour – and our long-term plans to reduce deprivation and improve every child's life chances will also help with this.

Our focus will be on:

- continuing our effective working with the police and partner organisations;
- building stronger community links;
- preventing crime and anti-social behaviour; and
- dealing effectively with domestic violence, female genital mutilation (FGM) and modern slavery.

Ambition 6

We have excellent and affordable public transport that connects us to all local centres and to jobs in Birmingham, Wolverhampton, the airport and the wider West Midlands.

Sandwell is well placed at the heart of the West Midlands transport system. We must make sure people have efficient and cost-effective ways to get to job and leisure opportunities.



Around 30,000 Sandwell residents already commute to Birmingham every day.

The West Midlands Combined Authority (WMCA) aims to improve links both within the region and into the national network via HS2.

By 2030, Sandwell will be reaping the rewards from better transport links across the region and growth in Birmingham, the rest of the Black Country and beyond.

Ambition 7

We now have many new homes to meet a full range of housing needs in attractive neighbourhoods and close to key transport routes.

Sandwell needs new areas of quality housing in places where people want to live and bring up their families and can easily get to jobs across the region by public transport.



Significant numbers of new homes will also support businesses, town centres and local services.

We also need well-placed new business sites to attract and retain successful employers.

To help achieve our 2030 vision:

- we will identify major development opportunities along public transport routes and develop plans with the community and developers to make this happen; and
- around 8,500 new homes will be built on sites with rapid transport connections into Birmingham, including the Dudley Port line, Metro and Jewellery line (Worcester to Birmingham).

Ambition 8

Our distinctive towns and neighbourhoods are successful centres of community life, leisure and entertainment where people increasingly choose to bring up their families.

The distinctiveness of Sandwell's six towns is a major strength. These towns already provide a focus for community life and have further potential.



By 2030:

- our six towns will be more vibrant, focusing on their individual strengths, strong heritage and community;
- Sandwell's industrial heritage will have been given new life, creating local pride and jobs;
- the great work already achieved in parks and green spaces will be kept up, and we will have made the most of our canals to link these aspects of community life; and
- families will be choosing to move into and stay in Sandwell and be proud of their town.

Ambition 9

Sandwell has become a location of choice for industries of the future where the local economy and high performing companies continue to grow. The new West Midlands Combined Authority (WMCA) says the region's strengths and opportunities lie in the advanced manufacturing sector, new digital industries and the harnessing of environmental technologies.



Sandwell has many strong businesses that are developing to build resilience for the future – but there is more we need to do to put Sandwell at the forefront of a successful regional economy.

By 2030, Sandwell will have geared up to attract the industries of the future to locate, expand or do business in the borough.

This means making sure the best companies have the land, trained workforce and necessary infrastructure to grow and prosper.

Sandwell's economy will be resilient and flexible, able to respond and evolve because all the basics will be in place.

Ambition 10

Sandwell now has a national reputation for getting things done, where all local partners are focused on what really matters in people's lives and communities.

To build a more resilient and successful Sandwell, we all need to work together and focus on addressing the things that really matter in people's lives.



We need to tackle the challenges and get the basics right by working together in a different way.

By 2030, Sandwell will be:

- nationally recognised for getting things done by everyone working together;
- a place known for trying out new things and taking measured risks – adopting new ideas from businesses, voluntary and community organisations, schools and colleges, and local people.

The Council

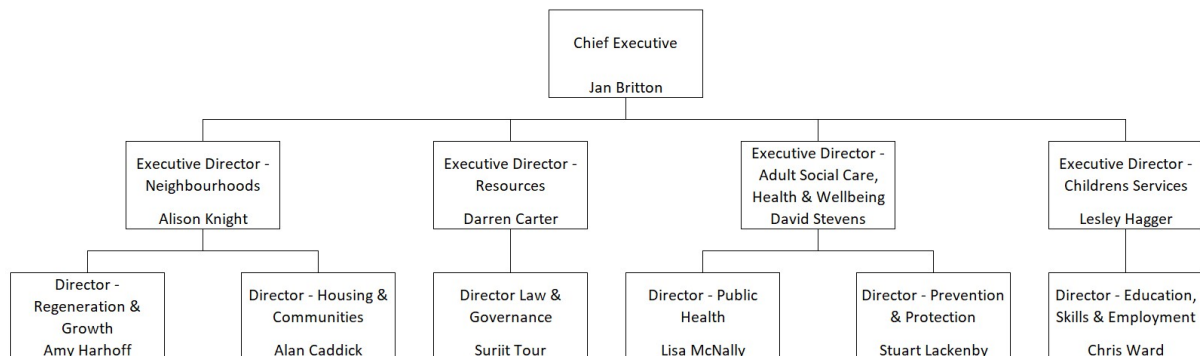
Political Leadership

The Council's Constitution provides that the Leader of the Council will be a councillor elected to that position by the Council and that he/she will hold office for up to four years or until he/she resigns, is suspended, ceases to be a councillor or is removed by resolution of the Council either directly or indirectly by virtue of the election of a new leader.

At the start of the year Councillor Eling was Leader with Councillor Khatun as Deputy. Councillor Eling subsequently resigned as Leader and Councillor Trow was confirmed as the new Leader at the meeting of the Council in March 2019 with Councillor Khatun as Deputy. On 3 May 2019 Councillor Steve Trow stepped down as Leader of Sandwell Council with immediate effect. At the Annual Council meeting on 21 May 2019 new Leader of the Council Councillor Yvonne Davis was elected. On 8 July 2020 Councillor Yvonne Davis stepped down as lead. Deputy Leader Councillor Maria Crompton is currently acting as leader of Sandwell Council.

Organisational Structure

A permanent senior management team is now in place, led by the Chief Executive and supported by four Executive Directors and six Directors. The structure has been designed to provide sufficient capacity for day-to-day leadership of the council and our 4,126 employees as well as delivering the strategic drive needed to take forward our 2030 vision.



Dr Alison Knight, the Executive Director of Neighbourhoods, has responsibility for all 'place' functions, shaping and driving the Neighbourhood's agenda, and line manages two Director posts:

- Amy Harhoff, the Director of Regeneration and Growth; and
- Alan Caddick, the Director of Housing and Communities.

Darren Carter, the Executive Director of Resources is the Council's statutory Section 151 Officer and line manages:

- Surjit Tour, the Director – Law & Governance and statutory Monitoring Officer;
- plus three Level 2 Service Managers responsible for Finance, Human Resources and ICT / Revenues & Benefits.

Lesley Hagger, the Executive Director of Children's Services is the statutory Director of Children's Services (DCS) and line manages:

- Chris Ward, the Director of Education, Skills and Employment.

David Stevens is the Deputy Chief Executive and Executive Director of Adult Social Care, Health and Wellbeing and line manages:

- Stuart Lackenby, the Director of Prevention & Protection; and
- Lisa McNally, the Director of Public Health.

On 3 July 2019 Jan Britton resigned from his role as Chief Executive of Sandwell Council. At the full council meeting on 16 July 2019 councillors appointed David Stevens as Interim Chief Executive. On 14 January 2020 at a meeting of the Council David Stevens was appointed as Chief Executive. Stuart Lackenby has taken over the statutory role of Director of Adults Services and was permanently appointed on 14 January 2020 while Neil Cox was appointed as Director of Prevention and Protection on the same date.

LGA Corporate Peer Challenge Follow Up visit January 2019

The focus of the follow-up was to specifically review progress and developments in response to the peer challenge feedback and recommendations in the 2018 Corporate Peer Challenge. The team concluded it was clear the Council had embraced the original recommendations and recognised that significant progress has been made against many of the recommendations. There had also been progress on all fronts which is “commendable given it is only 12 months since the original review”.

Revenue Outturn

Sandwell’s net general fund balance decreased by £13.172m in 2018/19.

The majority of services across Sandwell have ended the year in surplus and are carrying forward combined surpluses of £22.204m to future years. This demonstrates the continued success of our multi-year budget planning process and is a key part of our overall strategy of protecting front-line services for the people of Sandwell.

However, in common with many other councils, Sandwell Children’s Trust has experienced significant financial challenges in its’ first full year of operation.

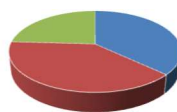
The Housing Revenue account balance increased by £4.464m in 2018/19.

Our maintained schools have ended the year with surplus balances of £21.838m, an increase of £2.060m compared to the previous year. 2 schools ended the year in deficit.

Sources of funding

Our General fund revenue expenditure was funded from the following sources:

Sources of Funding



■ Council Tax £92.268m	■ Business Rates £97.391m
■ Business Rates Top-Up £60.166m	■

NARRATIVE REPORT

Capital Outturn

Capital expenditure of £77.629m was incurred during 2018/19, including:

£1.031m	Various ICT projects
£18.936m	New schools/school refurbishments
£3.200m	Disabled Facilities Grant
£6.105m	Various Highways related schemes
£37.813m	Housing Revenue Account

Performance Indicators

Key financial outturn performance indicators for 2018/19 compared to 2017/18 are as follows:

Key Performance Indicator		2018/19	Change from 2017/18	2017/18	Commentary
1	Revenue Collection Performance				
1.1	Council Tax Collection Rate	99%	↔	99%	A higher figure is beneficial in improving the Council's cash flow and also reducing administration costs.
1.2	Business Rates Collection Rate	98%	↓	99%	A higher figure is beneficial in improving the Council's cash flow and also reducing administration costs.
1.3	General Debtors				
1.3.1	Total Amount Billed to Date (£m)	77	↑	76	Target for Q4 is 90% collection rate, so this is ahead of target in year and ahead on the position as at last year. Billed debt has decreased on this time last year collection rate.
1.3.2	Collection Rate	85%	↓	87%	A lower figure is beneficial to the Council in relation to improved cash flow and reduced administration costs.
1.3.3	Average No. of Days to receive payment from Customers	72	↑	80	A lower figure helps to save time in dealing with customer queries and reduces the cost of administration.
1.3.4	Credit Notes Raised as a % of Total Customer Invoices	4%	↔	4%	A lower figure helps to improve the council's cash flow.
1.3.5	Proportion of Debt > 90 days old from invoice date	54%	↓	42%	A lower figure helps to improve the council's cash flow.
1.4	Housing Rents				
1.4.1	Value of Rent Debit to Date (£m)	118	↓	120	A small % decrease in the value of the rent debit.
1.4.2	Collection Rate	96%	↔	97%	No change in the collection rate.
2	Accounts Payable				
2.1	Proportion of Payments made by Electronic means (BACS & Bank Transfers)	93%	↔	93%	A higher figure is beneficial in terms of reducing administration costs and improved processes. Suppliers of goods and services receive prompt payment of invoices and therefore improved cash flow.

Treasury Management

At 31 March 2019, the council's external debt was £517.577m (£498.245m at 31 March 2018) and its investments totalled £42.846m (£41.351m at 31 March 2018).

The council's underlying need to borrow for capital expenditure is called the Capital Financing Requirement (CFR). This figure is a gauge for the council's debt position and represents the 2018/19 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources. At 31 March 2019 the CFR was £741.112m, down from £751.966m at 31 March 2018.

The council maintained an average balance of £68.252m of internally managed funds. The internally managed funds received an average return of 0.698%. The comparable performance indicator is the average 7-day LIBID rate as at 31 March 2019, which was 0.568%. The LIBID rate saw a sharp increase in August 2018 to reflect the MPC's Bank Rate increase from 0.50% to 0.75%. The council has seen a steady increase on returns, towards the second half of 2018/19.

The council has complied with all of the relevant statutory and regulatory requirements which require the council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

General Fund Balance

We end the year with a General Fund Balance of £62.037m, a reduction of £13.172 million compared to the position as at 31 March 2018. This includes:

- £22.204m of surpluses that are being carried forward to invest in front-line services and £27.728m that has been earmarked for specific purposes.

Our level of free balances is £12.105 million, which equates to 5% of net general fund expenditure, and is in line with council policy of maintaining free balances of between 3-5% of net general fund expenditure.

Going Concern

Sandwell MBC carries out functions that are essential to the local community. We have a strong track record of financial stability, managing funding reductions whilst protecting front-line services. After almost 9 years of austerity we have maintained a prudent level of reserves and we continue to be resilient in the face of the significant financial challenges facing local government. Our Medium Term Financial strategy is robust and we have a strong track record of delivering savings.

The authority also has revenue raising powers, and high collection rates for both Council Tax and Business Rates.

As a result, these financial statements are therefore prepared on a going concern basis.

Cash Flows

The Cash Flow Statement shows the changes in cash and cash equivalents of the council during the reporting period. During 2018/19, net cash and cash equivalents increased by £48.301m.

Assets and Liabilities

The Council continues to maintain a strong balance sheet. Long term assets are valued at £2,130.100m. Long term liabilities are valued at £1,298.694m, including a net deficit of £756.538m attributable to the council on the West Midlands Pension Fund. This is reviewed periodically by the Fund Actuary (Barnett Waddingham).

The results of the most recent review were used to prepare the 2018/19 accounts. The 2018/19 past service and future service contribution rates for the council and employees were adjusted in order to address this deficit over time. Note 43 explains the pensions liability in more detail.

IFRS 9 - Proposed Treatment of Airport Shares

The Council invests in a number of financial instruments. The introduction of IFRS9 from the 1st April 2018 has required that these instruments be reviewed and re-categorised to ensure compliance with the code guidance.

Under IFRS9 the category of asset previously entitled 'available for sale' has been removed. For this class of asset the authority has the option to treat them as either, Fair Value through Profit and

Loss (FVPL) or make a one-off irrevocable election to designate them as Fair Value through Other Comprehensive Income (FVOCI). There are two key criteria that need to be met in order to make this election:

- i) The asset must be an equity instrument i.e. a “contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities”,
- ii) The asset must not be held for trading.

The shares clearly meet the definition of an equity instrument in that there is a residual interest in the airports assets after deducting its liabilities, and the shares were primarily held to promote economic development rather than making financial gains from increases in fair value and so are not held for trading. Therefore, it is Sandwell’s view that the shares meet both of these criteria and that it is reasonable to elect to designate them as FVOCI.

As a result, any gains or losses on the movement in the shares’ value will not be debited to the Surplus or Deficit on the Provision of Services but will instead be accumulated in the Financial Instruments Revaluation Reserve until the shares are derecognised, at which point the net gain or loss would be transferred to the General Fund Balance.

Termination Benefits

The council terminated the contracts of a number of employees in 2018/19 to meet the ongoing challenges of the difficult economic climate and budget reductions. In total 51 employees left the council’s employment during the year incurring liabilities of £3.378m.

In 2017/18 a provision of £2.253m was created for employees approved as planned leavers at 31 March 2018. Of this £1.553m was utilised and £0.593m re-provided for in 2019/20. Costs of £1.162m not included in the 2017/18 provisions have been incurred. £1.053m of this has been funded by Directorates and £0.109m from the Council’s Corporate Resources.

There are also agreements in place for a further 31 employees to leave the council during 2019/20 or later at an estimated cost of £2.718m. A provision for this amount has therefore been created for future and outstanding termination benefit costs which are expected to be incurred in 2019/20.

Partnership Working

With shrinking resources, increased demand, and increased deprivation in Sandwell, there is a risk that partners and the Council could become more insular in their focus. We have guarded against this in Sandwell through our Vision and our successful working relationships with partners.

We celebrate long-established successful relationships with our key partners which includes constructive working practices at a strategic and an operational level. The Council actively co-ordinates and manages the strategic partnership arrangements. Our four statutory strategic partnerships are well-established and are growing in maturity. These forums bring together statutory partners and non-statutory partners and have helped develop the 2030 Vision:

- Health and Wellbeing Board
- Sandwell Safeguarding Children’s Board
- Sandwell Safeguarding Adult’s Board

- Safer Sandwell Partnership

The strategic partnerships are collaborating by bringing together the four Chairs focusing on areas of work with shared outcomes. Their commitment to collaboration is reflected in the values and behaviours agreed in the group partnership protocol.

Sandwell's Voluntary and Community Sector

Sandwell's Voluntary and Community Sector (VCS) is a major asset to the borough and forms a very important part of our thinking about how the vision will be achieved. Active and visible voluntary and community groups play a crucial role in building resilience in Sandwell's communities, helping people to resolve their own problems and preventing or delaying the need for health or social care.

The council has a long history of supporting the VCS, for example through grants, subsidised use of premises and free access to training. The voluntary sector support budget is in excess of £3.200m pa and has been protected from cuts for more than 10 years. This budget is used to provide core funding for a range of local VCS organisations, including infrastructure bodies, local community centres and advice centres. Alongside this support, the Sandwell Compact and the VCS funding strategy have provided a firm basis for the development of our relationships with the sector.

In more recent years' relationships with the sector have evolved to reflect a much stronger partnership approach with more opportunities for real dialogue about changing needs and genuine engagement around problem solving and service redesign. Recent examples include a co-design approach to funding advice services and the Better Health Programme, initiatives led by community groups to address food poverty and developing a visible early help offer for families.

Governance

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.

2019/20 & Beyond

Vision 2030 Ambitions

One of the key principles used in the development and launch of Vision 2030 was a strong commitment to engagement with key partners and staff. Over 900 face-to-face interviews were held with Sandwell residents and staff contributed over 2,000 suggestions. This commitment to engaging with our communities has continued in 2018/19 with over 3,000 young people taking part in workshops and surveys. A borough conference is planned for Summer 2019.

Key Risks

Governance

The Council has made significant progress in undertaking a governance review that began during 2018/19. The review is driven by two principal drivers;

- i) The need to align governance arrangements with the 2030 Vision; and
- ii) It being recognised good practice for Councils to review their governance arrangements on a periodic basis.

Financial Risks

In common with all other local authorities, Sandwell continues to face the ongoing challenge of reducing central government funding combined with increasing demand for our services.

The budget report approved by Council in March 2019 set a balanced budget that did not rely on the use of reserves to fund revenue service provision.

However, the financial position of the Sandwell Children's Trust continues to be a matter of concern. The Council allocated an extra £13m to the Trust in 2018/19 to reflect increasing demand based on due diligence undertaken by advisors appointed by the Department for Education (DfE) overseen by the DfE appointed Commissioner. Even after this significant increase in funds the Trust has ended the year with a deficit of £6.5m.

Operational Model / Strategy & Resource Allocation

The Council's operating model is clearly set out in a range of documents approved by Cabinet and Council. These documents include:

- Sandwell's Vision 2030 which sets out our key strategic plans for the borough.
- The four service area business plans that were approved by Cabinet in February and which detail the resources allocated to each service area and how they will be used to deliver the key activities planned for the coming years.
- The Council budget report and Medium Term Financial Strategy approved by Council in March which sets out our assumptions about the future financial resources available to the Council as we approach the end of the 4-year funding settlement.

The delivery of these ambitious plans will depend upon bringing together a whole range of resources, including:

- Our financial resources, including Council Tax, Business Rates, Housing Rents and Fees & Charges;
- Our human resources, including our commitment to invest in our highly engaged and committed workforce;
- Our physical resources, including the effective use of our land and buildings;
- Our digital resources, including our ICT infrastructure and our digital strategy;
- Our partnership resources, building on key relationships with our statutory partners;
- Our voluntary and community sector;
- The people of Sandwell.

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 Acting Section 151 Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

2. The Responsibilities of the Acting Section 151 Officer

The Acting Section 151 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 2019.

In preparing this Statement of Accounts, the Acting Section 151 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 Acting Section 151 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 its expenditure and income for the year ended 31 March 2019.

Ahmad Bostan

Chair, Audit Committee
Sandwell Metropolitan Borough Council

Rebecca Maher

Acting Section 151 Officer
Sandwell Metropolitan Borough Council

Comprehensive Income & Expenditure Statement

2018/19

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

2017/18 Restated Gross Expenditure £'000		2017/18 Restated Gross Income £'000		2017/18 Restated Net Expenditure £'000		2018/19 Gross Expenditure £'000		2018/19 Gross Income £'000		2018/19 Net Expenditure £'000	
People											
143,398	(59,221)	84,177		149,496	(62,103)	87,393					
258,260	(265,234)	(6,974)	Adult Social Care Services	262,356	(271,753)	(9,397)					
85,838	(19,173)	66,665	Schools	118,771	(17,921)	100,850					
20,839	(25,585)	(4,746)	Children's Services	19,922	(24,900)	(4,978)					
			Public Health								
Performance											
166,797	(157,380)	9,417	Resources	186,712	(154,200)	32,512					
7,185	(266)	6,919	Corporate Management	1,265	(1,511)	(246)					
Place											
64,981	(9,629)	55,352	Housing & Communities	60,969	(9,037)	51,932					
36,266	(9,301)	26,965	Regeneration & Growth	47,800	(15,050)	32,750					
71,074	(130,634)	(59,560)	Housing Revenue Account	75,812	(130,425)	(54,613)					
(59,302)	-	(59,302)	- Reversal of previous revaluation losses	(60,924)	-	(60,924)					
795,336	(676,423)	118,913	Cost of Services	862,179	(686,900)	175,279					
		13,791	Levies			13,071					
		2,697	Payments to the Government Housing Capital Receipts Pool			2,697					
		7,809	(Gains) / Losses on the disposal of non current assets			2,601					
		154	Losses on Revaluation of Assets Held for Sale			29					
		-	Losses on Revaluation of Available for Sale Assets			-					
		24,451	Other Operating Expenditure			18,398					
		29,171	Interest payable and similar charges			31,368					
		21,581	Net interest on the net defined benefit liability (asset)			18,439					
		(2,857)	Interest receivable and similar income			(1,644)					
		(2,246)	Income and expenditure in relation to investment properties			(2,836)					
		(2,971)	Changes in the Fair Value of investment properties			6,182					
		-	Changes in the Fair Value of Financial Assets			(787)					
		42,678	Financing and Investment Income and Expenditure			50,722					
		(92,268)	Council Tax income			(97,929)					
		-	NDR from Pool			-					
		(97,391)	Retained Business Rates			(96,095)					
		(60,166)	Business Rates Top Up			(50,660)					
		-	Small Business Rates Relief s31 Grant			-					
		9,386	Collection Fund (Surplus) / Deficit			41					
		-	Revenue Support Grant			-					
		(27,817)	Capital grants and contributions			(38,465)					
		(268,256)	Taxation and Non Specific Grant Income			(283,108)					
		(82,214)	(Surplus) / Deficit on Provision of Services			(38,709)					
		(90,919)	(Surplus) / deficit on revaluation of non current assets			(7,340)					
		590	(Surplus) / deficit on revaluation of financial assets			(81)					
		(105,451)	Actuarial (gains) / losses on pension assets and liabilities			(42,110)					
		(78)	Any other (gains) / losses required to be included			79					
		(195,858)	Other Comprehensive Income and Expenditure			(49,452)					
		(278,072)	Total Comprehensive Income and Expenditure			(88,161)					

Balance Sheet

2018/19

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

BALANCE SHEET

Restated 1 April 17 £'000	Restated 31 March 2018 £'000		Note ref	31 March 2019 £'000
930,418	1,016,880	Council Dwellings	10	1,105,937
513,449	607,257	Other Land & Buildings	10	582,280
221,004	222,154	Infrastructure	10	221,499
22,876	23,271	Vehicles, Plant, Furniture & Equipment	10	21,597
22,251	20,624	Community Assets	10	18,812
15,311	13,568	Assets Under Construction	10	18,221
12,058	17,115	Surplus Assets	10	17,368
1,737,367	1,920,869	Property Plant & Equipment		1,985,714
3,931	4,192	Heritage Assets	11	4,193
88,718	86,402	Investment Properties	12	78,498
3,201	3,196	Intangible Assets	14	2,463
55,860	55,520	Long Term Investments	16	55,601
3,818	3,591	Long Term Debtors	-	3,631
1,892,895	2,073,770	Long Term Assets		2,130,100
4	5,021	Short Term Investments	16	11,029
593	281	Assets Held for Sale	13	-
1,474	1,300	Inventories	-	1,465
40,391	37,493	Short Term Debtors	17	54,636
56,661	55,191	Cash & Cash Equivalents	19	53,464
99,123	99,286	Current Assets		120,594
(77,764)	(72,378)	Bank Overdraft	19	(22,350)
(23,022)	(55,908)	Short Term Borrowing	16	(77,810)
(72,096)	(77,875)	Short Term Creditors	20	(79,490)
(7,785)	(6,652)	Provisions	22	(10,316)
(78)	(713)	Revenue Grants Receipts in Advance	35	(2,569)
(2,420)	(2,418)	Capital Grants Receipts in Advance	35	(3,876)
(183,165)	(215,944)	Current Liabilities		(196,411)
(3,882)	(4,239)	Provisions	22	(3,562)
(465,703)	(450,420)	Long Term Borrowing	16	(447,312)
(935,496)	(822,921)	Other Long Term Liabilities	21	(832,616)
(10,272)	(12,104)	Capital Grants Receipts in Advance	35	(15,204)
(1,415,353)	(1,289,684)	Long Term Liabilities		(1,298,694)
393,500	667,428	Net Assets		755,589
185,423	193,463	Usable Reserves	MIRS	201,167
208,077	473,965	Unusable Reserves	24	554,422
393,500	667,428	Total Reserves		755,589

Cash Flow Statement

2018/19

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority 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 is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

CASH FLOW STATEMENT

Restated 2017/18 £'000		2018/19		Note Refs
		£'000	£'000	
(82,214)	Net (surplus) / deficit on the provision of services		(38,709)	
6,769	Adjustments to net (surplus) / deficit on the provision of services for non cash movements		(61,128)	25
44,719	Adjustments for items included in the net (surplus) / deficit on the provision of services that are investing and financing activities		56,195	25
(30,726)	Net cash flows from Operating Activities		(43,642)	
	Investing Activities:			
75,426	Purchase of property, plant and equipment, investment property and intangible assets	65,760		
165,161	Purchase of short and long term investments	157,042		
(17,343)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(18,097)		
(160,144)	Proceeds from short and long term investments	(151,032)		
(26,881)	Other receipts from investing activities	(43,057)		
36,219	Net cash flows from Investing Activities		10,616	
	Financing Activities:			
(53,661)	Cash receipts of short and long term borrowing	(218,089)		
8,194	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,519		
36,058	Repayments of short and long term borrowing	199,295		
(9,409)	Net cash flows from Financing Activities		(15,275)	
(3,916)	Net (increase) / decrease in cash and cash equivalents		(48,301)	
(21,103)	Cash and cash equivalents at the beginning of the reporting period		(17,187)	19
3,916	Net movement in cash and cash equivalents		48,301	
(17,187)	Cash and cash equivalents at the end of the reporting period		31,114	19

Movement in Reserves Statement

2018/19

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. This statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The net increase/decrease line shows the statutory General Fund Balance and the Housing Revenue Account Balance movements in the year following those adjustments.

MOVEMENT IN RESERVES STATEMENT

	<i>Restated General Fund Balance £'000</i>	<i>Restated Housing Revenue Account £'000</i>	<i>Capital Receipts Reserve £'000</i>	<i>Capital Grants Unapplied £'000</i>	<i>Total Usable Reserves £'000</i>	<i>Restated Revaluation Reserve £'000</i>	<i>Restated Capital Adj Account £'000</i>	<i>Financial Instruments Adj A/C £'000</i>	<i>Financial Instrument Revaluation Reserve £'000</i>	<i>Available for Sale Reserve £'000</i>	<i>Pensions Reserve £'000</i>	<i>Accumulate d Absences Account £'000</i>	<i>Collection Fund Adj A/C £'000</i>	<i>Total Unusable Reserves £'000</i>	<i>Total Council Reserves £'000</i>
Balance as at 31 March 2017	126,246	35,649	7,863	15,665	185,423	163,475	877,974	(1,536)	-	21,189	(851,158)	(6,208)	(3,922)	199,814	385,237
Prior Year Adjustment (Note 7)					0	7,288	(3,169)							4,119	4,119
Restated Balance as at 1 April 2017	126,246	35,649	7,863	15,665	185,423	170,763	874,805	(1,536)	-	21,189	(851,158)	(6,208)	(3,922)	203,933	389,356
Movement in Reserves During 2017/18															
Total Comprehensive Income and Expenditure	(5,542)	87,756	-	-	82,214	90,919	-	-	-	(590)	105,451	-	78	195,858	278,072
Adjustments between accounting basis & funding basis under regulations (Note 8)	12,972	(88,124)	(47)	1,025	(74,174)	(5,413)	115,230	74	-	-	(30,016)	(883)	(4,818)	74,174	-
Increase / Decrease in Year	7,430	(368)	(47)	1,025	8,040	85,506	115,230	74	-	(590)	75,435	(883)	(4,740)	270,032	278,072
Restated Balance at 31 March 2018 carried forward	133,676	35,281	7,816	16,690	193,463	256,269	990,035	(1,462)	-	20,599	(775,723)	(7,091)	(8,662)	473,965	667,428
Movement in Reserves During 2018/19															
Total Comprehensive Income and Expenditure	(41,870)	80,579	-	-	38,709	7,340	-	-	20,680	(20,599)	42,110	-	(79)	49,452	88,161
Adjustments between accounting basis & funding basis under regulations (Note 8)	26,156	(75,424)	8,405	9,858	(31,005)	(6,810)	66,754	116	-	-	(39,825)	693	10,077	31,005	-
Increase / Decrease in Year	(15,714)	5,155	8,405	9,858	7,704	530	66,754	116	20,680	(20,599)	2,285	693	9,998	80,457	88,161
Balance at 31 March 2019 carried forward	117,962	40,436	16,221	26,548	201,167	256,799	1,056,789	(1,346)	20,680	-	(773,438)	(6,398)	1,336	554,422	755,589

* Restated balances as per note 7 – Prior Period Adjustments

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the council's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. 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 under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected; and
- 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 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 no more than 24 hours. Cash equivalents are highly liquid funds invested in call accounts and 30 days or less notice accounts from the date of acquisition, 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.

NOTES TO THE ACCOUNTS

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 (CI&ES) 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 Policies and Estimates and Errors**

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

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

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

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

Services, support services and trading accounts 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. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund balances by way of an adjusting transaction with the Capital Adjustment Account via the Movement in Reserves Statement.

vii. **Inventories and Long-term Contracts**

Inventories are shown in the Balance Sheet at the lower of cost and net realisable value as required by IAS 2.

Long-term contracts are accounted for based on charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

viii. **Council Tax and Non-Domestic Rates**

Billing authorities act as an agent, collecting Council Tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting Council Tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax

NOTES TO THE ACCOUNTS

and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected is less or more than predicted.

Accounting for Council Tax and NDR

The Council Tax and NDR income included in the CIE&S is the authority's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIE&S and the amount required under regulation to be credited to the General Fund is transferred to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayment and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CI&ES. The impairment loss is measured as the difference between carrying amount and the revised future cash flows.

ix. **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 made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to 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 in exchange for those benefits. They are charged on an accruals basis to the relevant service area line in the CI&ES 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.

NOTES TO THE ACCOUNTS

Post Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (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 Schools 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 2.40% 2018/19, (2.55% 2017/18) 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 CI&ES 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 in Net Cost of Services in the CI&ES; and
 - 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 and Investment Income and Expenditure line in the CI&ES. 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.

NOTES TO THE ACCOUNTS

- 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; and
 - 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.

x. **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.

xi. **Financial Instruments**

Financial Liabilities

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

NOTES TO THE ACCOUNTS

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CI&ES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CI&ES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan. The reconciliation of amounts charged to the CI&ES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Under IFRS 9, financial assets are classified based on the classification and measurement approach that reflects the business model for holding financial assets and their cashflow characteristics.

There are three main classes of financial assets. These are measured at:

- Amortised Cost – contractual assets that give rise on specified dates to cash flows that are solely payments of principal and interest.
- Fair Value through Other Comprehensive Income (FVOCI) – assets held for both collecting contractual cashflows and selling assets.
- Fair Value through Profit and Loss (FVPL) – assets held for any other means than collecting contractual cashflows.

Under IAS 39 Financial assets were 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 were 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.

Available for Sale assets were 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.

As per the IFRS 9 change to the Code, the reclassification of assets has been applied to the assets held by the council in 2018/19 – a note showing the reclassification has been included in the Financial Instruments note 16.

Loans made to the Council at less than market rate are known as 'soft loans'. Soft loans currently held by the council were provided by Salix Finance Ltd and are primarily linked to the capital energy efficiency projects e.g. boiler replacements and street lighting. The financial effect of this concession is charged to the CI&ES representing the interest saved, over the life of the loan. Since statutory provisions require that the impact of soft loans on the General Fund balance is limited to actual interest receivable for the year, a transfer to or from the Financial Instruments Adjustment Account is made to cover the difference.

Further details relating to the fair value of financial assets and liabilities are provided in section xxx of the accounting policies and note 16 (Financial Instruments).

xii. **Foreign Currency Translation**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding as at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the CI&ES.

xiii. **Government Grants and Contributions**

Whether paid on account, by instalment or in arrears, government grants and third party contributions and donations are recognised as due to the council when there is reasonable assurance that:

- The council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset 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

A Business Improvement District (BID) scheme applies across the whole of the Authority. The Albion Business Improvement District scheme is situated within the Greets Green and Lyng Ward of Sandwell and the West Bromwich BID scheme is in the West Bromwich Central Ward. These schemes are 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 CI&ES.

Community Infrastructure Levy

The council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments to the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL

charges will be largely used to fund capital expenditure. However, a proportion of the charge may be used to fund revenue expenditure.

xiv. **Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

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 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.

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

The Code requires local authorities with material interests in subsidiary and associated companies and joint ventures to prepare, summarised group accounts. In the authorities own single entity accounts, the interest in companies and other entities are recorded as financial assets at cost, less any provision for losses.

The council has a financial relationship with the following companies: -

- Sandwell Land and Property Ltd, which is a subsidiary of the council.
- Sandwell Children's Trust Ltd, which is a subsidiary of the council.

xvi. **Leases**

Leases are classified as finance leases where the terms of the lease transfers 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.

NOTES TO THE ACCOUNTS

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 are recognised on the Balance Sheet at their 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 CI&ES.

Property, Plant and Equipment recognised under finance leases are 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 CI&ES 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 CI&ES 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 CI&ES 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.

NOTES TO THE ACCOUNTS

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 CI&ES.

The gain credited to the CI&ES 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 of 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 CI&ES. 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.

xvii. **Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the council's arrangements for accountability and financial performance.

xviii. **Capital Accounting**

Non Current Asset Valuations

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 Savills in 2018/19 and are in accordance with the Guidance on Stock Valuation for Resource Accounting (SVRA). A full valuation has been undertaken in 2018/19 with the intention to complete desktop valuations for the 4 year period up to 2021/22. Again, this is in line with the latest SVRA guidance.

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

NOTES TO THE ACCOUNTS

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, is that only expenditure in excess of £10,000 on vehicles and plant are 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 dwellings are measured at current value, determined using the basis of existing use value for social housing (EUV-SH). This takes account of a social use factor of 40% determined by the Ministry of Housing, Communities and Local Government (MHCLG).

Community Assets

Community assets are assets that the council intends to hold in perpetuity. They have no determinable useful life and 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 xxx.

Other Assets

All other assets that fall into the category of Property, Plant and Equipment (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 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 CI&ES where they arise from a reversal of a loss previously charged to a service.

NOTES TO THE ACCOUNTS

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.

Impairment

Assets are assessed at each year end for any indication of impairment. 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.

Depreciation

Depreciation is provided for on all 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 (i.e. freehold land and certain Community and Heritage Assets) and assets that are not yet available for use (i.e. 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 xix.

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.

NOTES TO THE ACCOUNTS

Investment Properties

Investment properties are those that are used solely to generate income 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 xxx), 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. In general, Investment properties receive a physical revaluation on a rolling three year cycle. However, where the value of a property exceeds £1.000m, a full valuation will be undertaken on an annual basis. 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.

xix. **Component Accounting**

A component is a part of an item of PP&E 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, 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 CI&ES 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 2018/19 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.

xx. **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,

NOTES TO THE ACCOUNTS

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

Historical Buildings

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.

Museum Exhibits, Fine Art Collections & Civic Regalia

These collections are reported in the Balance Sheet using insurance valuations undertaken every five years by external valuers or relevant experts 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 and where they do occur acquisitions are recognised at cost and donations at valuation.

General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. 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 xviii).

The disposal of heritage assets must receive prior approval from Cabinet. 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 xviii).

xxi. **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 for supported borrowing was previously based on 4% of the adjusted Capital Financing Requirement (Outstanding Debt) for the General Fund. However, for 2016/17 onwards it has been deemed more prudent to adopt the Asset Life (Equal Instalments) method where the useful life applied to the debt is based on the average useful life of the council's depreciable operational assets. For Sandwell, this useful life has been calculated to be 38 years.

This method ensures that the debt will be fully repaid over a fixed number of years and gives certainty to the budget setting process in the future.

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.

xxii. **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

NOTES TO THE ACCOUNTS

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 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); and
- Lifecycle replacement costs; relevant costs capitalised via a revenue contribution to capital and applied as additions to PP&E 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.

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

Provisions

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

Provisions are charged as an expense to the appropriate service line in the CI&ES when the Council has an 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

NOTES TO THE ACCOUNTS

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.

xxiv. **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 form part of the Net Cost of Services in the CI&ES. 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.

xxv. **School Balances**

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the Schools Standards Framework Act 1998, community, voluntary aided and voluntary maintained schools) lies with the Council. Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council, rather than requiring consolidation in the Group Accounts. Academies are outside of the Council's control and their transactions are not reflected in the Council's accounts.

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.

xxvi. **Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions that does not result in the creation of a non current asset has been charged as expenditure to the relevant service line in the CI&ES 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.

xxvii. **Insurance Funding Arrangements**

For those assets and liabilities deemed appropriate to insure against, 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 £0.100m of loss on non-educational establishments and the first £0.500m in respect of educational establishments, the aggregate excess (cap) being £2.000m in any policy year. The council's asset protection does not cover the council's housing stock except for high-rise.

Liabilities - The first £0.250m of each claim in respect of public/products and employer's liability and pollution, and the first £0.050m in respect of officials' indemnity, professional indemnity and land charges, the aggregate excess (cap) being £4.800m in any policy year across all liability sections of cover.

Motor – The first £0.150m of each motor claim for damage to a council vehicle and third party claims. Third party losses are limited to £0.410m in the aggregate after the application of individual claim excess / non-ranking deductibles.

Fidelity Guarantee - The first £0.025m 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.

xxviii. **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.

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

The council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The council is required to purchase and surrender allowances, either prospectively or retrospectively, 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.

xxx. **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

NOTES TO THE ACCOUNTS

- 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 or selling it to another market participant that would use 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 31 March in each financial period.

xxxi. **Pooled Budgets**

The Better Care Fund was announced in June 2013 with the intention to drive the transformation of local services and was to be operated through pooled budget arrangements between the Council and local Clinical Commissioning Groups.

The Council is party to a pooled budget arrangement and has considered the S75 agreement. The arrangement with the Sandwell and West Birmingham Clinical Commissioning Group has been assessed as a joint operation under IFRS11. The council is host to the arrangement however the two parties account for their own share of the pool's income, expenditure, assets and liabilities in line with the agreement and in line with respective commissioning responsibilities. Furthermore, members of the pooled budget only account for expenditure when it is spent by the pool and any cash held by the pool at year end is shared with a creditor in the host and debtor in the other parties in respect of that cash.

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 (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2019/20 Code.

New standards introduced in the 2019/20 code that apply from 1 April 2019 are:

- IAS 40 Investment Property: Transfers of Investment Property provides clarification on transfers to or from the Investment Property long-term asset balance sheet classification. We do not anticipate this to have a material impact on the accounts;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. The Council, currently, does not have any material transactions within the scope of the amendment. We do not anticipate this to have a material impact on the accounts;

NOTES TO THE ACCOUNTS

- IFRIC 23 Uncertainty over Income Tax Treatments clarifies the accounting treatments for uncertainties in income taxes and may apply to local authority Group Accounts;
- IFRS 9 Financial instruments - prepayment features with negative compensation amends IFRS9 to clarify that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. This clarification will only impact if the lender has to make a settlement payment in the event of termination by the borrower and the Council does not anticipate this will have a material impact in 2019/20; and
- IFRS 16 Leases will require a substantial change in accounting for leases. It will mean local authorities recognising the right-of-use asset on the balance sheet for the majority of leases, subject to exemptions, with a corresponding lease liability representing the lessee's obligation to make lease payments for the asset. CIPFA/LASAAC has deferred implementation of IFRS16 for local government to 1 April 2020.

The 2019/20 Code requires implementation from 1 April 2019 and there is therefore no impact on the 2018/19 Statement of Accounts.

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

Funding where the council acts as the Agent

The Black Country Local Enterprise Partnership (note 29) 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 CI&ES.

Accounting for Schools

The Council has assessed the legal framework underlying each type of school and determined the treatment of non-current assets within the financial statements on the basis of whether it owns or has some responsibility for, control over or benefit from the service potential of the premises and land occupied. The Council has considered its accounting arrangements for each school, on a case by case basis, under the terms of:

- IAS 16, Property, Plant and Equipment;
- IAS 17, Leases; and
- LAAP Bulletin 101, Accounting for Non-Current Assets Used by Local Authority Maintained Schools

The Council has determined that, within its Balance Sheet, for:

- Community and Foundation/Trust Schools - all land and buildings should be recognised;
- Voluntary Controlled (VC) and Voluntary Aided (VA) - all land and buildings should be recognised except where land and buildings are owned by religious bodies;
- Academy Schools - no non-current assets should be recognised as they maintain their own financial records and are managed, controlled and funded independently of the Council.

Local authority maintained schools, as independent entities, have responsibility for the management of their own resources. However, as their transactions are consolidated into the Council's financial statements, the Council has reviewed their activity to ensure consistency of accounting treatment.

NOTES TO THE ACCOUNTS

On 31 March 2011 school assets legally owned by the Council were transferred to Sandwell Land and Property Company Ltd (SLaP) to protect the Council's asset base. This is a land and property holding company of which the Council is the sole shareholder.

When a school converts to academy status, an underlease between the Council and the academy is then put in place and the academy is derecognised from the Council's Balance Sheet.

Sandwell Land and Property Company

On 14 January 2011 Sandwell Land and Property Limited was established as a holding company for school assets, for which Sandwell MBC is the sole shareholder. SLaP entered into a 'sale and leaseback' arrangement with the Council regarding the school's land and buildings. The company currently leases 94 school assets back to the Council at an annual rent of £1 each for 125 years.

The arrangement has been assessed under IAS 17 and SIC 27 and concluded that for the school's buildings SIC 27 applies and the leases are treated as finance leases as buildings are deemed to have a finite life, and this would be the lease period 125 years which would be substantially all its useful economic life. The Council also retains all the risks and rewards of ownership. The schools' buildings therefore remain on the Council's Balance Sheet.

The schools land has been assessed and under IAS 17 it is deemed the land lease has a finite life of 125 years however, this is not likely to be substantially all of the assets life. Therefore, the land will be transferred back to SLaP in 125 years and use as it sees fit. As such SLaP retains the majority of the risks and rewards of ownership and as such the arrangement has the characteristics of an operating lease and not recognised in the single entity accounts of the Council's accounts.

Sandwell Children's Trust

On 1st April 2018 Sandwell Children's Trust (SCT) went live following the transfer of the Children's Social Care functions (whilst statutory responsibility still sits with the council).

The council has considered the guidance in IFRS 10 and have concluded that SCT is a subsidiary and that group accounts will be prepared for the following reasons:

- SCT is a 100% wholly owned company;
- The council is the primary funder of SCT;
- The council has a director and elected member on the board of SCT; and
- The expenditure for SCT amounts to approximately £70m which is a material sum compared to the council's net cost of services of £180m.

It's accounts have therefore been consolidated into the group accounts on a line by line basis.

Sandwell Childrens Trust Pensions

Following legal advice from Bevan Brittan (the Council's legal advisors for the setup of Sandwell Children's Trust), it has been decided that the pension liability relating to SCT will remain on the Council's balance sheet. A 'side letter' has been signed by SMBC, SCT and West Midlands Pension Fund to confirm that this is acceptable to all parties.

Private Finance Initiative (PFI) and Similar Contracts

The Council has assessed the 4 PFI schemes and Serco Waste Contract under IFRIC 12 and have concluded that as the Council is deemed to control the services provided under the contracts, the assets are therefore regarded as PFI and Service Concession Assets. The accounting policies for

NOTES TO THE ACCOUNTS

PFI schemes and similar contracts have been applied to these arrangements and the associated assets are recognised as Property, Plant and Equipment on the Council's Balance Sheet as though the Council owned the assets.

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 2019 for which there may be a risk of an adjustment in the forthcoming financial year are as follows:

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 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £38.297m.

However, the assumptions interact in complex ways. During 2018/19, the Authority's actuaries advised that the net pensions liability had reduced by £26.541m as a result of updated financial and demographic assumptions.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that only the assumption analysed changes, while all the other assumptions remain constant. The assumptions in life expectancy, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The actuary has confirmed that the method of preparing this sensitivity analysis has not changed since last year.

	+0.1% £'000	-0.1% £'000
	Change	Change
Adjustment to discount rate	(38,297)	39,036
Adjustment to long term salary increase	(38,160)	(46,170)
Adjustment to pension increases and deferred revaluation	34,977	(34,344)
	+1 Year	-1 Year
Adjustment to life expectancy assumptions	81,227	(78,167)

Pension Guarantees

The Council has, over a number of years, changed its way of operating from being a direct provider of services to one where it purchases a number of services from third parties. As part of this change in service delivery model, the Council has transferred staff from the Council to the external provider under Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). The Council has agreed that staff transferring to an external provider should continue to have the right to access equivalent pension benefits to that provided whilst employed by the Council. To ensure the smooth transfer of staff, the Council has provided guarantees for contribution rates and pension deficits in respect of continuing pension provision.

The Council has decided that these pension guarantees should be treated as insurance contracts. However, no provision has been made for them in the accounts as it has been judged that the likelihood of them being called on means that they are not material. This judgement was made by considering the liabilities for the companies and the likelihood of those companies failing within the next year.

In determining a deficit on pension funds there are two different models used, namely:

- The funding basis, where post-employment benefit obligations are discounted to a present value based on the anticipated return from pension fund assets, or
- The accounting basis, where post-employment benefit obligations are discounted to a present value based on market yields for high quality corporate bonds as required by International Accounting Standard 19, Employee Benefits (IAS19).

In the event of a guarantee being called in respect of a pension deficit, the actual amount that the Council would have to meet would be determined using the funding basis. The Council has therefore assessed any provision for future pension deficit liabilities on this basis.

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 £3.952m has been set aside for the council's share of 99%. The full provision has been based on a report from Analyse Local which is a specialist revenue forecasting tool that the Council subscribe to. The report includes total potential net losses of £6.694m but appeals in relation to cash points (ATM's) have been excluded from the total provision as the supreme court decision in May 2020 was that ATM's are not liable for additional business rates and as a result ATM sites subject to this adjustment will be removed from ratings lists.

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.

NOTES TO THE ACCOUNTS

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 15 and 16.

Impairment Allowances

At 31 March 2019 the council had the following balances of debtors outstanding for which appropriate impairment allowances have been made:

	<u>Arrears</u>	<u>Impairment Allowance</u>	
Trade Receivables	£29.811m	£2.122m	(7%)
Council Tax	£18.730m	£13.358m	(71%)
Non Domestic Rates (NDR)	£3.146m	£1.188m	(38%)
Housing Benefit	£6.832m	£6.508m	(95%)
HRA	£8.244m	£4.908m	(60%)
Payments in Advance	£14.120m	£0.000m	(0%)
Other	£5.750m	£1.052m	(18%)
	£86.633m	£29.136m	(34%)

Levels of impairment allowance are kept under review to ensure their continued adequacy.

If collection rates were to deteriorate, higher impairment allowances would be required, which would be charged to the CI&ES.

5. **Material Items of Income and Expense**

Council Dwellings

The valuation of council dwellings is carried out in accordance with the Guidance on Stock Valuation for Resource Accounting by external valuers appointed by the council.

In 2018/19 there were net re-valuation gains on council dwellings totalling £75.558m. This represents an increase of approximately 7% and is in line with market expectations. Gains of £60.924m were posted to the CI&ES in 2017/18 to reverse accumulated revaluation losses incurred in previous years.

Non Current Assets

The carrying value of non current assets that did not receive a revaluation in 2018/19 totalled £486.505m. An upward movement in the market of 1% would equate to an increase in value of £4.865m.

Pensions Contributions for 2017/18 – 2019/20

In April 2017 the Council made an upfront payment of £50.800m in respect of pension contributions for the three years from 2017/18 to 2019/20 in order to save a net £2.700m over those three financial years. The full payment was accounted for as a reduction in the Council's net pension liability in 2017/18, however accounting regulations require that the amount due in relation to 2018/19 of £17.000m is recognised as a cost this year. This cost is shown as a cost in the Movement in Reserves Statement in Note 9 and also in the Defined Benefit Pension Schemes Note 43.

This means that there is a difference of £16.900m between the net pension liability and the pension reserve, equal to the amount that has been paid in relation to employer's contributions for 2019/20. This difference will remain until the 2019/20 accounts when all payments will have been recognised.

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

6. Events after the Reporting Period

The statement of accounts was authorised for issue on 31 July 2019. 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 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

On 3 May 2019 Councillor Steve Trow stepped down as Leader of Sandwell Council with immediate effect. At the Annual Council meeting on 21 May 2019 new Leader of the Council Councillor Yvonne Davis was elected. On 8 July 2020 Councillor Yvonne Davis stepped down as lead. Deputy Leader Councillor Maria Crompton is currently acting as leader of Sandwell Council.

On 3 July 2019 Jan Britton resigned from his role as Chief Executive of Sandwell Council. At the full council meeting on 16 July 2019 councillors appointed David Stevens as Interim Chief Executive. On 14 January 2020 at a meeting of the Council David Stevens was appointed as Chief Executive. Stuart Lackenby has taken over the statutory role of Director of Adults Services and was permanently appointed on 14 January 2020 while Neil Cox was appointed as Director of Prevention and Protection on the same date.

On 26 June 2019 Cabinet approved the use of the Councils Revenue balances to fund £5.000m of Sandwell Children's Trust's 2018/19 deficit. This has been reflected in both the Councils and the Trust's 2018/19 statements.

COVID-19

COVID-19 was categorised as a pandemic by the World Health Organisation on 11 March 2020. The Council's focus during the period from the commencement of the pandemic has been to ensure our residents are supported and businesses are protected as much as possible from the economic impact. The Council has assessed the short term impact of initial measures on its cash flow and temporary borrowing arrangements.

The Council has now entered a reset and recovery phase to ensure that it can continue to support its residents and businesses through the ongoing pandemic. The Council has a strong level of general reserves which could be deployed to fund any costs not met by Central Government. Additional costs incurred by the Council to date have been captured and are being regularly updated and reviewed. These costs include the reduction in collections rates of Council Tax and Business Rates, loss of income for charging services such as car parking, planning applications, residential centres and visitor attractions, the additional costs of PPE and food support for the vulnerable. The funding received so far has been sufficient to meet the costs incurred in the short term, however, the council is working with various groups to ensure that it is able to feedback to Government on the financial impact of COVID-19. The savings programme for 2019/20 was not impacted and programmes in place for 2020/21 will be rigorously monitored as part of the authorities financial monitoring processes. However, these impacts are not expected to be material to the 2018/19 financial statements

7. Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. 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.

Building Schools for the Future (BSF) PFI Sinking Fund

A change in accounting treatment resulted in the short term creditors balance being overstated by £3.370m where the sinking fund had been incorrectly treated as a creditor. Management considered the treatment would be more appropriate as an earmarked reserve in the 2018/19 accounts and the decision was taken to adjust the prior year accounts accordingly. The overall effect of the prior period adjustment is as follows:

Balance Sheet: Closing Balance of short term creditors for 17/18 has decreased by £3.370m

Balance Sheet: Closing Balance of Usable reserves for 17/18 has increased by £3.370m

CIES: The net cost of services for Schools for 17/18 has decreased by £3.370m

Other Long Term Liabilities

A misinterpretation of an accounting model produced by an external partner resulted in a misstatement of the outstanding Finance Lease Creditor liability on the Riverside PFI. The overall effect of the prior period adjustment is as follows:

Balance sheet: Closing balance of Short Term Creditors for 2016/17 decreased by £0.412m and a decrease of £0.513m in 2017/18

Balance sheet: Closing balance of Other Long Term Liabilities 2016/17 decreased by £3.732m and also a decrease of £3.708m in 2017/18

Balance sheet: Closing balance of Unusable Reserves for 2016/17 increased by £4.144m and a decrease of £4.221m in 2017/18

CIES: Interest payable and similar charges reduced by £4.221m in 17/18.

Sandwell Land and Property Company (SLaP)

Previously, the land and buildings owned by the Sandwell Land & Property (SLaP) company had been included within the Councils single entity accounts on the basis that all the rewards and risks of ownership lie with the Council. This accounting treatment had been agreed by the Councils previous auditors KPMG and its consultants at the time PWC.

However, following a management review of the documentation, the Council were of the opinion that the above treatment is correct for the buildings element of the assets but that the land element should be removed from the Councils single entity accounts (as explained in note 3 - Sandwell Land and Property Company) and then re-applied as part of the Group accounts on the basis that the rewards and risks lie with the SLaP.

Due to the balances being material, prior period adjustments have been applied to the 2016/17 and 2017/18 accounts. The overall effect of the prior period adjustment is as follows:

Balance Sheet: Closing balance of Other Land & Buildings decreased by £51.275m in 2016/17 and £51.275m in 2017/18

Balance Sheet: Closing balance of Long Term Investments increased by £26.286m in 2016/17 and £26.286m in 2017/18

Balance Sheet: Closing balance of Unusable Reserves decreased by £24.989m in 2016/17 and £24.989m in 2017/18.

CIES: (Surplus)/Deficit on revaluation of non current assets has decreased by £0.064m.

Asset Revaluations

During the audit of the 2018/19 accounts the Auditors challenged the opening values of a number of high value assets, mainly schools, held within the accounts. These assets formed part of the councils 5 year rolling valuation programme and, as a result, some of them had not been re-valued for up to 4 years.

NOTES TO THE ACCOUNTS

The Councils valuers could not provide sufficient evidence that the carrying values of these assets were accurate and, as a result, additional valuations have been undertaken and applied to the accounts for the financial years 2016/17, 2017/18 and 2018/19 as at the 31 March.

The values of these assets are deemed to be material and so a prior period adjustment has been applied to the accounts. The overall effect of the prior period adjustment is as follows:

Balance Sheet: Closing balance of Other Land and Buildings increased by £29.108m in 2016/17 and £36.922m in 2017/18

Balance Sheet: Closing balance of Unusable Reserves increased by £29.108m in 2016/17 and £36.922m in 2017/18.

CIES: The Net Cost of Services in 2017/18 for Childrens Services has decreased by £4.721m, Housing and Communities has increased by £0.233m and Regeneration and Growth has decreased by £2.917m.

CIES: (Gains)/Losses on the disposal of non current assets has decreased by £0.472m.

The following notes have been restated for 2017/18 to reflect the impact of the Prior Period Adjustments detailed above:

Note 9 – Earmarked Reserves

Note 10 – Property Plant and Equipment

Note 16 – Financial Instruments

Note 20 – Short Term Creditors

Note 21 – Other Long Term Liabilities

Note 24 – Unusable Reserves

Note 25 – Cash Flow Statement

Note 26 – EFA

Note 27 – Note to the EFA

Note 28 – Expenditure and Income analysed by nature

Note 40 – Private Finance Initiative and Similar Contracts

Housing Revenue Account Statement

Restatement tables showing the adjustments and impacts are provided subsequent to this note.

NOTES TO THE ACCOUNTS

<u>Restated Balance Sheet</u> <u>2016/17</u>	Balances as Previously Stated at 31 March 2017 £'000	Restatement (Note 7)			Restated Balances at 31 March 2017 £'000	Balances as Previously Stated at 31 March 2018 £'000
		Other Long Term Liabilities £'000	SLaP £'000	Asset Revaluations £'000		
Other Land & Buildings	535,616	-	(51,275)	29,108	513,449	621,610
Property Plant & Equipment	1,759,534	-	(51,275)	29,108	1,737,367	1,935,222
Long Term Investments	29,574	-	26,286	-	55,860	29,234
Long Term Assets	1,863,787	-	(24,989)	29,108	1,892,895	2,036,848
Short Term Creditors	(72,508)	412	-	-	(72,096)	(81,758)
Other Long Term Liabilities	(939,228)	3,732	-	-	(935,496)	(826,629)
Total Net Assets	385,237	4,144	(24,989)	29,108	393,500	647,904
Usable Reserves	185,423	-	-	-	185,423	190,093
Unusable Reserves	199,814	4,144	(24,989)	29,108	208,077	457,811
Total Reserves	385,237	4,144	(24,989)	29,108	393,500	647,904

<u>Restated Balance Sheet</u> <u>2017/18</u>	Balances as Previously Stated at 31 March 2018 £'000	Restatement (Note 7)			Restated Balances at 31 March 2018 £'000	
		BSF PFI Sinking Fund £'000	Other Long Term Liabilities £'000	SLaP £'000		Asset Revaluations £'000
Other Land & Buildings	621,610	-	-	(51,275)	36,922	607,257
Property Plant & Equipment	1,935,222	-	-	(51,275)	36,922	1,920,869
Long Term Investments	29,234	-	-	26,286	-	55,520
Long Term Assets	2,036,848	-	-	(24,989)	36,922	2,073,770
Short Term Creditors	(81,758)	3,370	513	-	-	(77,875)
Other Long Term Liabilities	(826,629)	-	3,708	-	-	(822,921)
Total Net Assets	647,904	3,370	4,221	(24,989)	36,922	667,428
Usable Reserves	190,093	3,370	-	-	-	193,463
Unusable Reserves	457,811	-	4,221	(24,989)	36,922	473,965
Total Reserves	647,904	3,370	4,221	(24,989)	36,922	667,428

NOTES TO THE ACCOUNTS

<u>Restated Movement in Reserves</u>	<u>General Fund Balance</u> £'000	<u>Housing Revenue Account</u> £'000	<u>Total Usable Reserves</u> £'000	<u>Revaluation Reserve</u> £'000	<u>Capital Adj Account</u> £'000	<u>Total Unusable Reserves</u> £'000
Balance as at 31 March 2017	126,246	35,649	185,423	163,475	877,974	199,814
Prior Year Adjustment (Note 7)	0	0	0	7,288	(3,169)	4,119
Restated as at 1 April 2017	126,246	35,649	185,423	170,763	874,805	203,933
Total Comprehensive Income and Expenditure as at 31 March 2018	(16,790)	83,535	66,745	90,983	0	195,922
Prior Year Adjustment (Note 7)	11,248	4,221	15,469	(64)	0	(64)
Restated Total Comprehensive Income and Expenditure as at 31 March 2018	(5,542)	87,756	82,214	90,919	0	195,858
Adjustments between accounting basis & funding basis under regulations (Note 8) as at 31 March 2018	20,850	(83,903)	(62,075)	(5,622)	103,340	62,075
Prior Year Adjustment (Note 7)	(7,878)	(4,221)	(12,099)	209	11,890	12,099
Restated Adjustments between accounting basis & funding basis under regulations (Note 8) as at 31 March 2018	12,972	(88,124)	(74,174)	(5,413)	115,230	74,174
Increase / Decrease in Year	3,370	0	3,370	145	11,890	12,035
Restated Balance at 31 March 2018 carried forward	133,767	35,281	193,463	256,269	990,035	473,965

<u>Restated Comprehensive Income & Expenditure Statement</u>	<u>Balances as Previously Stated at 31 March 2018</u> £'000	<u>Restatement (Note 7)</u>			<u>Restated Balances at 31 March 2018</u> £'000
		<u>BSF PFI Sinking Fund</u> £'000	<u>Other Long Term Liabilities</u> £'000	<u>Asset Revaluations</u> £'000	
People					
Schools	(3,604)	(3,370)	-	-	(6,974)
Children's Services	71,386	-	-	(4,721)	66,665
Performance					
Resources	9,417	-	-	-	9,417
Place					
Housing & Communities	55,119	-	-	233	55,352
Regeneration & Growth	29,882	-	-	(2,918)	26,964
Cost of Services	129,689	(3,370)	-	(7,406)	118,913
(Gains) / Losses on the disposal of non current assets	8,281	-	-	(472)	7,809
Other Operating Expenditure	24,923	-	-	(472)	24,451
Interest payable and similar charges	33,392	-	(4,221)	-	29,171
Financing and Investment Income and Expenditure	46,899	-	(4,221)	-	42,678
(Surplus) / Deficit on Provision of Services	(66,745)	(3,370)	(4,221)	(7,878)	(82,214)
(Surplus) / deficit on revaluation of non current assets	(90,983)	-	-	64	(90,919)
Actuarial (gains) / losses on pension assets and	(105,451)	-	-	-	(105,451)
Other Comprehensive Income and Expenditure	(195,922)	-	-	64	(195,858)
Total Comprehensive Income and Expenditure	(262,667)	(3,370)	(4,221)	(7,814)	(278,072)

NOTES TO THE ACCOUNTS

8. **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.

2017/18

	Usable Reserves						Revaluation Reserve £'000	Capital Adj Account £'000	Financial Instruments Adj A/C £'000	Available for Sale Reserve £'000	Pensions Reserve £'000	Accumulated Absences Account £'000	Collection Fund Adj A/C £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000									
Adjustments to the Revenue Resources															
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>															
Pensions costs (transferred to (or from) the Pensions Reserve)	28,064	1,952				30,016					(30,016)			(30,016)	-
Financial instruments (transferred to the Financial Instruments Adjustments Account)	(58)	(16)				(74)		74					(4,818)	74	-
Council tax and NDR (transfers to or from Collection Fund)	4,818					4,818								(4,818)	-
Holiday pay (transferred to the Accumulated Absences Reserve)	914	(31)				883						(883)		(883)	-
Equal pay settlements (transferred to the unequal Pay/Back Pay Account)						-								-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	(2,764)	(30,148)				(32,912)	(5,413)	38,325						32,912	-
Total Adjustments to Revenue Resources	30,974	(28,243)	-	-	-	2,731	(5,413)	38,325	74	-	(30,016)	(883)	(4,818)	(2,731)	-
Adjustments between Revenue and Capital Resources															
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,437)	(15,465)	16,902			-								-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)						-								-	-
Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve)	2,697		(2,697)			-								-	-
Posting of HRA resources from revenue to the Major Repairs Reserve		(14,184)		14,184		-								-	-
Statutory Provision for the repayment of debt (transfer from the Capital Adjustment Account)	(16,456)	(17,292)				(33,748)		33,748						33,748	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(2,806)	(12,940)				(15,746)		15,746						15,746	-
Total Adjustments between Revenue and Capital Resources	(18,002)	(59,881)	14,205	14,184	-	(49,494)	-	49,494	-	-	-	-	-	49,494	-
Adjustments to Capital Resources															
Use of the Capital Receipts Reserve to finance capital expenditure			(14,252)			(14,252)		14,252						14,252	-
Use of the Major Repairs Reserve to finance capital expenditure				(14,184)		(14,184)		14,184						14,184	-
Application of capital grants to finance capital expenditure					(12,005)	(12,005)		12,005						12,005	-
Cash payments in relation to deferred capital receipts					13,030	13,030		(13,030)						(13,030)	-
Total Adjustment to Capital Resources	-	-	(14,252)	(14,184)	1,025	(27,411)	-	27,411	-	-	-	-	-	27,411	-
Total Adjustments	12,972	(88,124)	(47)	-	1,025	(74,174)	(5,413)	115,230	74	-	(30,016)	(883)	(4,818)	74,174	-

NOTES TO THE ACCOUNTS

2018/19

	Usable Reserves					Revaluation Reserve £'000	Capital Adj Account £'000	Financial Instruments Adj A/C £'000	Available for Sale Reserve £'000	Pensions Reserve £'000	Accumulated Absences Account £'000	Collection Fund Adj A/C £'000	Total Unusable Reserves £'000	Total Council Reserves £'000	
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000										Total Usable Reserves £'000
Adjustments to the Revenue Resources															
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>															
Pensions costs (transferred to (or from) the Pensions Reserve)	37,841	1,984								(39,825)			(39,825)	-	
Financial instruments (transferred to the Financial Instruments Adjustments Account)	(100)	(16)						116					116	-	
Council tax and NDR (transfers to or from Collection Fund)	(10,077)										10,077		10,077	-	
Holiday pay (transferred to the Accumulated Absences Reserve)	(738)	45									693		693	-	
Equal pay settlements (transferred to the unequal Pay/Back Pay Account)													-	-	
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	15,137	(30,490)					(6,810)	22,163					15,353	-	
Total Adjustments to Revenue Resources	42,063	(28,477)	-	-	-	13,586	(6,810)	22,163	116	-	(39,825)	693	10,077	(13,586)	-
Adjustments between Revenue and Capital Resources															
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,610)	(16,120)	17,730											-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)														-	-
Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve)	2,697		(2,697)											-	-
Posting of HRA resources from revenue to the Major Repairs Reserve		(15,496)		15,496										-	-
Statutory Provision for the repayment of debt (transfer from the Capital Adjustment Account)	(15,940)	(14,495)						30,435						30,435	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(1,054)	(836)						1,890						1,890	-
Total Adjustments between Revenue and Capital Resources	(15,907)	(46,947)	15,033	15,496	-	(32,325)	-	32,325	-	-	-	-	-	32,325	-
Adjustments to Capital Resources															
Use of the Capital Receipts Reserve to finance capital expenditure			(6,628)			(6,628)		6,628						6,628	-
Use of the Major Repairs Reserve to finance capital expenditure				(15,496)		(15,496)		15,496						15,496	-
Application of capital grants to finance capital expenditure					(9,814)	(9,814)		9,814						9,814	-
Cash payments in relation to deferred capital receipts					19,672	19,672		(19,672)						(19,672)	-
Total Adjustment to Capital Resources	-	-	(6,628)	(15,496)	9,858	(12,266)	-	12,266	-	-	-	-	-	12,266	-
Total Adjustments	26,156	(75,424)	8,405	-	9,858	(31,005)	(6,810)	66,754	116	-	(39,825)	693	10,077	31,005	-

NOTES TO THE ACCOUNTS

9. **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 2018/19. The balances ring fenced for schools are also included below.

	Balance as at 1 April 2017	Transfers Out 2017/18	Transfers In 2017/18	Restated (Note 7)	Restated Balance as at 31 March 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance as at 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund:								
Insurance	9,131	-	477	-	9,608	(3,000)	1,483	8,091
BSF PFI Sinking Fund	0	-	-	3,370	3,370	-	375	3,745
Replacement of Oracle	2,625	-	-	-	2,625	-	-	2,625
Sinking Fund Reserves	2,652	-	686	-	3,338	-	886	4,224
Social Fund Reserve	361	(210)	-	-	151	(151)	-	-
Revenue Grants	1,047	-	-	-	1,047	-	-	1,047
Grants Irregularities	1,031	-	-	-	1,031	-	-	1,031
Early Help Reserve	1,083	-	-	-	1,083	(1,083)	-	-
West Midlands Regional Research	513	(170)	-	-	343	(56)	-	287
SCT Set Up Costs	0	-	770	-	770	-	-	770
Regeneration & Economy	191	(5)	-	-	186	-	-	186
Teaching for Public Health Network	247	-	41	-	288	-	32	320
Childrens Workforce Development	97	-	-	-	97	(67)	-	30
Dartmouth Park HLF	409	-	-	-	409	(40)	-	369
Private Sector Housing Reserve	254	-	-	-	254	(75)	-	179
Integrated Care Records	0	-	-	-	0	-	301	301
Other Earmarked Reserves	452	(110)	93	-	435	(253)	105	287
Total General Fund	20,093	(495)	2,067	3,370	25,035	(4,725)	3,182	23,492
Balances Held by Schools under a Scheme of Delegation	34,406	(855)	-	-	33,551	(1,000)	-	32,551
HRA:								
HRA Balance	32,937	(667)	-	-	32,270	-	4,465	36,735
HRA Welfare Reform Reserve	2,712	-	299	-	3,011	-	690	3,701
Total HRA	35,649	(667)	299	-	35,281	-	5,155	40,436

NOTES TO THE ACCOUNTS

10. **Property, Plant and Equipment**

The following tables show the in year movements in valuation, accumulated depreciation and impairments over the year for Property, Plant and Equipment. The opening balances in relation to Council Dwellings for 2017/18 have been adjusted to reflect a movement between the Gross Cost / Valuation section and the Depreciation & Impairment section of the note. There has been no impact upon the net position of these assets disclosed in the accounts.

	Council Dwellings	Other Land & Buildings	Infrastructure Assets	Vehicles, Plant, Furniture & Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total Plant, Property & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
At 1 April 2017	961,380	578,939	320,037	83,157	22,889	17,360	25,937	2,009,699
Prior Period Adjustment	(18,526)	(42,017)	-	-	-	-	-	(60,543)
Restated balance at 1 April 2017	942,854	536,922	320,037	83,157	22,889	17,360	25,937	1,949,156
Additions	33,067	9,508	9,548	6,510	99	16,880	-	75,612
Revaluation increases / (decreases) recognised in the Revaluation Reserve	-	60,112	-	-	-	-	3,715	63,827
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	59,302	18,881	-	-	-	-	(329)	77,854
Derecognition - Disposals	-	(11,170)	-	-	-	-	(446)	(11,616)
Assets reclassified (to) / from Held for Sale	(11,858)	-	-	-	-	-	(111)	(11,969)
Other movements in Cost or Valuation	8,148	13,695	-	-	(1,722)	(18,631)	2,429	3,919
Restated At 31 March 2018	1,031,513	627,948	329,585	89,667	21,266	15,609	31,195	2,146,783
Accumulated Depreciation and Impairment								
At 1 April 2017	(30,962)	(43,323)	(99,033)	(60,281)	(638)	(2,049)	(13,879)	(250,165)
Prior Period Adjustment	18,526	19,848	-	-	-	-	-	38,374
Restated balance at 1 April 2017	(12,436)	(23,475)	(99,033)	(60,281)	(638)	(2,049)	(13,879)	(211,791)
Depreciation Charge	(14,793)	(11,846)	(8,398)	(5,995)	-	-	(88)	(41,120)
Depreciation written out to the Revaluation Reserve	12,435	14,490	-	180	-	-	81	27,186
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	(49)	-	(180)	-	-	(108)	(337)
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	(131)	-	(120)	-	-	-	(251)
Derecognition - Disposals	-	248	-	-	-	-	-	248
Other movements in Depreciation and Impairment	161	72	-	-	(4)	8	(86)	151
Restated At 31 March 2018	(14,633)	(20,691)	(107,431)	(66,396)	(642)	(2,041)	(14,080)	(225,914)
Net Book Value								
At 1 April 2017	930,418	513,447	221,004	22,876	22,251	15,311	12,058	1,737,365
At 31 March 2018	1,016,880	607,257	222,154	23,271	20,624	13,568	17,115	1,920,869

NOTES TO THE ACCOUNTS

	Council Dwellings	Other Land & Buildings	Infrastructure Assets	Vehicles, Plant, Furniture & Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total Plant, Property & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
At 1 April 2018	1,031,513	627,948	329,585	89,667	21,266	15,609	31,195	2,146,783
Additions	26,556	8,399	7,725	4,301	170	17,522	826	65,499
Revaluation increases / (decreases) recognised in the Revaluation Reserve	-	(19,516)	-	-	-	-	1,393	(18,123)
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	60,924	(4,133)	-	-	-	-	(274)	56,517
Derecognition - Disposals	-	(4,636)	-	(1,698)	-	-	(1,170)	(7,504)
Assets reclassified (to) / from Held for Sale	(13,169)	-	-	-	-	-	(568)	(13,737)
Other movements in Cost or Valuation	16,082	(1,310)	136	-	(1,982)	(12,778)	692	840
At 31 March 2019	1,121,906	606,752	337,446	92,270	19,454	20,353	32,094	2,230,275
Accumulated Depreciation and Impairment								
At 1 April 2018	(14,633)	(20,691)	(107,431)	(66,396)	(642)	(2,041)	(14,080)	(225,914)
Depreciation Charge	(16,141)	(14,540)	(8,516)	(5,971)	-	-	(87)	(45,255)
Depreciation written out to the Revaluation Reserve	14,633	10,789	-	-	-	-	149	25,571
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	(52)	-	-	-	-	(56)	(108)
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	(153)	-	-	-	(79)	(700)	(932)
Derecognition - Disposals	-	78	-	1,694	-	-	146	1,918
Other movements in Depreciation and Impairment	172	97	-	-	-	(12)	(98)	159
At 31 March 2019	(15,969)	(24,472)	(115,947)	(70,673)	(642)	(2,132)	(14,726)	(244,561)
Net Book Value								
At 1 April 2018	1,016,880	607,257	222,154	23,271	20,624	13,568	17,115	1,920,869
At 31 March 2019	1,105,937	582,280	221,499	21,597	18,812	18,221	17,368	1,985,714

11. **Heritage Assets**

There has been no material change to the carrying value of heritage assets in 2018/19 since the last valuations performed in 2017/18. The carrying value as at 31 March 2019 is £4.193m.

Art Collection

An art collection displayed at Ingestre Hall Residential Arts Centre was last valued in 2017/18 by Biddle & Webb who provided a valuation of £1.402m. The remainder of the council's art collection was also reviewed in 2017/18. There have been no material changes reported by the Museum Service Manager in 2018/19 and therefore the value for the remaining art collection stays at £0.424m.

17th Century Furniture

The council's museums display some fine examples of 17th century furniture. The furniture collection held at Ingestre Hall Residential Arts Centre was last valued in 2017/18 by Biddle & Webb who provided a valuation of £0.184m. The remainder of the council's furniture collection was also reviewed in 2017/18. There have been no material changes reported by the Museum Service Manager in 2018/19 and therefore the value for the remaining furniture collection stays at £0.382m.

Civic Regalia & Presentational Silver

The civic regalia and presentational silver are assets that have been donated to or purchased by the council, which currently amount to over 100 items. Valuations provided by Fattorinis in 2017/18 estimated the collection held at the Mayor's Parlour to be worth £1.413m with the remaining collection, which was reviewed by the Museum Service Manager, deemed to have had no material change; no further changes in value have been reported in 2018/19 and the value remains at a value of £0.052m.

Other

The council holds other miscellaneous 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. No material changes have been reported by the Museum Services Manager in 2018/19.

The next full re-valuation of heritage assets is due to be undertaken in the financial year 2022/23.

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.

12. **Investment Properties**

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the CI&ES.

2017/18 £'000		2018/19 £'000
2,907	Rental income from investment property	3,520
(661)	Direct operating expenses arising from investment property	(684)
2,246	Net gain / (loss)	2,836

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 nor to repair, maintain or enhance it.

NOTES TO THE ACCOUNTS

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

2017/18 £'000		2018/19 £'000
88,718	Balance at start of the year	86,402
-	Subsequent expenditure	33
(2,764)	Disposals	(2,969)
4,367	Net gains / (losses) from fair value adjustments	(4,129)
(3,919)	Other changes	(839)
86,402	Balance at the end of the year	78,498

13. Assets Held for Sale

The following table shows the movement in the valuation of Assets Held for Sale over the year.

	2017/18 £'000	2018/19 £'000
Balance outstanding at start of year	593	281
Assets newly classified as held for sale:		
Property Plant and Equipment	11,969	13,737
Revaluation losses	(154)	(29)
Assets sold	(12,207)	(13,830)
Other movements	80	(159)
Balance outstanding at year end	281	-

14. 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:

	2017/18 £'000	2018/19 £'000
Balance at start of year	3,201	3,196
Purchases	751	140
Amortisation for the period	(756)	(873)
Net carrying amount at end of year	3,196	2,463
Comprising:		
Gross carrying amount	19,218	19,358
Accumulated amortisation	(16,022)	(16,895)
	3,196	2,463

NOTES TO THE ACCOUNTS

15. **Fair Value of Non Current Assets**

Movement in the Fair Value of Non Current Assets

	Valued at Historical Cost £'000	Net Book Value at Date of last Valuation					Total £'000
		2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	
Property Plant & Equipment							
Council Dwellings	-	-	-	-	-	1,105,937	1,105,937
Land & Buildings	-	46,806	50,243	32,028	44,930	408,273	582,280
Infrastructure	221,499	-	-	-	-	-	221,499
Vehicles, Plant & Equipment	21,597	-	-	-	-	-	21,597
Community Assets	18,812	-	-	-	-	-	18,812
Assets Under Construction	18,221	-	-	-	-	-	18,221
Surplus Assets Not Held for Sale	-	2,786	4,365	747	4,191	5,279	17,368
Heritage Assets	-	-	-	-	4,193	-	4,193
Investment Properties	-	-	60	6,206	7,343	64,889	78,498
Intangible Assets	2,463	-	-	-	-	-	2,463
	282,592	49,592	54,668	38,981	60,657	1,584,378	2,070,868
Assets Held for Sale	-	-	-	-	-	-	-
Total	282,592	49,592	54,668	38,981	60,657	1,584,378	2,070,868

Fair Value Measurement of Investment Properties & Surplus Assets

The authority's valuer has 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; and
- 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; and
- Obsolescence.

NOTES TO THE ACCOUNTS

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 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 2017/18

2017/18	(Quoted Prices) Input Level 1 £000's	Observable Input Level 2 £000's	Unobservable Input Level 3 £000's	Fair Value 31 March 2018 £000's
<u>Fair Value Category</u>				
Investment Properties				
Car Parks	-	121	-	121
Cleared Sites	-	2,338	-	2,338
Community Centres	-	-	272	272
Compounds	-	1,323	-	1,323
Depots	-	2	-	2
Farms	-	470	-	470
Industrial Sites	-	6,478	-	6,478
Land	-	41,755	-	41,755
Retail Sites	-	25,091	-	25,091
Shops	-	8,281	-	8,281
Vacant Sites	-	271	-	271
Total Investment	-	86,130	272	86,402
Surplus Assets				
Car Parks	-	2,894	-	2,894
Cleared Sites	-	-	-	-
Depots	-	235	-	235
Land	-	4,453	-	4,453
Vacant Sites	-	9,533	-	9,533
Total Surplus	-	17,115	-	17,115

NOTES TO THE ACCOUNTS

Fair Value Hierarchy 2018/19

2018/19	(Quoted Prices) Input Level 1 £000's	Observable Input Level 2 £000's	Unobservable Input Level 3 £000's	Fair Value 31 March 2019 £000's
Fair Value Category				
Investment Properties				
Car Parks	-	121	-	121
Cleared Sites	-	757	-	757
Community Centres	-	-	256	256
Compounds	-	986	-	986
Depots	-	3	-	3
Farms	-	-	-	-
Industrial Sites	-	6,244	-	6,244
Land	-	36,673	-	36,673
Retail Sites	-	24,950	-	24,950
Shops	-	8,340	-	8,340
Vacant Sites	-	168	-	168
Total Investment	-	78,242	256	78,498
Surplus Assets:				
Car Parks	-	2,694	-	2,694
Cleared Sites	-	-	-	-
Depots	-	256	-	256
Land	-	4,310	-	4,310
Vacant Sites	-	10,230	-	10,230
Total Surplus	-	17,490	-	17,490

There has been no transfer between input levels during 2018/19. 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

	31 March 2018 £000's	31 March 2019 £000's
Opening Balance	397	272
Transfers to Level 3	-	-
Transfers from Level 3	(119)	-
Gains/ Losses included resulting from a change in Fair Value	-	(16)
Additions	-	-
Disposals	(6)	-
Closing Balance	272	256

NOTES TO THE ACCOUNTS

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&ES.

Quantitative Information about Fair Value Measurements – Level 3

As required by the Code the quantitative 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	£10 - £50 psm	Changes in rental growth, yields and occupancy will result in a lower or higher fair value
		Yields	10% -14%	

The fair value of the authority's 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 Executive Director of Resources on a regular basis regarding valuation matters.

16. **Financial Instruments**

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet;

Financial Assets:

	Non-Current				Current				Total	Total
	Investments		Debtors		Investments		Debtors			
	31 March 2018	31 March 2019	31 March 2018	31 March 2019	31 March 2018	31 March 2019	31 March 2018	31 March 2019		
Fair Value through Profit & Loss	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amortised Cost	-	-	2,864	3,623	-	-	-	-	2,864	3,623
Fair Value through Other Comprehensive Income - Designated Equity Instruments	26,620	26,620	727	8	60,212	64,493	21,730	27,112	109,289	118,233
Fair Value through Other Comprehensive Income - Other	28,900	28,981	-	-	-	-	-	-	28,900	28,981
Total Financial Assets	55,520	55,601	3,591	3,631	60,212	64,493	21,730	27,112	141,053	150,837
Non-Financial Assets	-	-	-	-	-	-	-	-	86,684	78,498
Total	55,520	55,601	3,591	3,631	60,212	64,493	21,730	27,112	227,737	229,335

Financial Liabilities:

	Non-Current				Current				Total	Total
	Borrowings		Creditors		Borrowings		Creditors			
	31 March 2018	31 March 2019	31 March 2018	31 March 2019	31 March 2018	31 March 2019	31 March 2018	31 March 2019		
Fair Value through Profit & Loss	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amortised Cost	-	-	-	-	-	-	-	-	-	-
Fair Value through Other Comprehensive Income	450,420	447,312	80,883	77,364	55,908	77,810	74,359	74,542	661,570	677,028
Total Financial Assets	450,420	447,312	80,883	77,364	55,908	77,810	74,359	74,542	661,570	677,028
Non-Financial Assets	-	-	-	-	-	-	-	-	-	-
Total	450,420	447,312	80,883	77,364	55,908	77,810	74,359	74,542	661,570	677,028

NOTES TO THE ACCOUNTS

Reclassification and Remeasurement of Financial Instruments as at 1 April 2018

This note shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting and the remeasurements of carrying amounts then required.

	Carrying Amount b/f as @ 1 April 2018	New Classification as @ 1 April 2018			
		Amortised Cost	Fair Value through Comprehensive Income	Fair Value through Profit & Loss	Non-Financial Instrument Balances
	£'000	£'000	£'000	£'000	£'000
PREVIOUS CLASSIFICATION					
LEP Working Capital Loan	84	84	-	-	-
Credit Union Loan	250	250	-	-	-
General Deferred Debtors	712	712	-	-	-
General Deferred Debtors - Travel Passes	7	7	-	-	-
Mortgages & Advances - SOCH 1980 Acc	1	1	-	-	-
Mortgages & Advances - Maturity Loan	8	8	-	-	-
Mortgages & Advances - Local Authority Mortgage	-	-	-	-	-
Mortgages & Advances - Kickstart Loans	2,864	-	-	2,864	-
Short Term Investments	5,021	5,021	-	-	-
Short Term Debtors	21,730	21,730	-	-	-
Schools Bank Account - Cash	19,090	19,090	-	-	-
Cash Equivalents	36,101	36,101	-	-	-
Loans and Receivables	85,868	83,004	-	2,864	-
Ordinary Shares - Birmingham Airport	26,563	-	26,563	-	-
Preference Shares - Birmingham Airport	1,766	-	1,766	-	-
Sandwell Land and Property Share Equity	26,286	26,286	-	-	-
Ordinary Shares - BSF Special Purpose Vehicle	571	-	571	-	-
Available for Sale	55,186	26,286	28,900	-	-
n/a	-	-	-	-	-
Fair Value Through Profit & Loss	-	-	-	-	-
Investment Assets Held	86,402	-	-	-	86,402
Assets Held for Sale	281	-	-	-	281
Total Non-Financial Assets	86,683	-	-	-	86,683
Reclassified Amounts at 1 April 2018	227,737	109,290	28,900	2,864	86,683
Remeasurements at 1 April 2018	-	-	-	-	-
Remeasured Carrying Amounts at 1 April 2018	227,737	109,290	28,900	2,864	86,683
Impact on General Fund Balance	-	-	-	-	-
Impact of Financial Instruments Revaluations Reserve	-	-	-	-	-

Effect of Asset Reclassification and Remeasurement on the Balance Sheet

This note shows how the new Balance Sheet at 1 April 2018 for financial assets are incorporated into the Balance Sheet; IFRS 9 changed some categories of financial instruments, but there were no associated losses or remeasurements associated with this change.

01 April 2018	Amortised Cost	Fair Value through Other Comprehensive Income	Fair Value through Profit & Loss	Non-Financial Instrument Balances	Total Balance Sheet Carrying Amount
	£'000	£'000	£'000	£'000	£'000
Remeasured Carrying Amounts at 1 April 2018	109,289	28,900	2,864	86,684	227,737
Non-Current Investments	26,620	28,900	-	-	-
Non-Current Debtors	727	-	2,864	-	-
Current Investments	60,212	-	-	-	-
Current Debtors	21,730	-	-	-	-

NOTES TO THE ACCOUNTS

Application of Classification Requirements at 1 April 2018

- Money Market Funds are funds that invest in short-term assets and aim to offer returns in line with money market rates and/or to preserve the value of the investment. The authority has a number of money market funds all classified as Low Volatility NAV (LVNAV) funds and as at the 1 April 2018 had two money market funds that held a total of £10.200m (included in the cash equivalents figures). The funds available to the authority are strictly for payment of principal and interest and funds deposited are prohibited from any market valuation fluctuations. As at 31 March 2019 this applies to all of the money market funds available to the authority and as such the authority has taken the decision to class LVNAV money market funds as amortised cost and not fair value through profit and loss (FVPL) in 2018/19.
- Shares with a carrying value of £28.329m were reclassified from available for sale to fair value through other comprehensive income (FVOCI) as they are classed as equity instruments – the Council has a contract and receives dividends but is not obligated to exchange the shares with the holder entity under conditions that are unfavourable. Please see 'Investments in Equity Instruments Designated at Fair Value through Other Comprehensive Income' for more information.
- Kickstart loans with a carrying amount of £2.864m were reclassified from loans and receivables to FVPL because, although contractual payments are determinable, they have elements based on the property market that are not specifically principal or interest. As an additional note these are Capital loans and will have no impact on the General Fund Balance.

Reclassification and Remeasurement of Impairment Losses at 1 April 2018

This note shows the adjustments made to impairment loss allowances as a result of the reclassification of financial assets and the change from an incurred losses model to an expected losses model.

	Loss Allowance Classification as @ 1 April 2018		
	Impairment Allowance brought forward	Amortised Cost	Fair Value through Other Comprehensive Income
	£'000	£'000	£'000
PREVIOUS CLASSIFICATION			
Total Loans and Receivables	1,876	1,876	-
Available for Sale	-	-	-
Reclassified Amounts at 1 April 2018	1,876	1,876	-
Remeasurement from Incurred Losses to Expected Losses Basis at 1 April 2018	-	-	-
Impairment Loss Allowance at 1 April 2018	1,876	1,876	-

Under the accounting requirements the carrying value of the financial instruments value, is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments 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 accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

NOTES TO THE ACCOUNTS

Fair value has been measured by:

- Direct reference to published price quotation in an active market; and/or
- Estimated using a relevant valuation technique

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

	31 March 2018		Total £'000	31 March 2019		Total £'000
	Current £'000	Long Term £'000		Current £'000	Long Term £'000	
LIABILITIES						
Borrowings:						
Financial Liabilities (principal)	48,449	449,725	498,174	70,833	446,142	516,975
Plus accrued interest	6,986	-	6,986	6,509	-	6,509
Soft Loans	40	30	70	34	567	601
Other Accounting Adjustments	433	665	1,098	434	603	1,037
Total Borrowings at amortised cost	55,908	450,420	506,328	77,810	447,312	525,122
PFI & Finance Lease Liabilities	3,516	77,367	80,883	4,948	72,416	77,364
Creditors	74,359	-	74,359	74,542	-	74,542
TOTAL LIABILITIES	133,783	527,787	661,570	157,300	519,728	677,028
ASSETS						
Loans & Receivables:						
Investments	5,000	26,620	31,620	11,000	26,620	37,620
Debtors	21,730	727	22,457	27,112	8	27,120
Cash & Cash Equivalents	55,191	-	55,191	53,465	-	53,465
Plus accrued interest	21	-	21	29	-	29
Total Loans & Receivables at amortised cost	81,942	27,347	109,289	91,606	26,628	118,234
Unquoted Equity Investment at cost	-	28,900	28,900	-	28,981	28,981
Total Investments	-	28,900	28,900	-	28,981	28,981
Kickstart Loans	-	2,864	2,864	-	3,623	3,623
through profit and loss	-	2,864	2,864	-	3,623	3,623
TOTAL ASSETS	81,942	59,111	141,053	91,606	59,232	150,838

NB – Liabilities as at 31st March 2018 for PFI & Finance Lease Liabilities and Creditors have been restated as per note 7 Prior Period Adjustments

The Council has a number of loans from Salix Finance Ltd outstanding that are held at less than market rate (soft loans). When soft loans are received, a gain is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be saved by the Council over the life of the instrument, resulting in a higher amortised cost than the outstanding principal. Interest is debited at a higher effective rate of interest than the rate receivable from the loan provider, with the difference serving to decrease the amortised cost of the loan on the Balance Sheet. Statutory provisions require that where material, the impact of soft loans on the General Fund Balance is the interest payable for the financial year – the reconciliation of the amounts credited and debited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instrument Adjustment Account.

NOTES TO THE ACCOUNTS

The detailed soft loans information is as follows:

Salix Finance Ltd	31 March 2018	31 March 2019
	£'000	£'000
Opening Balance	111	71
+ New Loans Granted	-	571
- Fair Value Adjustment on Initial Recognition	-	(42)
- Loans Repaid	(40)	(40)
- Impairment Losses	-	-
- Decrease in the Discounted Amount	-	-
+/- Other Changes	-	-
Balance Carried Forward	71	560

Soft Loan Valuation Assumption

The interest rate at which the fair values of these soft loans have been recognised is arrived at by using the authority's prevailing cost of borrowing for a comparable loan at the date of the advance.

Any gains and losses that arise on derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Investments in Equity Instruments Designated at Fair Value through Other Comprehensive Income

With the introduction of IFRS 9 the authority has designated the following equity at 31 March 2019 as FVOCI:

Description	Nominal Value	Fair Value as at 31 March 2019	Change in Fair Value during 2018/19	Dividends
	£'000	£'000	£'000	£'000
Birmingham Airport - Ordinary Shares	18,217	26,644	81	1,458
Birmingham Airport - Preference Shares	1,766	1,766	-	111
BSF Special Purpose Vehicle - Ordinary Shares	571	571	-	-
Investments in Equity Instruments	20,554	28,981	81	1,569

Birmingham Airport Shares – The authority holds shares in Birmingham Airport which originated through a policy initiative with other authorities to promote economic generation and tourism. As the asset is not held for trading or income generation, rather a longer-term policy initiative the equity has been designated as FVOCI.

LEP Special Purpose Vehicle – The Council holds a 10% shareholding in Environments for Learning Sandwell PFI Ltd for an unspecified period. The company is a special purpose vehicle set up by the Local Enterprise Partnership (LEP); it is a concession contract responsible for designing, building and operating schools within Sandwell. The shares will be treated as an equity investment and as they are not held for trading, the Council has elected to classify them as FVOCI.

NOTES TO THE ACCOUNTS

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:

	2017/18		2018/19	
	Surplus or (Deficit) on the Provision of Services £'000	Other Comprehensive Income & Expenditure £'000	Surplus or (Deficit) on the Provision of Services £'000	Other Comprehensive Income & Expenditure £'000
Net Gains/(Losses) on:				
Financial assets measured at fair value through other comprehensive income	1,843	(590)	1,569	81
Financial liabilities measured at amortised cost	-	-	42	-
Total Net Gains/(Losses)	1,843	(590)	1,611	81
Interest Revenue:				
Financial assets measured at amortised cost	1,014	-	1,108	-
Total Interest Revenue	1,014	-	1,108	-
Interest Expense:				
Fee Expense:				
Financial assets or financial liabilities that are not at fair value through profit or loss	(33,391)	-	(31,921)	-
Total Fee Income	(33,391)	-	(31,921)	-
Total Financial Instruments Gains/(Losses)	(30,534)	(590)	(29,202)	81

Fair Values of Financial Assets

For the council's 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.

Some of the inputs used to determine the valuation of the Birmingham Airport shares are observable however, as they also include some unobservable inputs such as calculation of an earnings multiple using non-quoted information, then the instruments are classified as input level 3.

Reclassification of fair value of assets held at input level 2 to level 3 in 2018/19

The LEP loan notes the value of the remaining shares held by the authority is valued at cost. There is no market and no reliable way of revaluing the asset held; as such the LEP loan notes have been reclassified at input level 3 from level 2 in 2018/19 and are shown with the Birmingham Airport share value in the 'Unquoted Shares' column in the 2018/19 table below.

With regards to the Kickstart loans, although contractual payments are determinable, they have elements based on the property market that are not; because of this, they have been reclassified at input level 3 from level 2 in 2018/19 and are shown in the column headed 'Other' in the 2018/19 table that follows.

NOTES TO THE ACCOUNTS

The tables below detail the fair value of assets classified and reclassified by the authority at input level 3 in 2018/19 compared to 2017/18:

2017/18	Unquoted Shares	Other	Total
	£'000	£'000	£'000
Opening Balance	28,919	-	28,919
- Transfers into Level 3	-	-	-
- Transfers out of Level 3	-	-	-
- Total gains or (losses) for the period included in Other Comprehensive Income & Expenditure	(590)	-	(590)
- Additions	-	-	-
- Disposals	-	-	-
Balance Carried Forward	28,329	-	28,329

2018/19	Unquoted Shares	Other	Total
	£'000	£'000	£'000
Opening Balance	28,329	-	28,329
- Transfers into Level 3	571	2,864	3,435
- Transfers out of Level 3	-	-	-
- Total gains or (losses) for the period included in Other Comprehensive Income & Expenditure	81	759	840
- Additions	-	-	-
- Disposals	-	-	-
Balance Carried Forward	28,981	3,623	32,604

Fair value of Assets and Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are required)

Except for the financial assets carried at fair value (described in the table below), all other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. 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 PWLB, new loan rates have been applied for 2018/19. An additional note to the tables sets out the alternative fair value measurement applying the new loan rates, highlighting the impact of the alternative valuation.
- For non-PWLB loans payable, PWLB new loan rates have been applied for 2018/19 to provide the fair value under PWLB debt redemption rate procedures;
- 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.

NOTES TO THE ACCOUNTS

Financial Liabilities

The fair values calculated are as follows:

	Restated		31 March 2019	
	31 March 2018	31 March 2018	Carrying	Fair
	Amount	Value	Amount	Value
	£'000	£'000	£'000	£'000
PWLB Debt	364,750	595,488	350,250	503,454
Non PWLB Debt	93,977	164,492	93,962	134,344
Other Local Authority Debt	14,138	14,138	12,902	14,741
Salix Loan	71	71	560	560
Other Temporary Borrowing	33,392	33,392	67,448	67,448
Total Debt	506,328	807,581	525,122	720,547
PFI & Finance Lease Creditors	80,883	139,637	77,364	125,218
Trade Creditors	74,359	74,359	74,542	74,542
Total Financial Liabilities	661,570	1,021,577	677,028	920,307

NB – Liabilities as at 31st March 2018 for PFI & Finance Lease Creditors and Trade Creditors have been restated as per note 7 Prior Period Adjustments

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.

However, the Council 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 commitments for fixed rate loans is to compare the terms of these loans with the premature redemption rates available from the PWLB. If a value is calculated on this basis, the carrying amount of PWLB at £350.250m would be valued at £582.353m (this is the exit price for the PWLB loans including the penalty charge). If the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB and the various banks would raise a penalty charge for early redemption.

It should be noted that the Non PWLB Debt held by the authority includes mainly Lender Option Borrower Option (LOBO) loans, where the lender has an option to change the interest rate built into the loan agreement at a future date.

For the LOBO loans entered into by SMBC, the authority, as the borrower, has the option to repay the loan in full when the lender option has been triggered. As a result, there is no risk that the authority will be tied into future interest rate increases imposed by the lender.

The value of these assets are presented in the accounts at level 2 within the fair value hierarchy.

NOTES TO THE ACCOUNTS

Financial Assets

	31 March 2018		31 March 2019	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Short Term:				
Fixed Market Deposits	5,000	5,000	11,000	11,000
Short Term Debtors	21,730	21,730	27,112	27,112
Cash Equivalents	55,191	55,191	53,465	53,465
Plus accrued interest	21	21	29	29
	81,942	81,942	91,606	91,606
Long Term:				
Birmingham Airport Shares	28,329	28,329	28,410	28,410
BSF Special Purpose Vehicle	571	571	571	571
Local Enterprise Partnership	84	84	84	84
Credit Union Loan	250	250	250	250
Long Term Debtors	3,591	3,591	3,631	3,631
Total Assets	114,767	114,767	124,552	124,552

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

The council's long-term investment in Birmingham Airport was revalued as at the 31 March 2019. It has been concluded that the movement in fair value, although not material, should be reflected within the accounts; the carrying value of the investment has increased from £28.329m to £28.410m.

The investment in the LEP Special Purpose Vehicle of £0.571m is shown at cost. As there is no reliable market value, the fair value cannot be measured reliably.

In 2018/19 the council invested £0.250m in the 6 Towns Credit Union. As this gives rise to contractual cashflows of solely principal interest on specific days, then it is shown at amortised cost in the balance sheet.

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.

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the assumptions detailed below. Primarily for financial liabilities the fair value is arrived at by applying the discounted cash flow calculations based on the PWLB premiums/discount calculations.

NOTES TO THE ACCOUNTS

	Restated 31 March 2018			
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total £'000
LIABILITIES				
Borrowings:				
Financial Liabilities (principal)	-	498,174	-	498,174
Plus accrued interest	-	6,986	-	6,986
Soft Loans	-	70	-	70
Other Accounting Adjustments	-	1,098	-	1,098
Total Borrowings at amortised cost	-	506,328	-	506,328
PFI & Finance Lease Liabilities	-	80,883	-	80,883
Creditors	-	74,359	-	74,359
TOTAL LIABILITIES	-	661,570	-	661,570
ASSETS				
Loans & Receivables:				
Investments	-	31,620	-	31,620
Long Term Debtors	-	727	-	727
Short Term Debtors	-	21,730	-	21,730
Cash & Cash Equivalents	-	55,191	-	55,191
Kickstart Loans	-	2,864	-	2,864
LEP Special Purpose Vehicle	-	571	-	571
Plus accrued interest	-	21	-	21
Total Loans & Receivables at amortised cost	-	112,724	-	112,724
TOTAL ASSETS	-	112,724	-	112,724

NB – Liabilities as at 31st March 2018 for PFI & Finance Lease Liabilities and Creditors have been restated as per note 7 Prior Period Adjustments

	31 March 2019			
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total £'000
LIABILITIES				
Borrowings:				
Financial Liabilities (principal)	-	516,975	-	516,975
Plus accrued interest	-	6,509	-	6,509
Soft Loans	-	601	-	601
Other Accounting Adjustments	-	1,037	-	1,037
Total Borrowings at amortised cost	-	525,122	-	525,122
PFI & Finance Lease Liabilities	-	77,364	-	77,364
Creditors	-	74,542	-	74,542
TOTAL LIABILITIES	-	677,028	-	677,028
ASSETS				
Loans & Receivables:				
Investments	-	37,620	-	37,620
Long Term Debtors	-	7	-	7
Short Term Debtors	-	27,112	-	27,112
Cash & Cash Equivalents	-	53,465	-	53,465
Plus accrued interest	-	30	-	30
Total Loans & Receivables at amortised cost	-	118,234	-	118,234
TOTAL ASSETS	-	118,234	-	118,234

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 required to renew a financial instrument on maturity at disadvantageous interest rates 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 programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash).

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers. The risk is minimised through the Annual Investment Strategy, which is available on the Council's website.

Credit Risk Management Practices

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 considers maximum amounts and time limits for deposits with a financial institution located in each category. The credit criteria in respect of financial assets held by the Council are detailed below:

- Credit ratings of Short Term F1, Long Term A, (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.

Amounts Arising from Expected Credit Losses

The Authority's maximum exposure to credit risk in relation to its investments in financial institutions of £71.911m made up of long-term investments, short-term investments and cash & cash equivalents (exc. school accounts), cannot be assessed generally as the risk of any institution failing to make interest payments or repay the 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 there was no evidence at the 31 March 2019 that this was likely to crystallise.

NOTES TO THE ACCOUNTS

A table to show investments held by the Council at the 31 March 2019 is below:

Current Ratings (Fitch or Equivalent)	As at 31/03/2018 £'000	As at 31/03/2019 £'000
AAA	10,200	31,000
AA+	-	-
AA	5,000	11,000
AA-	10,000	-
A+	-	-
A	15,300	-
A-	601	596
BBB+	-	-
N/A	29,234	29,315
Balance Carried Forward	70,335	71,911

Allowances for impairment losses have been calculated (exc. LEP working capital and Credit Union loans) for investments held at 31 March 2019, applying the expected credit losses model. The expected credit loss model results in a nil value notional loss and as such, no adjustment has been made to the carrying value of these instruments in the Council's accounts.

Full provisions have been set aside for the LEP working capital loan (£0.084m) and the Credit Union loan (£0.250m) due to future uncertainties and increased risk of default.

Equity investments held at FVOCI are outside the scope of impairment and therefore no impairment is required in 2018/19. The impairment requirements do not apply to the Kickstart loans categorised as assets held at FVPL, as current market prices are considered to be an appropriate reflection of credit risk and therefore, no further impairment will be required for this investment category in 2018/19.

During the year the authority did not write off any financial assets with contractual amounts outstanding and that are still subject to enforcement activity.

Collateral

During the reporting period the Authority has not identified any material charges of collateral held as security.

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 CIPFA Treasury Management 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.

NOTES TO THE ACCOUNTS

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;

	2017/18 £'000	2018/19 £'000
Less than three months	8,237	10,713
Three to six months	2,315	1,356
Six months to one year	1,707	1,773
More than one year	4,303	4,603
Total	16,562	18,445

The Council has an impairment allowance in place for 31 March 2019 of £2.122m to mitigate against this risk (£1.876m as at 31 March 2018).

The guidance states that with regards to statutory debtors, the Council does not have to provide for any loss allowance.

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 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 below, 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 2018 £'000	Principal 31 March 2019 £'000
Less than one year	0%	20% (£117m)	48,489	70,867
Between one and two years	0%	20% (£117m)	3,602	19,883
Between two and five years	0%	25% (£146m)	52,080	47,414
Between five and ten years	0%	50% (£292m)	56,800	42,140
More than ten years	10%	90% (£525m)	337,273	337,272
			498,244	517,576

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. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

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 council's long term debt and all investments are currently 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 long-term debt would increase by £121.743m 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 £28.410m in Birmingham Airport and £0.571m 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.

The shares have all been elected/classified as FVOCI, meaning that all movements in price will impact on gains and losses recognised in the Financial Instrument Revaluation Reserve. A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £1.449m gain or loss being recognised in the Financial Instrument Revaluation Reserve.

NOTES TO THE ACCOUNTS

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.

17. Short Term Debtors

	2017/18 £'000	2018/19 £'000
Trade Receivables	21,730	27,112
Prepayments	3,290	14,120
Other Receivable Amounts (Council Tax, Business Rates and HMRC)	12,473	13,404
Total	37,493	54,636

The debtor figures above are net of provisions for impairment losses of £29.136m in 2018/19 (£30.613m in 2017/18). These provisions enable the write-off of arrears on housing rents, rates, community charges, Council Tax and other sundry debtors. Age and collectability of debt are factors that are considered when calculating yearly impairment losses

18. Debtors for Local Taxation

The past due but not impaired amounts for local taxation (Council Tax and Non Domestic Rates) can be analysed by age as follows:

2017/18				2018/19		
Council Tax £'000	NNDR £'000	Total £'000		Council Tax £'000	NNDR £'000	Total £'000
2,303	1,317	3,620	Less than one year	2,565	1,248	3,813
820	430	1,250	One to two years	834	372	1,206
3,632	342	3,974	More than two	3,608	377	3,985
6,755	2,089	8,844	Total	7,007	1,997	9,004

19. Cash and Cash Equivalents

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

	2017/18 £'000	2018/19 £'000
Bank current accounts	19,090	21,868
Short term deposits	36,101	31,596
	55,191	53,464
Bank Overdraft	(72,378)	(22,350)
Total Cash and Cash Equivalents	(17,187)	31,114

NOTES TO THE ACCOUNTS

20. **Short Term Creditors**

	Restated 2017/18 £'000	2018/19 £'000
Trade Payables	60,430	57,869
Other Payables	13,929	16,673
Finance Lease Creditors (Note 40)	3,516	4,948
Total	77,875	79,490

21. **Other Long Term Liabilities**

	Restated 2017/18 £'000	2018/19 £'000
Finance Lease Creditors (Note 40)	77,367	72,416
Deferred Liabilities	203	165
Deferred Creditors	3,528	3,497
Pensions Liability (Note 43)	741,823	756,538
Other Long Term Liabilities	822,921	832,616

22. **Provisions**

The following table 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 2018 £'000	Additional Provisions in Year £'000	Amounts Used in Year £'000	Unused Amounts Reversed in Year £'000	Closing Balance at 31 March 2019 £'000
Current Provisions					
Termination Benefits	2,253	2,717	(1,553)	(106)	3,311
Insurance	1,967	1,037	-	-	3,004
Collection Fund Provisions	2,302	1,651	-	-	3,953
Carbon Reduction Scheme	28	-	-	-	28
Single Status - Equal Pay Settlement	102	-	(82)	-	20
Total Current Provisions	6,652	5,405	(1,635)	(106)	10,316
Long Term Provisions					
Insurance	4,239	-	(1,011)	-	3,228
6 Towns Credit Union Loan	-	250	-	-	250
LEP Working Capital Loan	-	84	-	-	84
Total Long Term Provisions	4,239	334	(1,011)	-	3,562
Total Provisions	10,891	5,739	(2,646)	(106)	13,878

NOTES TO THE ACCOUNTS

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 £3.953m set aside to mitigate this liability as well as to cover any potential liabilities arising from 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 termination benefit provisions totalling £3.311m. These provisions reflect the known costs of all termination benefits approved as at 31 March 2019.
- An insurance provision of £6.233m for previous years' asset, employee and public liability claims held in line with recommendations made within the actuarial valuation. Further details on the council's insurance fund can be found within accounting policy (xxvii) on page 43.

23. Usable Reserves

Movements in the council's usable reserves are detailed in the Movement in Reserves Statement and note 8 to the accounts.

General Fund Balance

The council held total revenue balances of £62.037m as at 31 March 2019. However, included within this figure are approved committed items relating to directorate surpluses carried forward into 2018/19 and additional approved revenue expenditure on specific items in future years. Free balances available to the council at 31 March 2019 are £12.105m.

	2017/18 £'000	2018/19 £'000
Revenue Balance	75,209	62,038
less Committed Items:		
Revenue Contribution to Capital Expenditure	(2,965)	-
Target Carry Forwards or deficit to be funded centrally	(24,883)	(22,204)
Earmarked Balances	(36,142)	(27,728)
Total Available Resources	11,219	12,106

Schools Balances

Any balances relating to schools are ring fenced and cannot be appropriated by the Council. In 2018/19 the Individual School Budgets (ISB) generated a deficit of £1.000m reducing school balances to £32.551m.

Schools are directly funded from a Dedicated Schools Grant (DSG). In 2018/19, 26 schools overspent their DSG budget totalling £2.455m and 59 under spent totalling £3.684m. Other non schools' budgets, which are part of the overall ISB over spent by £2.229m resulting in a total deficit of £1.000m.

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:

NOTES TO THE ACCOUNTS

	2017/18 £'000	2018/19 £'000
Amounts receivable in year	16,902	17,730
Amounts applied to finance new capital investment in year	(14,252)	(6,628)
Pooled capital receipts paid to DCLG	(2,697)	(2,697)
Total increase / (decrease) in realised capital resources	(47)	8,405
Balance brought forward 1 April	7,863	7,816
Balance carried forward 31 March	7,816	16,221

24. **Unusable Reserves**

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

	Restated 2017/18 £'000	2018/19 £'000
Revaluation Reserve	(256,269)	(256,799)
Available for Sale Financial Instruments Reserve	(20,599)	-
Financial Instrument Revaluation Reserve	-	(20,680)
Capital Adjustment Account	(990,035)	(1,056,789)
Financial Instruments Adjustment Account	1,462	1,346
Pensions Reserve	775,723	773,438
Collection Fund Adjustment Account	8,662	(1,336)
Accumulating Compensated Absences Adjustment Account	7,091	6,398
Total Unusable Reserves	(473,965)	(554,422)

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.

	Restated 2017/18 £'000	2018/19 £'000	£'000
Balance at 1 April	(170,763)	(256,269)	
Upward revaluation of assets	(182,052)	(94,396)	
Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Services	91,133	87,056	
Surplus or deficit on revaluation of non current assets not posted to the Surplus or Deficit on the Provision of Services	(90,919)	(7,340)	
Difference between fair value depreciation and historical cost depreciation	2,925		4,871
Accumulated gains on assets sold or scrapped	2,488		1,939
Amounts written off to the Capital Adjustment Account	-		-
Asset Transfers	-		-
Balance at 31 March	(256,269)	(256,799)	

NOTES TO THE ACCOUNTS

Available For Sale Financial Instruments Reserve

Under IFRS9, all financial assets held previously within the Available for Sale Financial Instruments Reserve have been elected to be designated as FVOCI and, as a result, all balances within the reserve have been transferred to the newly created Financial Instruments Revaluation Reserve.

	2017/18 £'000	2018/19 £'000
Balance at 1 April	(21,189)	(20,599)
Reclassification of Assets	-	20,599
Upwards or (downward) movement in Assets	590	-
Balance at 31 March	(20,599)	-

Financial Instrument Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its financial assets that, under IFRS9, have been elected as FVOCI.

	2017/18 £'000	2018/19 £'000
Balance at 1 April	-	-
Transfers into FIRR from Available for Sale Reserve	-	(20,599)
Revised Balance at 1 April	-	(20,599)
Total (gains) or losses for fair value through Other Comprehensive Income		
Birmingham Airport In Year Revaluation	-	(81)
Balance at 31 March	-	(20,680)

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 8 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

NOTES TO THE ACCOUNTS

	Restated 2017/18 £'000	2018/19	
		£'000	£'000
Balance at 1 April	(874,805)	(990,035)	
Prior year adjustments (Note 1 (v) & 3)	-	-	
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Depreciation of non current assets	41,879	46,127	
Revaluation and impairment losses on property, plant and equipment	(77,449)	(56,345)	
Revenue expenditure funded from capital under statute	11,121	13,012	
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	26,108	22,384	
HRA Debt Settlement	-		
Govt Grants Differed Write Out	-		
	1,659	25,178	
Adjusting amounts written out of the Revaluation Reserve	(5,413)	(6,810)	
Net written out amount of the cost of non current assets consumed in the year	(3,754)	18,368	
Capital financing applied in the year:			
Use of the Capital Receipts Reserve	(14,252)	(6,628)	
Use of the Major Repairs Reserve	(14,184)	(15,496)	
Capital grants and contributions credited to the CI&ES that have been applied to capital financing	(17,174)	(24,988)	
Applications of grants to capital financing from the Capital Grants Unapplied Account	(12,005)	(9,814)	
Statutory provision for the financing of capital investment	(33,748)	(30,435)	
Capital expenditure charged against the General Fund and HRA balances			
Revenue Contributions to Capital	(15,746)	(1,890)	
	(107,109)	(89,251)	
Movements in the market value of Investment Properties debited or credited to the CI&ES	(4,367)	4,129	
Movements in the Donated Assets Account	-	-	
Balance at 31 March	(990,035)	(1,056,789)	

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).

NOTES TO THE ACCOUNTS

	2017/18 £'000	2018/19 £'000
Balance at 1 April	1,536	1,462
Proportion of premiums/discounts incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements:		
Discounts & Premiums	(56)	(56)
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)	(18)	(18)
Salix Loans (EIR Adjustment)	-	(42)
Balance at 31 March	1,462	1,346

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.

	2017/18 £'000	2018/19 £'000
Balance at 1 April	851,158	775,723
Remeasurements of the net defined benefit liability / (asset)	(105,451)	(42,110)
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	76,463	88,511
Employer's pensions contributions and direct payments to pensioners payable in the year	(46,447)	(48,686)
Balance at 31 March	775,723	773,438

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 opening balance of £8.662m on this reserve has decreased to a negative £1.336m during the year.

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

NOTES TO THE ACCOUNTS

annual leave entitlement carried forward at 31 December. The opening balance of £7.091m on this reserve has decreased to £6.398m during the year.

25. Cash Flow Statement

Net cash flows from operating activities include the following items:

	2017/18 £'000	2018/19 £'000
Interest Paid	(31,295)	(30,144)
Interest Received	111	149
Dividends Received	1,843	1,569

	Restated 2017/18 £'000	2018/19 £'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	35,570	10,218
Sale of non current assets - disposals (carrying value)	(26,108)	(22,384)
Net charges made for retirement benefits in accordance with IAS19	(30,016)	(56,825)
Appropriations to / from Collection Fund Adjustment Account	(4,818)	-
Appropriations to / from Accumulated Absences Account	(883)	693
Gains / Losses on Revaluation	4,367	(4,129)
Other non cash transactions	33,897	93
	12,009	(72,334)
Items on an Accruals Basis:		
Increase / (decrease) in Inventories	(174)	164
Increase / (decrease) in Debtors	(404)	17,601
(Increase) / decrease in Creditors	(5,438)	(3,572)
(Increase) / decrease in Provisions	776	(2,987)
	(5,240)	11,206
Total adjustments to net surplus/deficit on the provision of services for non cash movements	6,769	(61,128)
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	16,902	17,730
Taxation & Specific Grants	27,817	38,465
Total adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	44,719	56,195

Reconciliation of liabilities arising from financing activities

	2018-19	Financing Cashflows	Non Cash changes		2018-19
	1 April		Acquisition	Non Cash Changes	31 March
	£'000	£'000	£'000	£'000	£'000
Long Term Borrowings	(450,420)	3,066	-	42	(447,312)
Short Term Borrowings	(55,908)	(21,902)	-	-	(77,810)
On balance sheet PFI liabilities	(85,104)	3,004			(82,100)
Total Liabilities from financing activities	(591,432)	(15,832)	-	42	(607,222)

NOTES TO THE ACCOUNTS

26. **Expenditure and Funding Analysis**

The objective of the Expenditure and Funding Analysis is to demonstrate to Council Tax (and rent) payers how the funding available to the authority (i.e. government grants, rents, Council Tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the council's directorates (services or departments). Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2017/18 Restated	As Reported to Management £'000	Adjustments to arrive at the net amount chargeable to the General Fund and HRA Balances £'000	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
People					
- Adults	76,535	3,038	79,573	4,604	84,177
- Schools	632	(17,678)	(17,046)	10,072	(6,974)
- Children's	81,751	(19,006)	62,745	3,920	66,665
- Public Health	144	(4,828)	(4,684)	(62)	(4,746)
Performance					
- Resources	18,159	205	18,364	(8,947)	9,417
- Corporate Management	24	6,457	6,481	438	6,919
Place					
- Neighbourhoods & Regeneration and Economy	68,350	(2,788)	65,562	16,755	82,317
Housing Revenue Account	(45,941)	(28,527)	(74,468)	(44,394)	(118,862)
Cost of Services	199,654	(63,127)	136,527	(17,614)	118,913
Other operating expenditure	13,791	-	13,791	10,660	24,451
Financing and Investment Income and Expenditure	(35,737)	123,615	87,878	(45,200)	42,678
Taxation and Non Specific Grant Income	(245,258)	-	(245,258)	(22,998)	(268,256)
(Surplus) or Deficit	(67,550)	60,488	(7,062)	(75,152)	(82,214)

Opening General Fund & HRA Balance	(161,895)
Plus/Less (Surplus) or Deficit on General Fund and HRA Balance in year	(7,062)
Closing General Fund & HRA Balance at 31 March 2018 *	(168,957)

* For a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement

NOTES TO THE ACCOUNTS

2018/19	As Reported to Management £'000	Adjustments to arrive at the net amount chargeable to the General Fund and HRA Balances £'000	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
People					
- Adults	76,296	6,438	82,734	4,659	87,393
- Schools	563	(17,303)	(16,740)	7,343	(9,397)
- Children's	89,362	(11,938)	77,424	23,426	100,850
- Public Health	395	(5,398)	(5,003)	25	(4,978)
Performance					
- Resources	17,882	7,823	25,705	6,807	32,512
- Corporate Management	(696)	524	(172)	(74)	(246)
Place					
- Housing & Communities	45,087	(671)	44,416	7,516	51,932
- Regeneration & Growth	24,477	(3,706)	20,771	11,979	32,750
Housing Revenue Account	(39,014)	(32,933)	(71,947)	(43,590)	(115,537)
Cost of Services	214,352	(57,164)	157,188	18,091	175,279
Other operating expenditure	13,071	-	13,071	5,327	18,398
Financing and Investment Income and Expenditure	(34,120)	108,985	74,865	(24,143)	50,722
Taxation and Non Specific Grant Income	(234,565)	-	(234,565)	(48,543)	(283,108)
(Surplus) or Deficit	(41,262)	51,821	10,559	(49,268)	(38,709)

Opening General Fund & HRA Balance Plus/Less (Surplus) or Deficit on General Fund and HRA Balance in year Closing General Fund & HRA Balance at 31 March 2019 *

(168,957)

10,559

(158,398)

* For a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement

NOTES TO THE ACCOUNTS

27. **Note to the Expenditure and Funding Analysis**

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income & Expenditure (CI&ES). The relevant transfers between reserves are explained in the Movement in Reserves Statement.

2017/18 Restated	Capital Adjustments at Directorate level (Note 1) £'000	Other Adjustments at Directorate level (Note 2) £'000	Total to arrive at amount charged to the General Fund & HRA £'000	Adjustments for Capital Purposes (Note 3) £'000	Net change for the Pensions Adjustments (Note 4) £'000	Other Differences (Note 5) £'000	Total Adjustment between Funding and Accounting Basis £'000
People							
- Adults	(1,093)	4,131	3,038	1,377	3,115	112	4,604
- Schools	(7,004)	(10,674)	(17,678)	-	9,339	733	10,072
- Children's Services	(17,833)	(1,173)	(19,006)	639	3,059	222	3,920
- Public Health	(27)	(4,801)	(4,828)	27	-	(89)	(62)
Performance							
- Resources	(1,394)	1,599	205	940	(9,809)	(78)	(8,947)
- Corporate Management	(87)	6,544	6,457	416	22	-	438
Place							
- Neighbourhoods & Regeneration and Economy	(17,445)	14,657	(2,788)	13,824	2,861	70	16,755
Housing Revenue Account	(17,118)	(11,409)	(28,527)	(44,214)	(149)	(31)	(44,394)
Net Cost of Services	(62,001)	(1,126)	(63,127)	(26,991)	8,438	939	(17,614)
Other operating expenditure	-	-	-	10,660	-	-	10,660
Financing and Investment Income and Expenditure	125,787	(2,172)	123,615	(66,633)	21,581	(148)	(45,200)
Taxation and Non Specific Grant Income	-	-	-	(27,816)	-	4,818	(22,998)
(Surplus) or Deficit	63,786	(3,298)	60,488	(110,780)	30,019	5,609	(75,152)

NOTES TO THE ACCOUNTS

2018/19	Capital Adjustments at Directorate level (Note 1) £'000	Other Adjustments at Directorate level (Note 2) £'000	Total to arrive at amount charged to the General Fund & HRA £'000	Adjustments for Capital Purposes (Note 3) £'000	Net change for the Pensions Adjustments (Note 4) £'000	Other Differences (Note 5) £'000	Total Adjustment between Funding and Accounting Basis £'000
People							
- Adults	(1,079)	7,517	6,438	1,372	3,179	108	4,659
- Schools	(7,040)	(10,263)	(17,303)	-	7,827	(484)	7,343
- Children's Services	(18,026)	6,088	(11,938)	20,814	3,017	(405)	23,426
- Public Health	(27)	(5,371)	(5,398)	27	-	(2)	25
Performance							
- Resources	(1,570)	9,393	7,823	1,572	5,162	73	6,807
- Corporate Management	(87)	611	524	(93)	20	(1)	(74)
Place							
- Housing & Communities	(7,440)	6,769	(671)	6,184	1,321	11	7,516
- Regeneration & Growth	(10,050)	6,344	(3,706)	10,732	1,241	6	11,979
Housing Revenue Account	(18,608)	(14,325)	(32,933)	(43,256)	(381)	47	(43,590)
Net Cost of Services	(63,927)	6,763	(57,164)	(2,648)	21,386	(647)	18,091
Other operating expenditure	-	-	-	5,327	-	-	5,327
Financing and Investment Income and Expenditure	111,574	(2,589)	108,985	(41,637)	18,439	(945)	(24,143)
Taxation and Non Specific Grant Income	-	-	-	(38,465)	-	(10,078)	(48,543)
(Surplus) or Deficit	47,647	4,174	51,821	(77,423)	39,825	(11,670)	(49,268)

Adjustments made to Directorate reports

Note 1 – Capital Adjustments at Directorate Level

For resource management purposes, the council includes capital charges in its directorate reporting, however, this needs to be removed as it is not included in the net expenditure chargeable to the General Fund and HRA balances.

Note 2 – Other Adjustments at Directorate Level

Support service costs and impairment allowances are not included in the council's directorate reporting. This movement is included in the Net Cost of Services in the CI&ES.

The council does not include movements to/from its reserves and balances in its directorate reporting.

Adjustments made to the Net Expenditure Chargeable to the General Fund and HRA Balances

Note 3 – Adjustments for Capital Purposes

This column adds in depreciation, impairments and revaluation gains and losses in the directorate's line.

Other operating expenditure adjusts for capital disposals with a transfer of income on disposal of assets and amounts written off for those assets.

The statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from Financial and Investment Income and Expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and Non-Specific Grant Income and Expenditure is adjusted to recognise capital grant income.

Note 4 – Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services, this represents the removal of the employer pension contributions made by the council as allowed by statute and the replacement with current service costs and past service costs. For Financing and Investment Income and Expenditure - the net interest on the defined benefit liability is charged to the CI&ES.

Note 5 – Other Differences

Other differences between amounts debited/credited to the CI&ES and amounts payable/receivable to be recognised under statute:

- For services, this represents accumulated absences and investment properties rental income.
- For Finance and Investment Income and Expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

The charge under taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and Non Domestic Rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses/deficits on the Collection Fund.

NOTES TO THE ACCOUNTS

28. **Expenditure and Income analysed by nature**

This note provides detail of expenditure and income included within the CI&ES and is analysed by nature.

Restated 2017/18 £'000		2018/19 £'000
351,375	Employee Benefits Expenses	347,915
467,679	Other Services Expenses	509,774
(23,580)	Depreciation, Amortisation and Impairment	4,447
7,963	Loss on Disposal of Non Current Assets	2,630
50,752	Interest Payments	49,807
16,488	Precepts and Levies	15,769
(137)	Support Services Recharges	44
870,540	Total Expenditure	930,386
(192,892)	Fees and Charges and Other Service Income	(203,914)
(180,274)	Income from Council Tax and Business Rates	(193,984)
(562,617)	Government Grants and Contributions	(567,378)
(8,897)	Support Services Recharges	(4,734)
(8,074)	Interest and Investment Income	915
(952,754)	Total Income	(969,095)
(82,214)	Net Expenditure	(38,709)

29. **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.

Growing Places funding of £14.4m was received in 2011/12. No additional monies were received for Growing Places during 2018/19. Grant of £2.389m has been distributed in 2018/19.

The Land Development fund is a loans fund for which Public Works Loan Board (PWLB) funding is available. One project was accessing this facility and has drawn loan funding of £1.6m during 2015/16 and 2016/17. Interest on the loan was being repaid on a six monthly basis with full repayment of the balance due at the earlier of site disposal or 10 years from the date of the loan agreement. The loan has been repaid in full during the 2018/19 financial year, therefore no projects are currently accessing this fund.

A sum of £2.389m has been claimed from the Growing Places funding for the Black Country Superfast Broadband Project. This money was paid out to the contractor to fund the work of extending the 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.

NOTES TO THE ACCOUNTS

30. 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) and hosts the Better Care Fund Pooled Budget as a joint operation.

Better Care Fund (BCF) came into operation on 1 April 2015 and is hosted by Sandwell MBC with contributions from the Sandwell & West Birmingham CCG. It aims to improve the quality and cost effectiveness of services through greater integration of health, social care and voluntary/third sector provisions.

In addition to the Better Care fund the government announced the award of the Improved Better Care Fund Grant (iBCF) in 2017/18 and this is also encompassed within the BCF Pooled Budget in accordance with government guidance.

As host of the Pooled Budget Sandwell MBC reports to the BCF Joint Partnership Board on the whole of the Pooled Budget including expenditure made to providers directly by the CCG. This ensures that the Pooled Budget can be seen in its entirety.

The procurement and contract procedure rules and financial regulations of the pool host applies to the management of the pool fund and the financial performance for the pool for the year ended 31 March 2019 is shown below.

Better Care Fund 2017/18 £'000		Better Care Fund 2018/19 £'000
28,592	Gross Expenditure	41,990
-	Income exc. Partner Contributions	-
28,592	Net Expenditure	41,990
	Partner Contributions:	
(23,793)	Sandwell & West Birmingham CCG	(25,434)
(11,485)	Sandwell MBC - I-BCF	(16,091)
(35,278)	Total Contribution	(41,525)
(6,686)	Net (Under) / Over Spend in Year	465
(63)	(Under) / Over Spend B/Fwd	(6,749)
-	(Over) / Under Spend Written Off In Year	-
(6,749)	(Under) / Over Spend C/Fwd	(6,284)

The table above shows the whole pooled budget the council commissioned and spent £32.176m in year (£19.740m in 2017/18), receiving a contribution of £15.621m from Sandwell & West Birmingham CCG. At the year end the councils accounts include an underspend of £6.284m which will be rolled forward into 2019/20.

NOTES TO THE ACCOUNTS

31. **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	Salary, Fees & Allowances	Other Emoluments	Total Remuneration exc Pension Contributions	Employers Pension Contribution	Employers Capital Costs	Total Remuneration inc Pension Contributions
2017/18	£	£	£	£	£	£
Chief Executive	141,600	-	141,600	20,844	-	162,444
Director:						
- Monitoring Officer (Interim) (a)	61,596	-	61,596	-	-	61,596
- Monitoring Officer (b)	51,128	-	51,128	7,519	-	58,647
- Education	91,645	-	91,645	13,507	-	105,152
- Children's Services (interim) (c)	235,641	-	235,641	-	-	235,641
- Children's & Families (Interim) (d)	173,304	-	173,304	-	-	173,304
- Children's & Families (e)	12,917	-	12,917	1,899	-	14,816
- Adult Social Care	122,955	-	122,955	18,110	-	141,065
- Regeneration & Economy (f)	29,837	29,723	59,560	4,404	-	63,964
- Neighbourhoods (Interim) (g)	66,082	-	66,082	-	-	66,082
- Neighbourhoods (h)	67,846	-	67,846	9,991	-	77,837
- Homes and Communities (i)	59,190	-	59,190	8,010	-	67,200
- Public Health (j)	65,674	-	65,674	9,444	-	75,118
- Prevention & Protection	92,083	-	92,083	13,571	-	105,654
- Resources	119,966	-	119,966	17,670	-	137,636

Position Title	Salary, Fees & Allowances	Other Emoluments	Total Remuneration exc Pension Contributions	Employers Pension Contribution	Employers Capital Costs	Total Remuneration inc Pension Contributions
2018/19	£	£	£	£	£	£
Chief Executive	144,354	-	144,354	23,430	-	167,784
Executive Director						
- Adult Social Care, Health & Wellbeing	127,965	-	127,965	20,769	-	148,734
- Neighbourhoods	122,872	-	122,872	19,944	-	142,816
- Children's Services (k)	89,969	5,000	94,969	14,589	-	109,558
- Resources	125,419	-	125,419	20,357	-	145,776
Director:						
- Director of Law & Governance & Monitoring C	100,805	-	100,805	16,369	-	117,174
- Education, Skills and Employment	97,030	-	97,030	15,775	-	112,805
- Regeneration & Growth (l)	85,131	-	85,131	13,817	-	98,948
- Housing and Communities	100,825	-	100,825	16,369	-	117,194
- Director of Public Health	91,073	-	91,073	13,006	-	104,079
- Prevention & Protection	97,367	-	97,367	15,812	-	113,179

- a) The Interim Monitoring Officer departed on 3 September 2017.
- b) The Monitoring Officer was appointed on 4 September 2017 (Annualised Salary £89,290).
- c) The Interim Director of Children's Services departed on 31 March 2018.
- d) The Interim Director of Children's & Families departed on 12 January 2018 and the post remained vacant until 25 February 2018.
- e) The Director of Children's & Families was appointed on 26 February 2018 (Annualised Salary £138,664).
- f) The Director of Regeneration & Economy became vacant on 14 July 2017 (Annualised salary £103,718).
- g) The Interim Director of Neighbourhoods departed on 3 September 2017.
- h) The Executive Director of Neighbourhoods was appointed on 4 September 2017 (Annualised Salary £118,487).
- i) The Director of Homes & Communities was appointed on 6 September 2017 (Annualised salary £95,873).
- j) The Director of Public Health was vacant between 2 September 2017 and 31 December 2017 (Annualised salary £89,891).
- k) The Director of Children's Services was appointed on 30th July 2018 (Annualised Salary £145,413).
- l) The Director of Regeneration and Growth was appointed on 28th May 2018 (Annualised Salary £117,234).

NOTES TO THE ACCOUNTS

The remunerations disclosed in the above tables do 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.

Remuneration Band	Number of Employees			
	2017/18		2018/19	
	Schools	Non Schools	Schools	Non Schools
£50,000 - £54,999	74	38	43	37
£55,000 - £59,999	44	13	37	10
£60,000 - £64,999	33	17	29	14
£65,000 - £69,999	31	14	14	8
£70,000 - £74,999	13	10	15	13
£75,000 - £79,999	6	2	7	2
£80,000 - £84,999	4	2	3	1
£85,000 - £89,999	4	-	6	-
£90,000 - £94,999	4	-	2	2
£95,000 - £99,999	2	-	1	-
£100,000 - £104,999	-	-	1	1
£110,000 - £114,999	-	-	1	-
£115,000 - £119,999	1	-	-	-
£135,000 - £139,999	-	-	-	1
	216	96	159	89

32. **Members Allowances**

The total amount paid during 2018/19 to elected members of the council in respect of basic and special responsibility allowances was £1.368m (£1.254m in 2017/18).

33. **External Audit Costs**

In addition to the fees disclosed in the table below, fees of £0.016m and £0.005m respectively are payable in 2019/20 for the completion of Audit work by Grant Thornton in relation to the Housing Benefit certification and Teachers Pension 2018/19. Also, fees of £0.015m will be paid by SMBC in 2019/20 in relation to the 2018/19 external audit of Sandwell Land and Property Limited by Grant Thornton.

	2017/18 £'000	2018/19 £'000
Fees payable to KPMG the appointed auditor for the year 2017/18 and prior with regard to external audit services carried out in that year	199	40
Fees payable to KPMG for the certification of grant claims and returns for 2017/18 and prior	14	9
Fees payable in respect of other services provided by KPMG during 2017/18 and prior	20	35
Fees payable to Grant Thornton appointed auditor for the year 2018/19 with regard to external audit services carried out	-	153
CFO insights (non-audit service provided by Grant Thornton) 2018/19	-	13
Total	233	250

NOTES TO THE ACCOUNTS

34. **Dedicated Schools Grant**

The council's expenditure on schools is funded primarily by the Dedicated Schools Grant (DSG) provided by the Education Funding Agency. 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 school's budget, as defined in the School Finance (England) Regulations 2015. 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 2018/19 Before Academy Recoupment			321,569
Academy Figure Recouped for 2018/19			(105,985)
Total Final DSG After Academy Recoupment for 2018/19			215,584
Bought Forward From 2017/18			-
Agreed Initial Budgeted Distribution in 2018/19	10,614	204,970	215,584
In Year Adjustments	-	-	-
Final Budgeted Distribution for 2017/18	10,614	204,970	215,584
Less Actual Central Expenditure	(10,441)	-	(10,441)
Less Actual ISB Deployed To Schools	-	(205,007)	(205,007)
Local Authority Contribution For 2018/19	-	-	-
Carry Forward To 2018/19	173	(37)	136

35. **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 2018 £'000	31 March 2019 £'000
Short Term:		
Renewal & Growth	1,165	1,137
Standards Fund	670	1,559
Other Grants	567	1,145
Other Contributions	16	35
	2,418	3,876
Long Term:		
Section 106	5,153	5,445
Homes England	-	1,725
Disabled Facilities Grant	2,637	3,300
Other Grants	1,668	1,674
Other Contributions	2,646	3,060
	12,104	15,204
Total	14,522	19,080

Revenue Grants Receipts in Advance	31 March 2018 £'000	31 March 2019 £'000
Other Grants	713	2,569
Total	713	2,569

NOTES TO THE ACCOUNTS

The council credited the following grants, contributions and donations to the CI&ES:

Credited to Taxation and Non Specific Grant Income	2017/18 £'000	2018/19 £'000
Schools Basic Need Grant	13,518	18,454
Local Transportation Plan Grant	4,999	4,685
Schools Capital Maintenance Grant	2,924	2,822
Challenge Fund Grant	1,831	-
Standards Fund	889	-
Lottery Funding	27	-
Homes England Grant	-	3,620
Presumption Grant	-	2,546
Aquatic Centre Grant	-	1,054
Additional Highways Maintenance Grant	-	1,420
Other Grants	2,404	1,155
Other Contributions	1,225	2,709
Total	27,817	38,465

Credited to Services	2017/18 £'000	2018/19 £'000
Dedicated Schools Grant	209,992	215,188
Rent Rebates	67,768	64,088
Rent Allowances	51,882	48,828
Public Health Grant	25,366	24,714
Pupil Premium Grant	15,846	15,604
Private Finance Initiative Grant	7,822	7,822
New Homes Bonus	5,249	3,598
Housing Subsidy	5,713	5,713
Education Services Grant	1,064	-
Business Rates Compensation Grant	10,264	13,453
Young People's Learning Agency	3,171	3,144
Universal Infant Free School Meals	3,587	3,576
Benefit Administration Grant	2,169	2,038
Families & Communities Grant	1,449	2,096
Local Reform & Community Voices Grant	2,150	1,448
Skills Funding Agency	1,313	1,377
Improved Better Care Fund	11,485	16,091
Discretionary Housing Payment	1,373	1,349
PE Sport Grant	1,184	1,480
Home Office Grant	1,156	711
Independent Living Fund	1,092	1,058
SEND Reform Grant	274	254
Adoption Support Grant	93	57
Other Grants	4,713	9,439
Total	436,175	443,126

36. 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. Receipts in respect of Council Tax and Non Domestic Rates are shown in the CI&ES on page 20. Details of other grants received are analysed in more detail in Note 35.

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 117 as part of the Collection Fund Revenue Account, levy precepts on the council. In addition, a Transport Levy totalling £11.846m was paid to West Midlands Combined Authority and a Flood Defence Levy of £0.083m was paid to the Environment Agency 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 S Eling's spouse has been identified as a board member of Sandwell Women's Aid, to which the council made payments totalling £0.631m in 2018/19.

Councillor P Hughes is a Director of Sandwell Leisure Trust and Councillor J Underhill is a member of Sandwell Inspired Partnership Services.

In 2018/19 payments made to other organisations where Members have declared an interest totalled £0.779m and income received totalled £0.025m.

Chief Officers and Other Officers - The Chief Executive Officer has been identified as a Governor of Sandwell College and a Director of the Sandwell Land and Property Company. The Deputy 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 £5.259m during 2018/19.

Sandwell Leisure Trust

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 2018/19 was £2.886m which included the management fee and other fees. Amounts received from the SLT for services provided by the Council was £0.538m.

Sandwell Futures Ltd

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 £19.541m to the LEP during 2018/19 mainly relating to the building and renovation costs of schools. The council has a 10% shareholding and a £0.084m 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 £0.571m holding of 10% loan stock. Interest on these investments of £0.081m has been received in 2018/19.

Sandwell Inspired Partnership Services (SIPS)

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 £0.395m to SIPS in 2018/19 and received £0.151m in relation to goods and services supplied by the council to SIPS in the same year.

Sandwell Land and Property Limited (SL&P)

Sandwell Land and Property Ltd (SL&P) 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

NOTES TO THE ACCOUNTS

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.

Previously, the land and buildings owned by the Sandwell Land & Property (SLaP) company had been included within the Councils single entity accounts on the basis that all the rewards and risks of ownership lie with the Council. This accounting treatment had been agreed by the Councils previous auditors KPMG and its consultants at the time PWC. Upon management review of the relevant documentation, the Council is of the opinion that the above treatment is correct for the buildings element of the assets but that the land element should be removed from the Councils single entity accounts and accounted for in the company's accounts. The land is consolidated as part of the Group accounts

The broad impact of the adjustments is as follows:

Council (single entity)

The Council has recognised an investment 'at cost' in its accounts with investment on the balance sheet increased by £26m, which was equal to the cost of land. The land previously recognised at the fair value on the balance sheet in the Council's single entity accounts has been removed. An opposite entry has been made in the revaluation reserve/ disposals. The share value relating to the buildings is nominal. The Council continues to include the value of the school buildings at fair value under Standard Interpretations Committee note 27.

Council (Group)

The land is now consolidated at fair value into the Council's group accounts with the investment in SL&P being removed from consolidated financial statements.

SL&P

The adjustments required SL&P to treat its lease of the land to the Council as an operating lease. The accounting entries proposed recognise £26m of land on SL&P balance sheet, with the corresponding entry in P&L reserve. This reflects the historic 'fair value' of land transferred and is allowable under FRS102 (see Note 7 – Prior Period Adjustments)

As part of the audit a number of issues have been identified team with regard to the process of the company receiving school land and buildings from the Council and the issue of shares to the Council. These fall broadly into 4 areas:

Share Issues - Unauthorised Share Issues

Some of the shares (c £16m) that were issued on the initial set up of the company back in 2011/12 did not have the necessary legal authority and, therefore, should not have been issued.

Share Issues – Nil Consideration

Some share issues (c£7m) were made for properties that ultimately were not transferred into the SLaP and so were made at nil consideration, which is not allowed under existing legislation. As a result, the SLaP would, need to recognise a receivable (Debtor) for the amounts due from the Council in respect of the allotted shares and the Council would need to recognise a liability. However, the Council do not consider that it will need to meet this liability as the company is 100% wholly owned by SMBC and the Council are planning to wind up the company.

Land Transfers – Nil Value

Some of the land (c. £15m) that was transferred into the SLaP from SMBC accounts was done at nil value.

Land Transfers – Ownership Rights

NOTES TO THE ACCOUNTS

Certain assets (c. £1m) were transferred into the SLaP that were not legally owned by SMBC and, therefore, should not have been included within the SLaP on set up.

The historical issues associated with the SLaP and transfer of shares to Sandwell in exchange for land has resulted in the requirement to post entries into the 2018/19 accounts relating to prior years. These adjustments were material to the Council's single entity accounts.

The legal issues associated with the SLaP have not been corrected. Potentially this results in a liability of £6.7m from the Council to the company. As the sole shareholder of the company, the authority does not feel it would be beneficial to expend resources at the expense of the tax payer to correct the historical issues. The intention is to wind the company up during 2020/21 as the protection believed to be afforded by the transfer of land to the company in order to protect the councils assets is no longer required. As such neither the Council nor the company have recognised the liability (Council) or asset (company) in their accounts but these have been shown as contingent liabilities and contingent assets respectively

West Midlands Combined Authority

The council is also a constituent member, together with the other six West Midlands Metropolitan districts, of the West Midlands Combined Authority (WMCA). In addition to the Transport Levy the council made payments totalling £1.252m to WMCA in 2018/19 and received £0.261m in relation to goods and services supplied by the council to WMCA in the same year. The WMCA wholly owns both West Midlands Rail Limited and West Midlands Growth Company, as the council is a constituent member of the WMCA it therefore owns a proportion of both companies. There have been no direct transactions between these companies and the council.

Sandwell Children's Trust was incorporated on 15 February 2018 as a company limited by guarantee, transferring Children's social care function to the Trust from 1 April 2018. The council made payments totalling £62.938m to Sandwell Children's Trust (SCT) in 2018/19 and received £4.919m in relation to goods and services supplied by the council to SCT in the same year. SCT have been consolidated into the Council's group accounts and can be found from page 120.

NOTES TO THE ACCOUNTS

37. Capital Expenditure and Capital Financing

The following table shows the movement in the Capital Financial requirement for the year.

	2017/18 £'000	2018/19 £'000
Opening Capital Financing Requirement	767,351	747,743
Capital Investment		
Property Plant & Equipment	75,612	65,499
Heritage Assets	18	-
Investment Properties	-	33
Intangible Assets	751	140
REFCUS	11,121	13,012
Sources of Finance		
Capital Receipts	(14,252)	(6,628)
Government Grants & Other Contributions	(29,180)	(34,802)
Major Repairs Reserve	(14,184)	(15,496)
Direct Revenue Contributions	(15,746)	(1,890)
Minimum Revenue Provision	(33,748)	(30,435)
Closing Capital Financing Requirement	747,743	737,176
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)	(19,608)	(10,567)
Increase/(decrease) in Capital Financing Requirement	(19,608)	(10,567)

38. Capital Commitments

The Council has to plan its capital spending in advance of work proceeding. As at 31 March 2019 the Council had allocated resources to a five year programme covering the period 2019/20 to 2023/24 that amount to £392.566m. The main areas to which these resources have been allocated are the Council's housing investment programme (£265.032m), adaptations for disabled (£28.799m), the school capital programme (£21.807m), structural maintenance of roads and bridges (£17.002m), integrated transport block (£8.470m), acquisition of vehicles (£7.500m), the aquatic centre for the Common Wealth Games 2022 (£4.112m), new social care & health centre (£9.948m), ICT end user computing (£6.440m) and property refurbishment (£4.739m).

Included within the five year programme are amounts which are legally committed as at 31 March 2019 that amount to £165.679m.

39. 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;

NOTES TO THE ACCOUNTS

31 March 2018 £'000		31 March 2019 £'000
1,013	Not later than 1 year	1,161
3,634	Later than 1 year and not later than 5 years	3,678
11,786	Later than 5 years	10,105
16,433		14,944

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

2017/18 £'000		2018/19 £'000
145	Minimum lease payments: - Adult Social Care	169
1,572	- Housing & Communities and Regeneration & Growth	1,048
1,717		1,217
(77)	Sublease payments receivable	(63)
1,640		1,154

Council as Lessor

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

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 2018 £'000		31 March 2019 £'000
4,801	Not later than 1 year	4,829
11,970	Later than 1 year and not later than 5 years	12,447
152,718	Later than 5 years	153,470
169,489		170,746

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.

40. **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 2018/19 was £8.4m (£8.3m in 2017/18).

NOTES TO THE ACCOUNTS

The contract is now into the housing management & life cycle works phase, as the initial capital investment works including demolitions have been completed. Over the remainder of the contract, £29.807m 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 portage, 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 2018/19 totalled £6.9m (2017/18 was £6.8m). 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 2018/19 was £2.7m (2017/18 was £2.7m).

Portway Lifestyle Centre

The Council entered into a 25 year contract with Sandwell Property Partnership (Lift Co) to design, build, finance and carry out facilities maintenance (hard only) 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

NOTES TO THE ACCOUNTS

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 2018/19 was £1.3m (2017/18 was £1.3m).

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	Total School Solutions	BSF Rowley Campus	Portway	Total PFI Schemes	Service Concessions	Total Finance Lease Liabilities
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Restated Balance at 31 March 2018 - Current	(1,752)	(473)	(638)	(403)	(3,266)	(763)	(4,029)
- Prior Period Adjustment	513	0	0	0	513	0	513
- Restated Current	(1,239)	(473)	(638)	(403)	(2,753)	(763)	(3,516)
- Long Term	(27,391)	(7,279)	(38,177)	(7,447)	(80,294)	(781)	(81,075)
- Prior Period Adjustment	3,708	0	0	0	3,708	0	3,708
- Restated Long Term	(23,683)	(7,279)	(38,177)	(7,447)	(76,586)	(781)	(77,367)
Balance at 31 March 2019	(2,299)	(522)	(1,286)	(367)	(4,474)	(474)	(4,948)
- Long Term	(21,381)	(6,757)	(36,891)	(7,080)	(72,109)	(307)	(72,416)
Movement in Year	1,242	473	638	403	2,756	763	3,519
<u>Analysis of Movement in Year:</u>							
Capital Additions in year					0		0
Write down of liability	1,242	473	638	403	2,756	763	3,519
	1,242	473	638	403	2,756	763	3,519

NB: Riverside Housing Current and Long Term balance at 31 March 2018 Restated as per Note 7 – Prior Period Adjustments

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

NOTES TO THE ACCOUNTS

	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	2,299	6,367	14,154	859	-	-
Interest Charges	2,917	9,395	13,644	733	-	-
Operating Costs	2,778	11,887	16,770	7,163	-	-
Lifecycle Costs	2,008	14,026	11,487	2,286	-	-
	10,002	41,675	56,055	11,041	-	-
Total School Solutions PFI						
Liability Repayments	522	2,695	5,256	697	-	-
Interest Charges	1,300	4,780	4,471	323	-	-
Operating Costs	844	3,461	4,569	570	-	-
Lifecycle Costs	105	430	562	116	-	-
	2,771	11,366	14,858	1,706	-	-
BSF Rowley Campus PFI						
Liability Repayments	1,286	4,593	10,084	14,510	7,704	-
Interest Charges	3,616	13,643	15,491	11,221	2,848	-
Operating Costs	1,793	7,001	8,751	8,751	3,568	-
Lifecycle Costs	157	2,686	1,836	3,248	795	-
	6,852	27,923	36,162	37,730	14,915	-
Portway PFI						
Liability Repayments	367	1,664	1,776	1,808	3,136	-
Interest Charges	445	1,625	1,610	1,163	510	-
Operating Costs	385	1,692	2,407	2,777	2,794	-
Lifecycle Costs	122	452	1,121	1,742	1,106	-
	1,319	5,433	6,914	7,490	7,546	-
Total Payments	20,944	86,397	113,989	57,967	22,461	-

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 2018	41,353	22,409	39,911	13,056	116,729
Prior Year Adjustments	-	987	2,213	(9,287)	(6,087)
Revised Balance As At 1st April 2018	41,353	23,396	42,124	3,769	110,642
Additions	833	143	932	58	1,966
Revaluations	(45)	(1,443)	(1,326)	(67)	(2,881)
Re-classifications	-	-	-	-	-
In Year Depreciation	(645)	(600)	(1,027)	(88)	(2,360)
Depreciation Written Out	611	600	1,027	88	2,326
Other Movements	(492)	-	-	-	(492)
Balance as at 31 March 2019	41,615	22,096	41,730	3,760	109,201

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.

The vehicle fleet, council-owned depot and waste disposal site are all held on the Councils balance sheet.

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 £21.968m in 2018/19 to Serco Limited (£20.470m in 2017/18).

The table below provides a schedule of liability payments due to be made over the remaining life of the contract:

	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
Serco Waste Contract						
Liability Repayments	25,141	114,088	179,892	231,959	-	-
	25,141	114,088	179,892	231,959	-	-

41. Impairment Losses and Reviews

During 2018/19 Net Impairment Losses of £1.040m 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 Valuers carried out a number of impairment reviews to determine if there were any material changes in property values from the 1st April 2018 to 31st March 2019.

The Valuers have concluded that there have been no circumstances in the local property market, since the start of the year, that would require additional impairment adjustments to be applied to the value of Council Dwellings, General Land & Buildings or Investment Properties.

It should be noted that, at the request of the Council's newly appointed Auditors, the Council has undertaken an analysis of its PPE and Investment assets applying accumulated property indices to individual assets within each property group to determine if there has been a material movement

NOTES TO THE ACCOUNTS

in value since the assets were last valued within their rolling valuation cycle. As a result, all schools have been revalued in 2018/19 as at 31 March 2019.

42. Termination Benefits

The council terminated the contracts of a number of employees in 2018/19 to meet the ongoing challenges of the difficult economic climate and budget reductions.

In total 51 employees left the council's employment during the year incurring liabilities of £3.378m. This includes a provision created in 2017/18 of £2.253m for 24 employees approved as planned leavers as at 31 March 2018, £1.553m of this provision was utilised in 2018/19. Costs of £1.825m have been met from the council's available resources which includes £0.877m for the creation of a provision where costs remain outstanding but relating to employees leaving in 2018/19 and expect to be incurred in 2019/20.

There are also agreements in place for a further 28 employees to leave the council during 2019/20 at an estimated cost of £2.173m. A provision has therefore been made for future and outstanding termination benefit costs which are expected to be incurred in 2019/20.

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

Band	Total number of exit packages by cost band		Total cost of exit packages in each band (£'000)	
	2017/18	2018/19	2017/18	2018/19
£0 - £20,000	87	24	554	356
£20,001 - £40,000	13	4	419	113
£40,001 - £60,000	15	11	730	544
£60,001 - £80,000	6	8	439	554
£80,001 - £100,000	5	5	450	460
£100,001 - £150,000	4	13	496	1,587
£150,001 - £200,000	2	1	343	160
£201,000 - £250,000	2	1	418	224
	134	67	3,849	3,998

43. 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 2018/19 the council paid £11.316m (2017/18 £11.191m) to the DFE in respect of teachers' pension costs. This represents 16.48% of teacher's pensionable pay. Estimated contributions for 2019/20 are £11.542m 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

NOTES TO THE ACCOUNTS

with the related increases. In 2018/19 these amounted to £3.125m (2017/18 £3.159m). 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 2018/19 the council paid £0.063m (2017/18 £0.067m) to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay. Estimated contributions for 2019/20 are £0.064m 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 2018/19 the council paid an employer's pension contribution of £22.809m (2017/18 £21.356m) based on 16.2% 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 2019/20 are £25.419m based on 17.7% of pensionable pay.

In addition, the council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2018/19 these amounted to £1.529m (2017/18 £1.440m) representing 0.1% of pensionable pay. The capital cost of awarding discretionary additional benefits relating to the year 2018/19 was £2.590m (2017/18 £4.045m). These costs have been met from revenue.

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:

NOTES TO THE ACCOUNTS

Comprehensive Income and Expenditure Statement	Local Government		Teachers Pension Scheme	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Cost of Services				
Current service costs	54,059	53,893	-	-
Past service costs			-	-
Settlements and curtailments	260	15,581	-	-
Administration expenses	563	598	-	-
Financing and Investment Income and Expenditure				
Net interest expense	20,614	17,393	967	1,046
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	75,496	87,465	967	1,046
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)	(7,122)	(15,569)	-	-
- Actuarial gains and losses arising on changes in demographic assumptions	-	(115,254)	-	(2,342)
- Actuarial gains and losses arising on changes in financial assumptions	(95,758)	89,594	(1,153)	1,461
- Experience (gain) / loss	-	-	(1,418)	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(27,384)	46,236	(1,604)	165

Movement in Reserves Statement	Local Government		Teachers Pension Scheme	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'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	75,496	87,465	967	1,046
Actual amount charged against the General Fund				
Balance for pensions in the year				
Employer's Contributions payable to scheme	43,288	45,561	-	-
Retirement benefits payable to pensioners	-	-	3,159	3,125

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2019 is a loss of £451.223m relating to the LGPS, and a loss of £13.677m 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 2019 have been provided by the Funds' Actuary and are detailed below:

NOTES TO THE ACCOUNTS

Reconciliation of present value of the scheme liabilities	Local Government		Teachers Pension Scheme	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Opening Balance at 1 April	2,080,000	2,052,302	49,903	45,140
Current Service Cost	54,059	53,893	-	-
Interest on pension liabilities	55,668	51,774	967	1,046
Contributions by scheme participants	9,315	9,978	-	-
Remeasurement (gain) / loss:				
- Actuarial gains and losses arising on changes in demographic assumptions	-	(115,254)	-	(2,342)
- Actuarial gains and losses arising on changes in financial assumptions	(95,758)	89,594	(1,153)	1,461
- Experience (gain) / loss	-	-	(1,418)	-
Benefits paid	(55,237)	(58,291)	(3,159)	(3,125)
Past service costs / Curtailment	3,614	18,320	-	-
Settlements	641	(1,635)	-	-
Closing Balance at 31 March	2,052,302	2,100,681	45,140	42,180

Reconciliation of fair value of the scheme assets	Local Government	
	2017/18 £'000	2018/19 £'000
Opening Balance at 1 April	1,278,745	1,355,619
Interest Income	35,054	34,381
Remeasurement gain / (loss)	7,122	15,569
Administration expenses	(563)	(598)
Settlements	3,995	1,104
Employers contributions	77,188	28,561
Contributions by scheme participants	9,315	9,978
Benefits paid	(55,237)	(58,291)
Closing Balance at 31 March	1,355,619	1,386,323

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Present Value of Liabilities					
Local Government Pension Scheme (funded)	(1,647,900)	(1,608,078)	(2,063,623)	(2,037,255)	(2,087,257)
Local Government Pension Scheme (unfunded)	(20,165)	(18,257)	(16,377)	(15,047)	(13,424)
Teachers Pension Scheme (unfunded)	(51,092)	(51,273)	(49,903)	(45,140)	(42,180)
Total Present Value of Liabilities	(1,719,157)	(1,677,608)	(2,129,903)	(2,097,442)	(2,142,861)
Fair Value of assets in the local government pension scheme	1,032,770	1,024,322	1,278,745	1,355,619	1,386,323
Surplus / (Deficit) in the scheme:					
Local Government Pension Scheme (LGPS)	(635,295)	(602,013)	(801,255)	(696,683)	(714,358)
Teachers Pension Scheme (TPS)	(51,092)	(51,273)	(49,903)	(45,140)	(42,180)
Total	(686,387)	(653,286)	(851,158)	(741,823)	(756,538)

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £2,143m has a substantial impact on the net worth of the council as recorded in the Balance Sheet in a negative overall balance of £756m, 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:

NOTES TO THE ACCOUNTS

Asset Category	2017/18 £'000	2018/19 £'000
Equities	831,477	819,392
Bonds	152,670	186,600
Property	107,169	117,747
Alternatives	176,517	218,680
Cash	87,786	43,904
Total	1,355,619	1,386,323

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 Scheme	
	2017/18	2018/19	2017/18	2018/19
Mortality Assumptions				
Longevity at 65 for current pensioners				
Men	21.9	20.9	21.9	20.9
Women	24.3	23.2	24.3	23.2
Longevity at 65 for future pensioners				
Men	24.0	22.6		
Women	26.6	25.0		
Rate of CPI Inflation	2.30%	2.40%	2.30%	2.30%
Rate of Increase In Salaries (LGPS)	3.80%	3.90%		
Rate of Increase In Pensions	2.30%	2.40%	2.35%	2.50%
Discount Rate	2.55%	2.40%	2.40%	2.20%

The figures provided by the actuary include an allowance for the recent McCloud judgement which relates to age discrimination within the New Judicial Pension Scheme. The estimated impact on the total liabilities at 31 March 2019 has been allowed for as a past service cost and has resulted in an increase in the defined benefit obligation as at 31 March 2019.

44. **Contingent Assets and Liabilities**

Sandwell Land and Property Company (SLaP)

Due to historical legal matters associated with the issue of shares to the council by the SLaP and the transfer of assets to the SLaP by the council there is the potential for the company to request consideration of approximately £6m from the council in return for shares that have been issued at nil consideration at present. The council considers that it is highly improbable that the amount will become payable due to the council being the sole shareholder in the company. Therefore, no provision has been made in the accounts for this sum.

Contingent Liabilities

There are presently 9 active civil litigation claims (11 in 2017/18) and 4 active employment tribunal cases (7 in 2017/18).

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 £0.020m for Equal Pay has been calculated based on an assessment of potential claims.

NOTES TO THE ACCOUNTS

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.

A provision has not been made within the 2018/19 accounts, as the exact amount of the potential asset involved cannot be accurately determined at this time.

Housing Revenue Account

2018/19

HOUSING REVENUE ACCOUNT

The HRA 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 the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

Restated 2017/18 £'000	HRA Income and Expenditure Statement	2018/19 £'000
	<u>Income:</u>	
(120,321)	Dwelling Rents	(118,304)
(172)	Non-Dwelling Rents	(246)
(2,605)	Charges for Services & Facilities	(2,680)
(5,714)	PFI Grant	(5,714)
(128,812)	Total Income	(126,944)
	<u>Expenditure:</u>	
32,822	Repairs & Maintenance	38,036
26,499	Supervision & Management	24,723
492	Rent, Rates, Taxes & Other Charges	478
4,078	PFI Contract	4,319
(44,213)	Depreciation & Impairment of Non Current Assets	(43,251)
838	Movement in Impairment Allowance for Bad Debts	677
20,516	Total Expenditure	24,982
(108,296)	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Account	(101,962)
	- HRA Services share of Corporate and Democratic Core	-
(108,296)	Net Cost of HRA Services	(101,962)
(1,302)	(Gain) or loss on sale of HRA Non Current Assets	(741)
(98)	(Gain) or loss on revaluation of HRA Non Current Assets	1,001
-	- Loss on revaluation of Assets Held for Sale	-
2,990	PFI Interest payable and similar charges	2,494
(4,221)	PFI Interest Payable and similar charges prior year movement	-
2,101	Pensions Interest Costs	2,365
21,108	Interest payable and similar charges	20,052
(38)	Interest and investment income	(169)
-	- Income & Expenditure in relation to Investment Properties	-
-	- Capital grants and contributions receivable	(3,619)
(87,756)	(Surplus) / Deficit for the year on HRA services	(80,579)

HOUSING REVENUE ACCOUNT

Restated 2017/18 £'000	Movement on Housing Revenue Account Balance Statement	2018/19 £'000
(32,937)	Balance on the HRA at the end of the previous reporting period	(32,270)
(87,756)	(Surplus)/deficit for the year on the Income and Expenditure Statement	(80,579)
88,124	Adjustments between accounting basis and funding basis under statute	75,424
368	Net increase/(decrease) before transfers to or from reserves	(5,155)
299	Transfers to/(from) earmarked reserves	690
667	(Increase)/decrease in year on the HRA	(4,465)
(32,270)	Balance on the HRA at the end of the current reporting period	(36,735)

Restated 2017/18 £'000		2018/19 £'000
	Items included in the HRA Income & Expenditure Statement but excluded from the Movement on HRA Balance for the year	
44,213	Depreciation & impairment of Non Current Assets	43,251
1,302	Gain or loss on sale of HRA Non Current Assets	741
98	Gain or loss on revaluation of HRA Non Current Assets	(1,001)
-	- Loss on revaluation of Assets Held for Sale	-
-	- Capital grants and contributions receivable	3,619
(1,951)	Pension Reserve Adjustments	(1,984)
31	Accumulated Compensated Absences Account	(45)
43,693		44,581
	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	16
825	PFI Finance Lease Creditor	1,242
4,221	PFI Finance Lease Creditor prior year movement	-
787	PFI Capital expenditure funded by the HRA	833
12,152	Capital expenditure funded by the HRA	3
14,184	Net transfer to / (from) Major Repairs Reserve	15,496
12,246	Minimum Revenue Provision	13,253
44,431		30,843
88,124	Net additional amount required by statute to be credited to the HRA Balance for the year	75,424

HOUSING REVENUE ACCOUNT

Notes to the Housing Revenue Account

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

Total No. 2017/18	Dwelling Type	Pre 1945	1945 to 1964	1965 to 2000	Post 2000	Total No. 2018/19
	<u>1 Bedroom</u>					
3	Houses	-	1	2	-	3
6,208	Flats	219	1,475	4,470	60	6,224
1,376	Bungalows	386	318	673	-	1,377
	<u>2 Bedroom</u>					
3,169	Houses	1,628	861	541	102	3,132
4,861	Flats	130	2,397	2,264	80	4,871
128	Bungalows	3	50	57	52	162
	<u>3 Bedroom</u>					
11,842	Houses	6,817	2,965	1,748	125	11,655
546	Flats	48	271	225	-	544
12	Bungalows	1	1	9	1	12
	<u>4 Bedroom</u>					
612	Houses	414	143	33	22	612
2	Bungalows	-	-	2	-	2
	<u>5 Bedroom</u>					
9	Houses	7	2	-	-	9
	<u>6 Bedroom</u>					
2	Houses	1	1	1	-	3
	<u>8 Bedroom</u>					
1	Houses	-	-	1	-	1
28,771	Total Stock	9,654	8,485	10,026	442	28,607

The housing stock at 31 March 2019 includes 1,020 council dwellings (1,030 at 31 March 2018) included within the Riverside Housing PFI contract, which are included on the council's Balance Sheet.

HOUSING REVENUE ACCOUNT

2. Balance Sheet Movement in HRA Non Current Assets

	Council Dwellings	Land & Building	Intangible	Equipment	Surplus Assets	Assets Held for Sale	Assets under Construction	Investment Properties	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
as at 1 April 2018	1,031,513	1,857	258	6,217	5,039	440	12,897	8,191	1,066,412
Additions	26,556	-	-	276	16	-	10,981	-	37,829
Revaluations - Revaluation Reserve	-	-	-	-	924	-	-	-	924
Revaluations - CI&ES	60,924	-	-	-	(454)	-	-	-	60,470
Disposals	-	-	-	-	-	(13,010)	-	(1,001)	(14,011)
Assets reclassified (to) / from Held for Sale	(13,169)	-	-	-	-	13,169	-	(2,383)	(2,383)
Other Movements	16,082	-	-	-	(64)	-	(14,788)	(206)	1,024
as at 31 March 2019	1,121,906	1,857	258	6,493	5,461	599	9,090	4,601	1,150,265
Depreciation & Impairment									
as at 1 April 2018	(14,633)	(132)	(81)	(4,346)	(1,401)	(440)	(23)	(2,629)	(23,685)
In Year Depreciation	(16,141)	(34)	(50)	(216)	-	-	-	-	(16,441)
Depreciation Written Out - Revaluation Reserve	14,633	-	-	-	49	-	-	-	14,682
Impairment Losses / Reversals - Revaluation Reserve	-	-	-	-	(56)	-	-	-	(56)
Impairment Losses / Reversals - CI&ES	-	-	-	-	(700)	-	(79)	-	(779)
Other Movements	172	-	-	-	(29)	(159)	(12)	13	(15)
as at 31 March 2019	(15,969)	(166)	(131)	(4,562)	(2,137)	(599)	(114)	(2,616)	(26,294)
Balance Sheet Amount									
as at 1 April 2018	1,016,880	1,725	177	1,871	3,638	-	12,874	5,562	1,042,727
as at 31 March 2019	1,105,937	1,691	127	1,931	3,324	-	8,976	1,985	1,123,971

The council entered into a 25 year PFI contract in March 2006 with Riverside Housing Association for the refurbishment of 1,095 dwellings of which, 1,020 of these assets are 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 2018 after revaluation was £2,764.442m, 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 £1,105.777m and included a regional social housing discount factor of 40%. 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 2019 was £1,105.937m which also includes a regional social housing discount factor of 40%.

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 31 March within the Major Repairs Reserve being available for HRA capital purposes.

	2017/18 £'000	2018/19 £'000
Opening Balance as at 1 April	-	-
Depreciation on Dwellings to the MRR during year	14,184	15,496
Depreciation on other Non Current Assets	283	300
Amounts transferred to HRA	(283)	(300)
Capital expenditure on land, houses & other property within HRA	(14,184)	(15,496)
Closing Balance as at 31 March	-	-

HOUSING REVENUE ACCOUNT

5. **Capital Expenditure**

Capital expenditure on land, houses and other property within the HRA during 2018/19 is £37.829m. This expenditure has been financed as follows:

	2017/18 £'000	2018/19 £'000
Capital Expenditure	49,482	37,829
Sources of Funding:		
Prudential Borrowing	12,640	17,245
Grants	-	3,635
Major Repairs Reserve	14,184	15,496
Revenue Contribution	12,940	836
Usable Capital Receipts	9,718	617
Total Funding	49,482	37,829

6. **Capital Receipts**

Net Capital Receipts received from the disposal of land, houses and other property within the HRA during 2018/19 are summarised below:

	2017/18 £'000	2018/19 £'000
Land & Buildings	821	655
Council Houses	14,645	15,466
Total Capital Receipts	15,466	16,121

7. **Depreciation Charge**

As required by the Code, the council has charged depreciation on all HRA properties, including non dwellings. In 2018/19 depreciation for council dwellings has been calculated on a straight line basis using different asset lives appropriate to each significant component. Depreciation for neighbourhood offices have been calculated on a straight line basis, based on the asset's useful economic lives.

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

	2017/18 £'000	2018/19 £'000
Dwellings	14,184	15,496
PFI Dwellings	609	645
Garages	-	-
Neighbourhood Offices	35	34
Equipment	197	216
Assets Not Held for Sale	2	-
Intangible	50	50
Total Depreciation	15,077	16,441

HOUSING REVENUE ACCOUNT

8. **Revaluation and Impairment Losses**

The Code requires a charge to be made to the Housing Revenue Account in respect of revaluation and impairment losses. During 2018/19 there were revaluation losses of £1.500m charged directly to the HRA. There were impairment losses totalling £0.778m charged directly to the HRA.

The Code also requires that previous years losses should be reversed if the circumstances giving rise to the loss change. Previous year losses of £60.924m were reversed during 2018/19 relating to Council Dwellings.

9. **Rent Arrears**

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

	2017/18 £'000	2018/19 £'000
Current Tenants	3,345	4,112
Former Tenants	2,632	3,108
Total Arrears	5,977	7,220

10. **Provisions & Reserves**

The Council has set aside money to allow for the possibility that a proportion of the outstanding rent arrears will not be paid. That money is known as Housing Debt Impairment Allowance in accordance with the Code. The movement on which is shown below:

	2017/18 £'000	2018/19 £'000
Provision b/fwd 1 April	3,310	3,386
Write Off / On Charged to Provision	(762)	(175)
Additional Provision	838	677
Provision c/fwd 31 March	3,386	3,888

In addition, earmarked reserves totalling £3.701m are held by the HRA for the specific purposes as detailed in the table below:

	Balance as at 31 March 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance as at 31 March 2019 £'000
Welfare Reform Reserve	3,011	-	690	3,701
Total HRA	3,011	-	690	3,701

HOUSING REVENUE ACCOUNT

11. **Government Subsidy**

The Council entered into a 25 year PFI agreement with Riverside Housing for the management and maintenance of circa 1,100 properties. Each year, the HRA receives a subsidy credit from the government to assist with the funding of this agreement, the movement on which is shown below:

	2017/18 £'000	2018/19 £'000
PFI Credit Receivable	(5,713)	(5,713)
Total Government Subsidy Payable / (Receivable)	(5,713)	(5,713)

12. **Housing Revenue Account Balance**

The HRA carries a level of general reserves to assist with the funding of one off items of expenditure, that fall outside of the day to day repairs and management of the housing stock. Most of these reserves are earmarked for specific purposes, however, there does remain a level of uncommitted resources for future projects. The movement on which is shown below:

	2017/18 £'000	2018/19 £'000
HRA Surplus as at 31st March	32,270	36,735
Less Earmarked Balances:		
- Working Balance	(7,400)	(7,400)
- Contingencies	(8,510)	(8,387)
- Capital Investment	(11,200)	(15,000)
- Carry Forward Commitments	(181)	(181)
Uncommitted HRA Resources	4,979	5,767

Collection Fund

2018/19

COLLECTION FUND

2017/18				2018/19		
Council Tax £'000	NDR £'000	Total £'000		Council Tax £'000	NDR £'000	Total £'000
			Income			
	105,979		- Council Tax Payers	113,200	-	113,200
	96,299		- Business Rates Payers	-	100,253	100,253
	(3,536)		- Transitional Protection Payment	-	(994)	(994)
	9,272		Contribution towards previous year's estimated Collection Fund Deficit	490	9,158	9,648
0	0	208,014	Total Income	113,690	108,417	222,107
			Expenditure			
			Precepts:			
	91,418		- Sandwell MBC	97,313	-	97,313
	8,301		- West Midlands Police Crime Commissioner	9,282	-	9,282
	4,069		- West Midlands Fire & Rescue Authority	4,249	-	4,249
			Non Domestic Rates:			
	-		- Central Government	-	422	422
	97,391		- Sandwell MBC	-	96,095	96,095
	984		- West Midlands Fire & Rescue Authority	-	971	971
	444		- Cost of Collection Allowances	-	441	441
			Provisions:			
	4,129		- Bad Debts	1,646	123	1,769
	518		- Appeals	-	1,667	1,667
	939		Distribution of Estimated Collection Fund Surplus 2016/17		-	-
0	0	208,193	Total Expenditure	112,490	99,719	212,209
0	0	(179)	Surplus / (Deficit) in year	1,200	8,698	9,898
237	(8,429)	(8,192)	Opening Balance at 1 April	266	(8,637)	(8,371)
266	(8,637)	(8,371)	Closing Balance at 31 March	1,466	61	1,527

Notes to the Collection Fund

1. General

Billing authorities act as agents, collecting Council Tax and Non Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting Council Tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

This account shows the transactions of the billing authority in relation to Council Tax and 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.

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General fund is transferred to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

COLLECTION FUND

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 retained 49% of all NDR received, with the remainder being shared between West Midlands Fire & Rescue Authority (WMF&RA) (1%) and Central Government (50%). This scheme ended in 2016/17.

In 2017/18, Sandwell Metropolitan Borough Council entered into a pilot scheme where the council retained 99% of all NDR received and the remaining 1% was retained by West Midlands Fire & Rescue Authority (WMF&RA). This pilot scheme continued throughout 2018/19. As a result of the pilot, Central Government support grants are reduced to the council. Instead, income generated through Business Rates, Council Tax and self-generated income is required to fund essential council services in Sandwell. This gives Sandwell Metropolitan Borough Council a financial incentive for the council to work with local businesses to create a promising local environment for growth since the council is more reliant on the income generated by the future growth in Business Rates revenues.

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 2018/19 is calculated by applying the non-domestic multiplier to the total rateable value as shown in the table below:

	2018/19 £
Total rateable value as at 31 March	258,482,479
Non domestic multiplier	0.480

The share of business rates payable were originally estimated as £96.095m to be retained by the council and £0.971m to WMF&RA; these sums have been paid and charged to the Collection Fund in year.

The total income from Business Rate payers collected in 2018/19 was £100.253m. This includes transitional protection payments of £0.994m which, under the new regulations, should have a neutral impact on the Business Rate retention scheme. Transitional protection payments have to be repaid to Central Government.

With the introduction of the new 100% 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 2018/19 it was estimated that the council would receive additional top up grant to the General Fund of £50.1m which is included within the Comprehensive Income and Expenditure Statement on page 20.

COLLECTION FUND

3. Council Tax

The council calculated a Council Tax base of 72,206 for 2018/19 as compared to the 2017/18 base of 71,217. The tax base for 2018/19 has been calculated as follows:

	Band D Equivalents Number
Band A	22,047
Band B	24,759
Band C	15,204
Band D	6,293
Band E	3,104
Band F	686
Band G	91
Band H	22
	72,206

In 2018/19 the council set Band D Council Tax at £1,347.71. 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 impairment losses 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 the preceptors.

2017/18					2018/19			
Impairment losses		Appeals			Impairment losses		Appeals	
Council Tax £'000	NDR £'000	Council Tax £'000	NDR £'000		Council Tax £'000	NDR £'000	Council Tax £'000	NDR £'000
17,164	1,334	-	1,807	Balance as at 1 April	16,261	2,612	-	2,325
(2,125)	(1,628)	-	-	Write Offs in Year	(2,518)	(1,535)	-	-
1,222	2,906	-	518	Increase / (Decrease) to Provision in Year	1,646	123	-	1,667
16,261	2,612	-	2,325	Balance as at 31 March	15,389	1,200	-	3,992
(14,276)	2,586	-	2,302	SMBC's Proportion of Provisions:	13,358	1,188	-	3,953

Group Accounts

2018/19

GROUP COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

The Group Comprehensive Income and Expenditure Statement combines the income and expenditure figures of the Council with the Council's share of operating results of those entities in which it has a financial interest.

Restated 2017/18		Restated 2017/18	2018/19		2018/19
Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000	£'000	£'000	£'000
143,398	(59,221)	84,177	149,496	(62,055)	87,441
258,260	(265,234)	(6,974)	262,142	(271,713)	(9,571)
85,838	(19,173)	66,665	118,014	(19,348)	98,666
20,839	(25,585)	(4,746)	19,922	(24,900)	(4,978)
166,797	(157,380)	9,417	186,712	(151,395)	35,317
7,185	(266)	6,919	1,265	(1,511)	(246)
64,981	(9,629)	55,352	60,969	(8,857)	52,112
36,266	(9,301)	26,965	47,800	(14,353)	33,447
71,074	(130,634)	(59,560)	75,812	(130,421)	(54,609)
(59,302)	-	(59,302)	(60,924)	-	(60,924)
795,336	(676,423)	118,913	861,208	(684,553)	176,655
		13,791			13,071
		2,697			2,697
		7,809			2,601
		154			29
		-			-
		24,451			18,398
		29,171			31,368
		21,581			18,439
		(2,857)			(1,666)
		(2,246)			(2,836)
		(2,971)			6,182
					(787)
		42,678			50,700
		(92,268)			(97,929)
		-			-
		(97,391)			(96,095)
		(60,166)			(50,660)
		-			-
		9,386			41
		-			-
		(27,817)			(38,465)
		(268,256)			(283,108)
		(82,214)			(37,355)
		(189,933)			(10,970)
		590			(81)
		(105,451)			(42,110)
		(78)			79
		(294,872)			(53,082)
		(377,086)			(90,437)

GROUP BALANCE SHEET

The Group Balance Sheet shows as at 31 March the assets and liabilities of the group, through combining the Council's assets and liabilities with its share of the assets and liabilities of those entities in which it has a financial interest.

Restated 1 April 17 £'000	Restated 31 March 2018 £'000		Note ref	31 March 2019 £'000
930,418	1,016,880	Council Dwellings		1,105,937
638,749	732,557	Other Land & Buildings		711,424
221,004	222,154	Infrastructure		221,499
22,876	23,271	Vehicles, Plant, Furniture & Equipment		21,597
22,251	20,624	Community Assets		18,812
15,311	13,568	Assets Under Construction		18,221
12,058	17,115	Surplus Assets		17,368
1,862,667	2,046,169	Property Plant & Equipment		2,114,858
3,931	4,192	Heritage Assets		4,193
88,718	86,402	Investment Properties		78,498
3,201	3,196	Intangible Assets		2,463
29,574	29,234	Long Term Investments		29,315
3,818	3,591	Long Term Debtors		3,631
1,991,909	2,172,784	Long Term Assets		2,232,958
4	5,021	Short Term Investments		11,029
593	281	Assets Held for Sale		-
1,474	1,300	Inventories		1,465
40,391	37,493	Short Term Debtors	5	48,233
56,662	55,192	Cash & Cash Equivalents		61,044
99,124	99,287	Current Assets		121,771
(77,764)	(72,378)	Bank Overdraft		(22,350)
(23,022)	(55,908)	Short Term Borrowing		(77,810)
(72,508)	(77,875)	Short Term Creditors	6	(82,234)
(7,785)	(6,652)	Provisions		(10,316)
(78)	(713)	Revenue Grants Receipts in Advance		(2,569)
(2,420)	(2,418)	Capital Grants Receipts in Advance		(3,876)
(183,577)	(215,944)	Current Liabilities		(199,155)
(3,882)	(4,239)	Provisions		(3,562)
(465,703)	(450,420)	Long Term Borrowing		(447,312)
(939,228)	(822,921)	Other Long Term Liabilities		(832,616)
(10,272)	(12,104)	Capital Grants Receipts in Advance		(15,204)
(1,419,085)	(1,289,684)	Long Term Liabilities		(1,298,694)
488,371	766,443	Net Assets		856,880
185,423	193,463	Usable Reserves		201,167
280,756	550,788	Unusable Reserves		634,875
22,192	22,192	Group Income & Expenditure Reserve	MIRS	20,838
488,371	766,443	Total Reserves		856,880

GROUP CASHFLOW

The Group Cashflow Statement shows the change in the year of cash and cash equivalents of the Council and those entities in which it has a financial interest.

Restated 2017/18				2018/19		
Sandwell MBC £'000	Sandwell Children's Trust £'000	Group Total £'000		Sandwell MBC £'000	Sandwell Children's Trust £'000	Group Total £'000
(82,214)	-	(82,214)	Net (surplus) / deficit on the provision of services	(38,709)	1,568	(37,141)
6,769	-	6,769	Adjustments to net (surplus) / deficit on the provision of services for non cash movements	(61,128)	(9,147)	(70,275)
44,719	-	44,719	Adjustments for items included in the net (surplus) / deficit on the provision of services that are investing and financing activities	56,195	21	56,216
(30,726)	-	(30,726)	Net cash flows from Operating Activities	(43,642)	(7,558)	(51,200)
			Investing Activities:			
75,426	-	75,426	Purchase of property, plant and equipment, investment property and intangible assets	65,760	-	65,760
165,161	-	165,161	Purchase of short and long term investments	157,042	-	157,042
(17,343)	-	(17,343)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(18,097)	-	(18,097)
(160,144)	-	(160,144)	Proceeds from short and long term investments	(151,032)	(21)	(151,053)
(26,881)	-	(26,881)	Other receipts from investing activities	(43,057)	-	(43,057)
36,219	-	36,219	Net cash flows from Investing Activities	10,616	(21)	10,595
			Financing Activities:			
(53,662)	-	(53,662)	Cash receipts of short and long term borrowing	(218,089)	-	(218,089)
8,194	-	8,194	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,519	-	3,519
36,058	-	36,058	Repayments of short and long term borrowing	199,295	-	199,295
(9,410)	-	(9,410)	Net cash flows from Financing Activities	(15,275)	-	(15,275)
(3,917)	-	(3,917)	Net (increase) / decrease in cash and cash equivalents	(48,301)	(7,579)	(55,880)
(21,103)	-	(21,103)	Cash and cash equivalents at the beginning of the reporting period	(17,186)	-	(17,186)
3,917	-	3,917	Net movement in cash and cash equivalents	48,301	7,579	55,880
(17,186)	-	(17,186)	Cash and cash equivalents at the end of the reporting period	31,115	7,579	38,694

GROUP MOVEMENT IN RESERVES STATEMENT

The Group Movement in Reserves Statement shows the movement in the year on the different reserves held by the Council, together with the movement in the Council's share of those entities in which it has a financial interest.

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Revaluation Reserve	Capital Adj Account	Financial Instruments Adj A/C	Financial Instrument Revaluation Reserve	Available for Sale Reserve	Pensions Reserve	Accumulated Absences Account	Collection Fund Adj A/C	Total Unusable Reserves	Total Council Reserves	Group Reserves	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 31 March 2017	126,246	35,649	7,863	15,665	185,423	170,763	848,519	(1,536)	-	21,189	(851,158)	(6,208)	(3,922)	177,647	363,070	26,287	389,357
Movement in Reserves During 2017/18																	
Total Comprehensive Income and Expenditure	(5,542)	87,756	-	-	82,214	90,919	-	-	-	(590)	105,451	-	78	195,858	278,072	99,014	377,086
Adjustments between Group Accounts and Council Accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in Group Reserves accounted for through equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Increase/(Decrease) before Transfers	(5,542)	87,756	-	-	82,214	90,919	-	-	-	(590)	105,451	-	78	195,858	278,072	99,014	377,086
Adjustments between accounting basis & funding basis under regulations (Note 8)	12,972	(88,124)	(47)	1,025	(74,174)	(5,413)	115,230	74	-	0	(30,016)	(883)	(4,818)	74,174	-	-	-
Increase / Decrease in Year	7,430	(368)	(47)	1,025	8,040	85,506	115,230	74	0	(590)	75,435	(883)	(4,740)	270,032	278,072	99,014	377,086
Restated Balance at 31 March 2018 carried forward	133,676	35,281	7,816	16,690	193,463	256,269	963,749	(1,462)	0	20,599	(775,723)	(7,091)	(8,662)	447,679	641,142	125,301	766,443
Movement in Reserves During 2018/19																	
Total Comprehensive Income and Expenditure	(41,870)	80,579	-	-	38,709	7,340	-	-	20,680	(20,599)	42,110	-	(79)	49,452	88,161	2,276	90,437
Adjustments between Group Accounts and Council Accounts	(63,019)	-	-	-	(63,019)	-	-	-	-	-	-	-	-	-	(63,019)	63,019	-
Changes in Group Reserves accounted for through equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Increase/(Decrease) before Transfers	(104,889)	80,579	-	-	(24,310)	7,340	-	-	20,680	(20,599)	42,110	-	(79)	49,452	25,142	65,295	90,437
Adjustments between accounting basis & funding basis under regulations (Note 8)	26,156	(75,424)	8,405	9,858	(31,005)	(6,810)	66,754	116	-	(39,825)	693	10,077	31,005	-	-	-	-
Increase / Decrease in Year	(78,733)	5,155	8,405	9,858	(55,315)	530	66,754	116	20,680	(20,599)	2,285	693	9,998	80,457	25,142	65,295	90,437
Balance at 31 March 2019 carried forward	54,943	40,436	16,221	26,548	138,148	256,799	1,030,503	(1,346)	20,680	0	(773,438)	(6,398)	1,336	528,136	666,284	190,596	856,880

1. **Accounting Policies**

The Group Financial Statements summarise the Council's and its Group's transactions for the 2018/19 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS).

Members within the Group have been classified as subsidiaries and have been consolidated into the Group Financial Statements on a line by line basis where appropriate. Details included in respect of the classification can be found within Note 2.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are no material differences, the Notes to the Council entity accounts provide the required disclosures.

Accounting policies of the individual members of the Group have been aligned to the Council's accounting policies.

The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity accounts, with additional policies specific to the Group set out below.

2. **Consolidated Group Entities**

Sandwell Children's Trust

On 1st April 2018 Sandwell Children's Trust (SCT) went live following the transfer of the Children's Social Care functions (whilst statutory responsibility still sits with the council).

The council has considered the guidance in IFRS 10 and have concluded that SCT is a subsidiary and that group accounts will be prepared for the following reasons:

- SCT is a 100% wholly owned company;
- The council is the primary funder of SCT;
- The council has a director and elected member on the board of SCT; and
- The expenditure for SCT amounts to approximately £70m which is a material sum compared to the council's net cost of services of £180m.

Its accounts have therefore been consolidated into the group accounts on a line by line basis.

Sandwell Land & Property Limited (SLaP)

The Sandwell Land and Property Company (SLaP) was established late in 2010/11 with the intention of protecting and maintaining ownership of land and property currently occupied by school establishments. This is a wholly owned company of Sandwell MBC and all directors are related to the council.

On 31 March 2011 school assets, both land and buildings, legally owned by the council were transferred to Sandwell Land and Property Limited. The arrangement was treated as a sale and leaseback and school assets were leased back to the council at £1 per annum for a duration of 125 years.

A review of this accounting treatment in 2018/19 concluded that the land held within the school assets did not meet the definition of a sale and leaseback. This required the value of land to be recognised in the Sandwell Land and Property Limited accounts. The value of the buildings remains in the Sandwell MBC accounts and buildings continue to be treated as a sale and leaseback arrangement.

In order to correctly recognise the land within these accounts, a prior period adjustment has been made, whereby the original cost of the land to the company of £26,286m has been included within tangible fixed assets. Retained earnings brought forward have been adjusted accordingly.

3. **Basis of Consolidation**

The following statements consolidate the accounts of the Council with those of its subsidiaries, associates and joint venture. Transactions between the Council and its group entities are eliminated on consolidation. Details of the inter-company transactions are set out in Note 36 - Related Parties, to the single entity accounts.

Group Comprehensive Income and Expenditure Statement (GCI&ES) – provides the details of the income and expenditure recognised in year by the group, in a specified format, in accordance with generally accepted accounting practices.

Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

Group Balance Sheet – shows the value of assets and liabilities recognised by the group at 31 March 2019 and the level of reserves, split into usable and unusable.

Group Cash Flow Statement – shows how the group generates and uses cash during the year and the impact this has on the balances of cash and cash equivalents.

GROUP NOTES TO THE GROUP ACCOUNTS

4. **Property Plant and Equipment**

The following tables show the in year movements in valuation, accumulated depreciation and impairments over the year for Property, Plant and Equipment for the group.

	Council Dwellings	Other Land & Buildings	Infrastructure Assets	Vehicles, Plant, Furniture & Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total Plant, Property & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
At 1 April 2017	961,380	578,939	320,037	83,157	22,889	17,360	25,937	2,009,699
Prior Period Adjustment	(18,526)	83,283	-	-	-	-	-	64,757
Restated balance at 1 April 2017	942,854	662,222	320,037	83,157	22,889	17,360	25,937	2,074,456
Additions	33,067	9,508	9,548	6,510	99	16,880	-	75,612
Revaluation increases / (decreases) recognised in the Revaluation Reserve	-	60,112	-	-	-	-	3,715	63,827
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	59,302	18,881	-	-	-	-	(329)	77,854
Derecognition - Disposals	-	(11,170)	-	-	-	-	(446)	(11,616)
Assets reclassified (to) / from Held for Sale	(11,858)	-	-	-	-	-	(111)	(11,969)
Other movements in Cost or Valuation	8,148	13,695	-	-	(1,722)	(18,631)	2,429	3,919
Restated At 31 March 2018	1,031,513	753,248	329,585	89,667	21,266	15,609	31,195	2,272,083
Accumulated Depreciation and Impairment								
At 1 April 2017	(30,962)	(43,323)	(99,033)	(60,281)	(638)	(2,049)	(13,879)	(250,165)
Prior Period Adjustment	18,526	19,848	-	-	-	-	-	38,374
Restated balance at 1 April 2017	(12,436)	(23,475)	(99,033)	(60,281)	(638)	(2,049)	(13,879)	(211,791)
Depreciation Charge	(14,793)	(11,846)	(8,398)	(5,995)	-	-	(88)	(41,120)
Depreciation written out to the Revaluation Reserve	12,435	14,490	-	180	-	-	81	27,186
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	(49)	-	(180)	-	-	(108)	(337)
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	(131)	-	(120)	-	-	-	(251)
Derecognition - Disposals	-	248	-	-	-	-	-	248
Other movements in Depreciation and Impairment	161	72	-	-	(4)	8	(86)	151
Restated At 31 March 2018	(14,633)	(20,691)	(107,431)	(66,396)	(642)	(2,041)	(14,080)	(225,914)
Net Book Value								
At 1 April 2017	930,418	638,747	221,004	22,876	22,251	15,311	12,058	1,862,665
Restated At 31 March 2018	1,016,880	732,557	222,154	23,271	20,624	13,568	17,115	2,046,169

GROUP NOTES TO THE GROUP ACCOUNTS

	Council Dwellings £'000	Other Land & Buildings £'000	Infrastructure Assets £'000	Vehicles, Plant, Furniture & Equipment £'000	Community Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Plant, Property & Equipment £'000
Cost or Valuation								
At 1 April 2018	1,031,513	753,248	329,585	89,667	21,266	15,609	31,195	2,272,083
Additions	26,556	8,399	7,725	4,301	170	17,522	826	65,499
Revaluation increases / (decreases) recognised in the Revaluation Reserve	-	(15,886)	-	-	-	-	1,393	(14,493)
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	60,924	(3,919)	-	-	-	-	(274)	56,731
Derecognition - Disposals	-	(4,636)	-	(1,698)	-	-	(1,170)	(7,504)
Assets reclassified (to) / from Held for Sale	(13,169)	-	-	-	-	-	(568)	(13,737)
Other movements in Cost or Valuation	16,082	(1,310)	136	-	(1,982)	(12,778)	692	840
At 31 March 2019	1,121,906	735,896	337,446	92,270	19,454	20,353	32,094	2,359,419
Accumulated Depreciation and Impairment								
At 1 April 2018	(14,633)	(20,691)	(107,431)	(66,396)	(642)	(2,041)	(14,080)	(225,914)
Depreciation Charge	(16,141)	(14,540)	(8,516)	(5,971)	-	-	(87)	(45,255)
Depreciation written out to the Revaluation Reserve	14,633	10,789	-	-	-	-	149	25,571
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	(52)	-	-	-	-	(56)	(108)
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	(153)	-	-	-	(79)	(700)	(932)
Derecognition - Disposals	-	78	-	1,694	-	-	146	1,918
Other movements in Depreciation and Impairment	172	97	-	-	-	(12)	(98)	159
At 31 March 2019	(15,969)	(24,472)	(115,947)	(70,673)	(642)	(2,132)	(14,726)	(244,561)
Net Book Value								
At 1 April 2018	1,016,880	732,557	222,154	23,271	20,624	13,568	17,115	2,046,169
At 31 March 2019	1,105,937	711,424	221,499	21,597	18,812	18,221	17,368	2,114,858

5. **Short Term Debtors**

The table below shows amounts owed to the Council's group undertakings at the end of the year that are due within 12 months.

	2017/18 £'000	2018/19 £'000
Trade Receivables	21,730	29,925
Prepayments	3,290	4,904
Other Receivable Amounts (Council Tax, Business Rates and HMRC)	12,473	13,404
Total	37,493	48,233

GROUP NOTES TO THE GROUP ACCOUNTS

6. **Short Term Creditors**

The table below shows amounts owed by the Council's group undertakings at the end of the year that are due within 12 months.

	Restated 2017/18 £'000	2018/19 £'000
Trade Payables	60,430	62,204
Other Payables	13,929	15,082
Finance Lease Creditors (Note 40)	3,516	4,948
Total	77,875	82,234

7. **Unusable Reserves**

The table below summarises the balances on the groups Unusable Reserves.

	Restated 2017/18 £'000	2018/19 £'000
Revaluation Reserve	(359,378)	(363,538)
Available for Sale Financial Instruments Reserve	(20,599)	-
Financial Instrument Revaluation Reserve	-	(20,680)
Capital Adjustment Account	(963,749)	(1,030,503)
Financial Instruments Adjustment Account	1,462	1,346
Pensions Reserve	775,723	773,438
Collection Fund Adjustment Account	8,662	(1,336)
Accumulating Compensated Absences Adjustment Account	7,091	6,398
Total Unusable Reserves	(550,788)	(634,875)

GROUP NOTES TO THE GROUP ACCOUNTS

8. **External Audit Fees**

The following table shows the amounts payable by the group to external auditors. In addition to the fees disclosed in the table below, fees of £0.016m and £0.005m respectively are payable in 2019/20 for the completion of Audit work by Grant Thornton in relation to the Housing Benefit certification and Teachers Pension 2018/19. Also, fees of £0.015m will be paid by SMBC in 2019/20 in relation to the 2018/19 external audit of Sandwell Land and Property Limited by Grant Thornton.

	2017/18 £'000	2018/19 £'000
Fees payable to KPMG the appointed auditor for the year 2017/18 and prior with regard to external audit services carried out in that year	199	40
Fees payable to KPMG for the certification of grant claims and returns for 2017/18 and prior	14	9
Fees payable in respect of other services provided by KPMG during 2017/18 and prior	20	35
Fees payable to Grant Thornton appointed auditor for the year 2018/19 with regard to external audit services carried out for SMBC	-	153
CFO insights (non-audit service provided by Grant Thornton) 2018/19	-	13
Fees payable to Grant Thornton appointed auditor for the year 2018/19 with regard to external audit services carried out for the subsidiary audit	-	23
Total	233	273

Annual Governance Statement 2018/19



Sandwell
Metropolitan Borough Council

Note to the 2018/19 Annual Governance Statement

This Annual Governance Statement was originally prepared and approved by the Audit and Risk Assurance Committee on 25 July 2019, in order to accompany the 2018/19 Statement of Accounts prior to their sign-off.

However, there has been a significant delay in the final sign-off of the 2018/19 Statement of Accounts as a result of issues in respect of Sandwell Land and Property Limited.

By the time of the final sign-off of the 2018/19 Statement of Accounts, the draft 2019/20 Annual Governance Statement which forms part of the draft 2019/20 Statement of Accounts has already also been prepared. Therefore, to avoid significant duplication of the 2018/19 and 2019/20 Annual Governance Statements, this Annual Governance Statement largely reflects the position for 2018/19 at the time it was approved in July 2019. Brief references to any significant changes or issues since this date are noted below, but the detail in respect of these matters is included in the 2019/20 draft Annual Governance Statement.

Since July 2019, there have been a number of new and emerging issues that have come to the council's attention that may impact upon the assumptions made in the 2018/19 accounts, alongside the issues referred to above which resulted in the delay to the sign-off of the Statement of Accounts.

These new issues focus predominantly around Brexit and Covid-19 related matters and whilst the details around this are being addressed in the 2019/20 Annual Governance Statement, the assumptions for the 2018/19 Statement of Accounts have been reviewed in light of these issues. The impact of both issues, in particular the unprecedented significance of Covid-19 began to be addressed towards the 2019/20 year-end and continue to be so into 2020/21.

The risks associated with these issues are being monitored through regular financial and governance reporting and also form a key part of the council's risk management process.

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. 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 robust arrangements for the governance of all its functions and the effective discharge of its duties and obligations, including the implementation of appropriate arrangements for the management and mitigation of risk.

The Council has a [Code of Corporate Governance](#), which was revised in line with the latest principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. The principles have been adopted in this statement. A copy of the current 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 outlines the Council’s culture and values and comprises the systems and processes by which the Council is directed and controlled and details those 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 and ultimately the desired outcomes.

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 2019 and up to the date of approval of the annual report and Statement of Accounts.

The Governance Framework

The Council’s Vision 2030 outlines ten ambitions for the long-term future of the Borough of Sandwell.

This Framework is consistent with the seven core principles of the CIPFA/ SOLACE framework. Key elements of Council systems and processes form part of the Council’s Governance Framework (as detailed in the Code of Corporate Governance) and the table below sets out the evidence relied upon that provides assurance that the CIPFA/ SOLACE framework has been complied with.

Core Principles of the CIPFA/ SOLACE Framework	Governance Framework Providing Assurance	Assurances Received	Issues Identified
<ul style="list-style-type: none"> • Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law. • Ensuring openness and comprehensive stakeholder engagement. • Defining outcomes in terms of sustainable economic, social, and environmental benefits. • Determining the interventions necessary to optimise the achievement of 	<ul style="list-style-type: none"> • Annual review of the Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer) • Corporate and Directorate business plans • Medium term financial plan • Corporate risk management strategy • Strategic risk-register and assurance map • Scrutiny arrangement • Codes of conduct • Schemes of delegation • Partnership framework • Standards and Member Development Committee • Audit and Risk Assurance Committee • Internal audit plan • External audit plan • Independent external reviews (e.g. Ofsted, CQC) 	<ul style="list-style-type: none"> • Statement of Accounts • External Audit- Report to those charged with governance (ISA 260) Report • Annual Internal Audit Report • Review of the Effectiveness of Internal Audit • Annual and periodic Reports to the Ethical Standards & Member Development Committee • Member and Executive Development Programmes • Ofsted – monitoring visits • LGA Corporate Peer Review follow up January 2019 • Ofsted Annual Report of HMCI of Education, Children’s Services and Skills • Annual Local Government Ombudsman report • Annual Fraud Report • Director of Public Health Annual Report 	<ul style="list-style-type: none"> • Children’s Services • Resilience of the Medium Term Financial Strategy • Compliance with Contract Procedure Rules and Allocation of Grants • Data Protection Act 2018 (incorporating the General Data Protection Regulation) • Cyber Security • School Place Planning

GOVERNANCE STATEMENT

<p>the intended outcomes.</p> <ul style="list-style-type: none"> • Developing the entity's capacity, including the capability of its leadership and the individuals within it. • Managing risks and performance through robust internal control and strong public financial management. • Implementing good practices in transparency, reporting, and audit to deliver effective accountability. 	<ul style="list-style-type: none"> • HR Strategy • Business planning and performance management framework • Learning and Development Plans • Communication Strategy • Confidential Reporting Code (Whistleblowing Policy) • Counter Fraud and Corruption Strategy • Customer Services system • Information Governance Framework • Executive Management Team, Cabinet Member and directors' assurance statements • Procurement and Contract Procedure Rules and Financial Regulations • Committee management information system (CMIS) • Information Governance Board • Strategic Partnership Board • Operational Partnership Board • Improvement Board • Electoral Participation Select Committee • Sandwell Sport and Leisure Built Facilities Steering Group • Commonwealth Games 2022 Steering Group • Standards Working Group 	<ul style="list-style-type: none"> • Sandwell Safeguarding Children's Board Annual Report • Sandwell Safeguarding Adult's Board Annual Report • Scrutiny Annual Report • PSN certification • Investors in People • Employee engagement survey • Ofsted inspection of Children's Services • Planning Committee Annual Report • Corporate Parenting Board Annual Report • Sandwell Leisure Trust Annual Performance Report 	
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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.

Please read the section below in conjunction with the note to the AGS provided at the start of this statement.

The key changes to the Governance framework during 2018/19 or after the year end but prior to this statement being produced include:

- The Sandwell Children's Trust went live on 1 April 2018. The Trust delivers children's social care services for the Council, with the statutory duty remaining with the Council. The Trust has day-to-day operational independence in the management and delivery of these services and is managed by a board of non-executive and executive directors.
- During the year the Leader of the Council stepped down from the role and was replaced on an interim basis by the Deputy Leader, with a new Leader being formally elected at the Full Council meeting held on 5 March 2019. Following this, a further new Leader was elected following the May 2019 local elections. *(A further update on this matter is included in the 2019/20 statement)*

- On 3 July 2019, the council's Chief Executive resigned. The responsibilities of the role were continued by the Interim Chief Executive who was later appointed as Chief Executive.
- A number of standards matters in relation to member conduct were concluded in 2018.
- A Standards Working Group has been set up to review the Code of Conduct, the arrangements for dealing with standards allegations and to review the member register and declarations of interest.
- A new member Development Programme has been devised and implemented that focuses on the development, learning and support needs of Elected Members.
- There have been permanent appointments to the post of Director of Regeneration and Growth and Director of Public Health and the Leadership Team.
- A Sandwell Sport and Leisure Built Facilities Strategy Steering Group and a Commonwealth Games 2022 Steering Group were set up in May 2018 to consider the current leisure provision in Sandwell and the establishment of an aquatic centre for the Commonwealth Games.
- An Electoral Participation Select Committee was established in May 2018 to consider electoral registration and participation in Sandwell with a view to increasing it.
- The Information Governance Board has been established and has a key role in ensuring compliance with the Data Protection Act 2018 (incorporating the General Data Protection Regulation).

The Review of Effectiveness

Please read the section below in conjunction with the note to the AGS provided at the start of the statement.

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 Elected 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 and Risk Assurance Committee; the Ethical Standards and Member Development Committee; the Scrutiny function, and reports made by the Council's external auditors and other review agencies and inspectorates (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 no key non-compliances 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.
- A number of outstanding standards investigations were completed during the year and these were reported to the [Ethical Standards and Member Development Committee meeting on 28 September 2018](#).

GOVERNANCE STATEMENT

- During the year, Member and Executive Development Programmes have been developed and implemented that have been designed by Members and focus on their development, training and support requirements from both a corporate and personal councillor perspective.
- The Council's external auditors Grant Thornton are auditing the Statement of Accounts for 2018/19 and will provide an independent 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.
- 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 is able to confirm that its financial management arrangements do conform. The Chief Financial Officer has been involved in preparing 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.
- The Council's Anti-Money Laundering Policy was updated to reflect the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and included the introduction of a reduced cash limit from £8,000 to £2,000, identifying nominated officers to assist the Anti-Money Laundering Reporting Officer with their duties, and increasing staff awareness on the importance of carrying out due diligence enquiries and reporting concerns of money laundering.
- In October 2016, the Council was advised of the Government's Statutory Direction (under section 479A of the Education Act 1996) to appoint a Children's Services Commissioner to improve children's social care services and also to set up a new arrangement in the form of a children's trust to deliver children's social care services for a period of time. The Sandwell Children's Trust went fully operationally on 1 April 2018. The Trust while owned by the Council has day-to-day operational independence with regards to its management and the delivery of children's social care services and is managed by a board of non-executive and executive directors. The statutory duty to provide children's social care services however, remains with the Council. As such,



GOVERNANCE STATEMENT

comprehensive governance arrangements are in place to enable the Council to monitor progress of the Trust, consider performance and operational issues on a regular basis, and hold the Trust Board to account.

- In the Trust's Statement of Internal Control as published in their 2018/19 Annual Report and Financial Statements, it was noted that the Internal Auditors provided reasonable assurance that the Trust had adequate and effective risk management and internal control processes. The Trust's external auditors Grant Thornton audited the Statement of Accounts for 2018/19 and provided an unqualified independent audit opinion of the financial statements for the Trust.
- In January 2018, the Council participated in a Local Government Association Corporate Peer Challenge. The review made 12 recommendations in areas including strengthening the arrangements for partnership working to deliver the Vision 2030; strengthening the influence the Council has beyond the borough boundary and across the region; the Council's approach to long term financial planning; leadership team development; conducting a governance review and the development of town plans. A follow up visit was made in January 2019 and reported that significant progress had been made against the recommendations made.
- In November 2018, the Council conducted an employee engagement survey to understand how employees felt about their jobs and working for the Council. The survey achieved a response rate of 63% and achieved an employee engagement index of 70%, a 5% increase on the previous survey.

Opinion for 2018/19

We have been informed by the sources noted above on the result of the review of effectiveness of the Governance Framework, that while there has been a delay in the finalisation of the statement of accounts, 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 2017/18 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 carried forward and included in the 2018/19 issues.

Progress of the Governance Issues from 2017/18

The table below describes the governance issues identified during 2017/18 (which were reported in the 2017/18 Annual Governance Statement) and the progress that has been made against the implementation of actions to address these issues, during 2018/19. For any issues carried forward (in order to avoid duplication), the details of any further progress made during 2019/20 is included in the draft 2019/20 Annual Governance Statement

Key Area for Improvement	Update on Position and Implication for the 2018/19 Annual Governance Statement
Children's Services Sandwell Children's Trust went live on 1 April 2018, the	The Trust is working with a multi-agency Improvement Board which oversees progress against the 17 recommendations for improvement which came from the Ofsted inspection in January 2018. The Board was chaired by the CEO of Doncaster

GOVERNANCE STATEMENT

<p>Council still has the statutory responsibility for children’s services. The Trust has been contracted to develop children’s social care so that it is rated requires improvement by 2020 and good by 2022.</p>	<p>Children’s Trust, from April 2018 to January 2019 and the Department for Education (DfE) has appointed a new independent chair who took up the role in May 2019. The Improvement Plan is being regularly updated.</p> <p>A robust performance management framework is in place.</p> <p>An Operational Partnership Board has met monthly since April 2018 to monitor the Contract between the Council and the Trust. A Strategic Partnership Board meets quarterly, with both Boards providing effective support and challenge.</p> <p>The Chair of the Trust Board has attended two meetings of the council’s Education and Children’s Services Scrutiny Board. A full review of the first year of operation was presented to the Scrutiny Board in September 2019 prior to a report to Cabinet in October 2019.</p> <p>Regular Ofsted monitoring visits have recognised that progress is being made “from a low base”. In addition, these visits have noted that staff were responding to a clear vision for improvement and the Trust was recognising where it needed to improve its services.</p> <p>The Youth Offending Service, delivered through the Trust, was inspected in September 2018 and rated ‘good’ and Adoption Services were inspected in January 2019 and rated as ‘requires improvement’. However, the inspection of Fostering Services continues to be inadequate.</p> <p>Carry forward</p>
<p>Resilience of the Medium Term Financial Strategy (MTFS)</p> <p>Council approved a balanced budget for 2018/19, but savings of £6.5m for 2019/20 and £6.4m for 2020/21 were needed. Projects were to be established to deliver the savings required.</p> <p>In addition, work was to continue in the implementation of the vision for the Council for 2030 and the development of a new Performance Management Framework to replace the scorecard, which will measure progress against the vision and outcomes achieved.</p>	<p>The majority of services across Sandwell ended the 2018/19 year in surplus and carried forward combined surpluses of approximately £22m to future years.</p> <p>A balanced budget for 2019/20 was approved by Council on 6 March 2019.</p> <p>In the medium-term, there remain significant uncertainties and lack of clarity over local government funding and plans for the future. The Fair Funding Review announced by government will assess and update spending needs and tax raising capacities and set new baseline funding allocations for local authorities with a view to transitioning to the new system. A budget challenge group has been established, which comprises all directors and meets monthly to discuss the medium-term budget and to identify and assess options for increased income generation.</p> <p>The other major risk to the resilience of the budget strategy remains the financial implications of increasing demand in Children’s Social Care.</p> <p>In the January 2019 follow up, the peer review team reported that ‘Vision 2030 is embedded within the Council and has empowered staff’. It noted there should be a continued focus on ‘a route map for delivery, alignment of resources and measures of success to support the realisation of aspirations’. To this end,</p>

GOVERNANCE STATEMENT

	<p>a borough wide conference to take forward Vision 2030, took place in July 2019.</p> <p>Carry forward</p>
<p>Land Sales and Other Matters</p> <p>There were a number of ongoing matters relating to land issues and other matters.</p>	<p>A new protocol for the disposal of Council owned land and buildings is being embedded into the Council's processes. Included within this is the Land and Asset Management Committee which is working well and is supported by an officer group. All land sales and leases within delegated authority are signed by both the Executive Director of Neighbourhoods and the Director of Regeneration and Growth.</p> <p>Work on assessing compliance with the new protocol for the disposal of Council owned land and buildings will be ongoing. A number of standards investigations have been completed and were reported to the Ethical Standards and Member Development Committee meeting on 28 September 2018.</p> <p>Complete</p>
<p>Compliance with Contract Procedure Rules and Allocation of Grants</p> <p>Three limited assurance internal audit reports were issued on Grants within Neighbourhood Services, Grot Spot Funding and Off Contract Spend within Grounds Maintenance and Parks and Green Spaces. A comprehensive review of Neighbourhood Services, considering the findings of the audit reports was undertaken and an action plan developed to address these matters.</p>	<p>Off contract spend is monitored at six monthly intervals across Housing and Communities. Reports are provided to the director and all service managers. These reports are discussed and monitored at senior management team. The amount of off contract spend has reduced significantly in this area.</p> <p>New procedures have been implemented for the differing grants/funding with senior officers having sign off responsibility and member consultation taking place. Additional resources have been put into the team to ensure a stronger focus on monitoring and spot-check audits are being undertaken. A compliance audit against the ISO procedure has been completed and no significant issues identified. A monitoring process is underway to monitor spend and regular budget meetings are held with finance.</p> <p>Previous audit recommendations are being worked upon and Audit Services will be conducting a follow up review.</p> <p>Carry forward</p>
<p>Business Continuity</p> <p>To ensure that the Council has in place a framework for its business continuity planning arrangements, to ensure that it is able to maintain the delivery of critical services in the event of an emergency.</p>	<p>All business continuity plans, and emergency plans are being reviewed on an annual basis. The Resilience Unit has developed and delivered/ scheduled training sessions/exercises for all directorates to ensure the business continuity service plans in place are fit for purpose and that service managers/managers are familiar with them.</p> <p>A large multi-agency exercise took place on 8 March 2019 which involved testing some of the emergency plans.</p> <p>Complete</p>
<p>Data Protection Act 2018 (incorporating the General Data Protection Regulation)</p>	<p>Specialist Information Governance support has been secured and a diagnostic exercise undertaken to review the work to date and determine what other actions are required to ensure the Council's information governance arrangements are robust.</p>

GOVERNANCE STATEMENT

<p>On 25 May 2018, the new Data Protection Act 2018 came into force which is a direct replacement for the Data Protection Act 1998 and applies to all public and private bodies in the United Kingdom. GDPR has been incorporated into domestic legislation through the 2018 Act. The Act applies to the collection and processing of personal and/or sensitive personal information. Non-compliance could result in fines of up to £17million for the council.</p>	<p>The Information Governance Board has been refreshed and a revised action plan devised and agreed by the Executive Management Team.</p> <p>The diagnostic also considered requisite actions required to ensure Elected Members understand their information governance duties and obligations.</p> <p>The outcome of this diagnostic process has resulted in a four-phased action plan being developed, that monitors and manages all information governance activities</p> <p>An Information Governance Project Team, chaired by the Director of Law and Governance and Monitoring Officer (and Senior Information Risk Owner (SIRO)), has been established to support the Information Governance Board and manage the activities falling within the four-phase action plan.</p> <p>The Council has taken requisite steps to ensure compliance with the NHS Toolkit on information governance and a successful submission was made as required ahead of the 31 March 2019 deadline.</p> <p>Carry forward</p>
<p>Cyber Security</p> <p>The Council has undertaken an exercise to assess itself against the “10 Steps to Cyber Security” to ensure it has a co-ordinated approach and understanding of its existing cyber security controls or those available to it. The review highlighted areas where the Council required improvement.</p>	<p>The redesign of ICT services now includes a Cyber Security & Connectivity Services team. The Team Manager is responsible for monitoring incoming cyber security threats and ensuring our infrastructure is well maintained.</p> <p>All service architecture managers responsible for ICT technologies, are establishing a proactive patching and update schedule to ensure security updates are promptly uploaded to all platforms. As part of the Citrix improvement plan, the technology was recently patched to the latest version.</p> <p>The Windows 10 refresh programme was completed in December 2018 ensuring non-Citrix users were deployed with new devices with enhanced security measures.</p> <p>Additional security measures have been applied to email systems to enhance protection of messages to and from our public-sector partners.</p> <p>Sandwell ICT has established a regional Cyber Security Working group to collectively discuss potential vulnerabilities and produce mitigation plans.</p> <p>ICT is a member of the Information Governance Project Team (as well as already being a member of the Information Governance Board) and provides updates and seeks approval on security concerns.</p> <p>Governance and Business Support Services within the Law and Governance Directorate lead on the e-learning packages for raising awareness of cyber security and general data protection regulations which was completed by over 95% of council based staff prior to the 2018/19 year end as required.</p> <p>There is a suite of organisational policies and procedures which outline to employees of the Council the appropriate ways of</p>

GOVERNANCE STATEMENT

	<p>managing information and computer systems. This will be supported by the procurement of an e-learning software tool which will allow the roll out of training to all staff quickly, timely and effectively. It will be used to provide regular awareness and updates on good practice and includes “testing” to ensure adequate knowledge is embedded in our workforce.</p> <p>A new cyber security governance regime was introduced in March 2019.</p> <p>Carry forward</p>
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Significant Governance Issues and Action Plan for 2018/19

Based on the Council’s established risk management approach and system of internal control, 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
<p>Children’s Services</p> <p>The Trust continues to implement improvements arising from previous inspections but received 3 compliance notices following a regulatory inspection on fostering by Ofsted. An Ofsted monitoring visit in June 2019 removed two of the compliance notices and a re-inspection will take place in September 2019. An inspection of adoption services by Ofsted gave a judgment of requires improvement to be good and made recommendations on how this could be achieved. An inspection of Youth Offending Service gave a good judgement.</p> <p>Although the Trust went live from 1 April 2018, the Council still has a statutory responsibility for children’s services. The contract between the Council and the Trust requires children’s social care to be assessed as requires improvement by 2020 and good by 2022. The Trust will continue to work with improvement partners, to support its development. The Council is establishing a client function to monitor delivery of the contract via a performance management framework and other methods, including the Strategic Partnership Board which meets quarterly and the Operational Partnership Board which meets monthly.</p> <p>The Trust’s outturn position for 2018/19 is an overspend of £6.3m and a key task will be to manage its budget when recognising the increased demand on services.</p>	<p>Executive Director of Children’s Services 2020</p>
<p>Resilience of the Medium Term Financial Strategy (MTFS)</p> <p>Central government’s failure to publish details of the Comprehensive Spending Review or detailed plans for the future local government funding formula is creating unprecedented uncertainty around funding allocations. Once details are published, plans will be drawn up.</p>	<p>Executive Director of Resources Following publication of details by government</p>

GOVERNANCE STATEMENT

<p>Compliance with Contract Procedure Rules and Allocation of Grants</p> <p>A compliance audit against the ISO procedure has been completed with no significant issues identified. A monitoring process is now underway to monitor spend and regular budget meetings are held with finance.</p> <p>Previous audit recommendations are being followed up by Audit Services and the findings from this will be used to populate an action plan and will be reported back to the Audit and Risk Assurance Committee.</p>	<p>Executive Director of Neighbourhoods 2020</p>
<p>Data Protection Act 2018 (incorporating the General Data Protection Regulation (GDPR))</p> <p>A four phase action plan has been approved by the Senior Information Risk Officer (SIRO) to ensure the council is able to meet the Information Commissioner's 12 step guide to GDPR compliance activity. Progress against the plan is being reported to the Council's Information Governance Board, which is chaired by the SIRO.</p>	<p>Director of Law and Governance & Monitoring Officer 2020</p>
<p>Cyber Security</p> <p>Cyber Security remains a fast-moving issue and the Council needs to be pro-active in managing, monitoring and reacting to the risk of on-going threats in order to:</p> <ul style="list-style-type: none"> • protect its ability to deliver services, particularly critical services for a significant period of time, • prevent the loss of corporate and sensitive personal data (including bank details) • prevent enforcement action • reduce the risk of significant financial loss and reputational loss. 	<p>Executive Director of Resources 2020</p>
<p>School Place Planning</p> <p>The Council has a statutory duty to provide sufficient school places. The current focus is on secondary schools where an additional 660 places are required by September 2020. The Council is considering its options as to how to address this issue.</p>	<p>Executive Director of Children's Services Director of Education, Skills and Employment September 2021</p>

Certification

To the best of our knowledge, and subject to the note included at the beginning of this statement, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. We have taken steps during 2019/20 to address the above matters to further enhance our governance arrangements and where required, we propose to continue with further improvements in these matters during 2020/21. 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 Maria Crompton, Deputy Leader of the Council

A handwritten signature in black ink, appearing to read 'M Crompton'.

Date:



David Stevens, Chief Executive

A handwritten signature in black ink, appearing to read 'David Stevens'.

Date:

GOVERNANCE STATEMENT

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

Accumulated Compensated Absences – 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.

Amortisation - A routine decrease in value of an intangible asset, or the process of paying off a debt over time through regular payments.

Balance Sheet - 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.

Call Accounts – Investment accounts within which the council deposits surplus funds in order to generate interest where funds can be withdrawn with no advance notice.

Capital Adjustment Account - 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 1 April 2007.

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

Capital Commitment - Future Capital expenditure that has been committed on long term assets over a period of time.

Capital Expenditure - 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.

Capital Receipts Unapplied - 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.

Cash Equivalents – 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.

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

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

CI&ES – Comprehensive Income & Expenditure Statement

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

Collection Fund - A fund administered by the council recording receipts from Council Tax and payments to the General Fund and other public authorities. It also records receipts of non-domestic rates collected on behalf of Central Government.

GLOSSARY

Community Assets - Assets that the council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

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

CSE – Child Sexual Exploitation

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.

GLOSSARY

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.

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 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.

GLOSSARY

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

GLOSSARY

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.



Grant Thornton UK LLP
 Colmore Building
 20 Colmore Circus
 Birmingham
 B4 6AT

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}

Dear Sirs

**Sandwell Metropolitan Borough Council
 Financial Statements for the year ended 31 March 2019**

This representation letter is provided in connection with the audit of the financial statements of Sandwell Metropolitan Borough Council and its subsidiary undertakings, Sandwell Children's Trust and Sandwell Land and Property Company for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the group and Council financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the [group and] Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in the appendix. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. The prior period adjustments disclosed in Note 7 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.
- xvi. We have considered the legal issues with regard to the issues of shares issued SLAP as documented on pages 24-26 of the External Auditors report. We consider that it is appropriate for the Council to recognise a contingent liability with regard to any claim by the company against the Council for the incorrect issues of shares by the company. We do not consider that the Council will be liable to make any claim made by the company.
- xvii. We have reviewed the accounting with regard to SLAP. We consider that it is appropriate for the Council to recognise school buildings on its balance sheet as at 31 March 2019 despite the buildings having been transferred to SLAP in return for the issue of shares

Information Provided

- xviii. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xix. We have communicated to you all deficiencies in internal control of which management is aware.
- xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 3 September 2020.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

Appendix

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
	<u>Depreciation</u> Difference between methodology used compared to valuers report. UEL as per valuer resulted in an overstatement of depreciation totalling £1m	(£1,100)	£1,100	(£1,100) reduction in expenditure as overstated	Estimated impact is not considered material
1	<u>Note 10</u> A rolling programme of valuations is carried out. The assets not valued in year as part for this programme are likely to be understated by £5.1m		Non-Current Assets £5,100 Revaluation Reserve (£5,100)		Not material
2	<u>Investment Properties</u> A Comparison of the revaluation movement carried out by the councils valuer compared to indices used by the auditor valuer Gerald Eve identified a difference of £6.8m being an understatement of the balance sheet. This is split between valued assets totalling £3.8m and unvalued assets totalling £3m	(£6,800)	Non-Current Assets £6,800	£nil	Officers considered the valuations carried out by the council's valuation expert to be reliable and the difference not to be material
3	<u>Difference between balance sheet and valuers report</u> <i>Investment Properties</i> – difference between the balance sheet and the valuers report suggesting the balance sheet is overstated by £604k <i>Other Land and Buildings</i> -Variance identified between the balance and valuers report suggesting the balance sheet is overstated by £214k	£604	Non-Current Assets (£604) Non-Current Assets (£284) Revaluation Reserve £865		Difference considered to be immaterial

Appendix cont.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
4	<p><u>Difference between balance sheet and valuers report</u></p> <p><i>Investment Properties</i> – difference between the balance sheet and the valuers report suggesting the balance sheet is overstated by £604k</p> <p><i>Other Land and Buildings</i> -Variance identified between the balance and valuers report suggesting the balance sheet is overstated by £214k</p>	£604	<p>Non-Current Assets (£604)</p> <p>Non-Current Assets (£284)</p> <p>Revaluation Reserve £865</p>		Difference considered to be immaterial
5	<p><u>Perryfield Academy</u></p> <p>An extension to the school had not been valued as part of the 2017/18 and 2018/19 valuations. This resulted in an understatement of the 2018/19 valuation of £2.1m</p>		<p>Non Current Assets £2,100</p> <p>Revaluation Reserve (£2,100)</p>		2018/19 valuation has not been updated so the adjustment is an estimate and not considered to result in a material misstatement
6	<p><u>Debtors</u></p> <p>Large balances of aged debt were included in the debtors balance of which £2.8m was unchanged year on year. There is no corresponding bad debt provision for £1.3m of this debt.</p> <p>Debtor balances will be reviewed by the CFO and write offs will be recommended where appropriate</p>	£1,341	<p>Short Term Debtors (£1,341)</p>	£1,341 increase in provision charged to CIES	Movement considered to be immaterial

Appendix Cont.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
7	<u>Council Tax Arrears</u> £6.1m of debts relating to pre 2013/14 which are likely uncollectable. These have been provided for 100% there would be no impact to the accounts.			Fully provided for	This is still being collected in small amounts and is therefore still collectable.
8	<u>Creditors</u> There is no evidence for a receipt in advance of £3.8m for council tax. Much of the balance appears to be over 2 years old.	(£3,800)	Creditors (£3,800) General Fund £3,800	Reduction in expenditure (£3,800)	Balance considered to be immaterial and Officers did not consider necessary to support this balance as the report cannot be re-run after the year end
9	Errors identified in testing of creditors items – extrapolated error	(£1,300)	Creditors (£1,300) General Fund £1,300	Reduction in expenditure (£1,300)	Immaterial and extrapolated figure is too crude to apply
10	<u>PFI</u> Differences between accounting models and the balance sheet for Total Schools, Rowley BSF and Portway		PFI Long Term Creditors (£1,891) (£1,305) CAA £3,196	(£3,196)	Further analysis to be carried out to confirm balances in 2019/20
	Overall Impact	(£11,055)	£14,235		



The Audit Findings for Sandwell Metropolitan Borough Council

Year ended 31 March 2019

August 2020



Contents



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Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

Page

- 3
- 5
- 35
- 42

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

- 43
- 46
- 49
- 59
- 62

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sandwell Metropolitan Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year ended 31 March 2019; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>The majority of our audit work was completed on site during June/July and off site during August and September. Due to resolution of the matters surrounding Sandwell Land and Property Company and valuations completion of work has been protracted. Our findings are summarised on pages 5 to 42.</p> <p>We have identified a number of adjustments to the financial statements that have resulted in a (£18.1) adjustment to the surplus on provision of services in the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C.</p> <p>We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or further material changes to the financial statements, subject to resolution of the following outstanding matters;</p> <ul style="list-style-type: none">- review of the final set of financial statements, including the remaining SL&P adjustments, following Weightman's review- Management assessment of going concern, to include a cashflow forecast to September 2021.- Review of updated disclosures around accounting for Sandwell land and property company and resolution of remaining legal matters, and- receipt of management representation letter. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sandwell Metropolitan Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Sandwell Metropolitan Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for its arrangements around Children's services which have been rated as 'inadequate' by OFSTED.</p> <p>We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 35 to 41.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• To certify the closure of the audit.	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code, however we will be unable to certify completion of the audit because we have yet to complete our work on Whole of Government Accounts.</p> <p>The completion certificates for 2016/17 or 2017/18 have now been issued and consequently we will be able to certify completion of this year's audit on completion of our work on whole of Government accounts.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the Group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for operating expenses and payroll was required, which was completed by Grant Thornton.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 18 January 2019 in terms of our approach to significant risks. However the audit has required additional work to that anticipated when we issued the audit plan. Further details are outlined within this report and summarised below.

The draft financial statements were presented for audit in accordance with the agreed timetable of the 31 May 2019, although it been agreed in advance that adjustments were likely to the financial statements as the Council had not completed the revaluation of its schools at his time.

The finance team were supportive of the audit and responded as promptly as possible to audit queries. In the main, working papers were available as per our working paper requirement document. However, there were some areas where working papers had to be prepared in response to an audit request or where the audit trail was not complete.

The audit identified several technical accounting matters which significantly delayed the progress of the audit. In some cases these required consultation with the Council's external advisors and Grant Thornton's technical team. Some of these related to matters specific to this financial year, such as the establishment of the Children's Trust and the impact of the McCloud ruling on the valuation of the Council's pension fund. However others related to prior year matters where additional evidence was requested to support historic judgements. This arose because the evidence was insufficient to support the accounting treatment or the judgement had not been updated for changes in circumstances. Combined, these matters significantly delayed our audit.

Key matters included:

- **SL&P:** this is a wholly owned limited company established in 2011. Its purpose is to hold the title deeds to the Council's school land and buildings assets and to lease them back to the Council. We were not satisfied that the accounting around these assets was correct and explained our reasoning to officers. Officers agreed and have adjusted the accounts. The adjustment was material and has resulted in a prior period adjustment.
- **PFI liabilities:** the accounting disclosures for PFI models are driven by operating and accounting models – usually initially prepared by an external firm, and then updated for the changes that occur over time. Some significant differences were identified between the liability per the accounting model and the accounts and following additional work by the Council and review by Grant Thornton Specialists the accounts have been adjusted.

Summary (continued)

- Investment properties: Under the Cipfa Code, as Investment properties are valued at fair value, they should be revalued annually. Historically management has adopted a cyclical approach to valuation of investment properties and use indices as an assessment of whether there had been significant movements. This is due to the volume of Investment properties held by the Council. To more closely comply with the Code we agreed with management that they would revalue the largest value properties this year. Our estimate indicates that investment properties may be undervalued by £6.8m.
- Assets not valued in year: the CIPFA code states that assets should be revalued over a short period and a five-year rolling programme is generally interpreted as meeting the requirement. In addition the Code and accounting policies require the Council to consider whether there is any indication of a significant change in valuation in classes of asset not valued in year. We were not satisfied with the approach proposed by the Council to making this assessment and agreed that following further analysis that the Council would revalue schools as at 31 March 2019. This has been completed and resulted in a net increase of £17m in the net book value of the Council's property.
- Movement in valuations: there were a number of significant movement in valuation of individual assets in the valuation process which officers were unable to explain. We were aware that management had applied an indexed increase to valuations in the prior year, which is not in accordance with the Code and it was felt that this may have contributed to the unexplained variances. We concluded that we could not be assured over the accuracy of the brought forward valuation of PPE, in particular the valuation of schools. Valuations were obtained for all 2018/19, 2017/18 and 2016/17 schools. Completion of this exercise identified material misstatements in these years and so the revised valuations were applied to the accounts via a prior period adjustment. This exercise was also necessary to support the work on the Sandwell land and property company restatement (see later).
- Housing stock. The Council had its housing stock revalued at 1 April 2018, when the balance sheet date is 31 March 2019. Based on the comments made by the Valuer in his report and the regional indicators provided by our valuers, Gerald Eve, there was an indication that the movement in value of the housing stock was significant and that the valuation in the accounts could be materially misstated. Following discussion with officers and the valuer, it was agreed that the valuer would undertake a desk top review of beacon properties to provide a valuation as at 31 March 2019. This exercise has now been completed and there is no material movement in the netbook value of the housing stock as a result.
- Pension guarantees: where staff transfer to new organisations via the TUPE process from a Council it is common that the Council will issue a pension guarantee in relation to the transferred staff. Over the years there have been a number of TUPE transfers. However management had not assessed the Council's position in relation to guarantees and whether there should be related liabilities reflected in the accounts. This work was completed for the organisations where there had been the biggest staff transfers and thus where the liability was considered most likely to be significant. Management has now completed this work and have not identified any significant liabilities relating to these guarantees.
- Children's Trust Pensions: the pension liability and disclosures in the Council's single entity accounts includes the pension liabilities for the staff transferred to the Children's Trust. As expected, the Trust has responsibility for these staff including the payment of salaries and pensions. Initially the Council was not able to demonstrate that it had retained the pension risk relating to the people employed by the Trust. As such it was unclear whether the pension liabilities should be reported in the Council's single entity accounts. However, the Council, the Directors at the Trust, and the West Midlands Pension Fund provided additional documentation and agreements clarifying the responsibility for the pension liabilities. On the basis of the additional agreements we are satisfied that the Council is correct in recognising the pension liabilities in its single entity accounts.
- Children's Trust: the Trust auditors initially were not satisfied that the Children's Trust was a going concern. A letter of comfort has since been issued from the Council to the Trust setting out that it will support the cashflows of the Trust. As such the accounts have subsequently been signed. We note that the Trust has yet to confirm its medium-term financial plan because significant savings will need to be achieved and that the Council had to support the overspend of the Trust in 2018/19. We could see no reference in the Council's in year reporting, in 2018/19 or to date of financial risk associated with the children's trust contract. We have raised a recommendation relating to the need for better monitoring and clearer financial reporting of this matter
- Debtors and creditor balances: we experienced some difficulty in obtaining complete listings for a number of balances. We also noted that the Council had a significant balance of aged debtor's balances which are unlikely to be collectible, for example £6.1m of pre 2013/14 council tax debt and £1m of community charge debt. While these balances have been provided for, we consider that they should be written off. We are satisfied that these balances are not materially misstated but consider that debtors are overstated by £1.341m.

Continued overleaf ...

Summary (continued)

- Sandwell Land and Property (SL&P) is a wholly owned subsidiary of Sandwell Council. It was set up as a 'holding company' for school land and buildings previously owned by the Council. School land and buildings were transferred to the company and shares were issued to the Council, to the value of the property transferred. Leases were agreed between the Council and the company to enable the Council to continue to utilise the property. Under its historic accounting treatment the Council has accounted for the leases from the company as finance leases and the schools assets have been held on its balance sheet.
- As part of our audit we reviewed the leasing arrangements between the Council and SL&P. We determined that the leases for property could be treated as finance leases. However, we concluded that the Council and the company had incorrectly accounted for land in 2018/19 and in prior year accounts and that these were operating leases. The Council and the company have now made adjustments to their 2018/19 accounts and prior year accounts and this has resulted in a material restatement of the Council and company balance sheets.
- The audit of SL&P and other work undertaken by management on the company identified some significant weakness in the historic process of the establishment of the company and transferring the property. The audit of SL&P is currently not complete until these matters are resolved. Management has included enhanced disclosures in the Council's accounts in relation to SL&P and will include a contingent liability to reflect a potential creditor with SL&P.
- We note that the current administration and management team were not involved in the establishment of SL&P. However, we consider that the accounting and governance of the company has been inadequate. Management has signalled that it is the Board's intention that the company should be wound up as soon as possible.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Risk Assurance Committee yet to be scheduled , as detailed in Appendix E. These outstanding items include:

- review of the final set of financial statements, including the remaining SL&P adjustments, following Weightman's review
- Management assessment of going concern, to include a cashflow forecast to September 2021.
- Review of updated disclosures around accounting for Sandwell land and property company and resolution of remaining legal matters, and
- receipt of management representation letter.

Summary (continued)

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

Materiality calculations remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for Sandwell Metropolitan Borough Council.

Our approach to materiality

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	14.6m.	14.5m	We determined materiality for the audit of the Council's financial statements as a whole to be £14,500,000, which is approximately 1.8% of the Council's gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
Performance materiality	10.95m	10.875m	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the financial statements. Our consideration of performance materiality is based upon a number of factors: <ul style="list-style-type: none"> • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment • There has not historically been a large number or significant misstatements arising as a result of the financial statements audits at the Council • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit
Trivial matters	0.725m.	0.725m	We determined the threshold at which we will communicate misstatements to the Audit and Risk Assurance Committee to be £725,000, which is 5% of materiality.
Materiality for Senior Officer remuneration	£0.1m	£0.1m	We have identified senior management remuneration as a sensitive item and set a lower materiality of £100,000 for testing these items.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The Revenue Cycle includes fraudulent transactions (rebutted)</p>	<p>Auditor commentary Improper Recognition of Revenue</p> <p>There are no changes to our assessment reported in the audit plan.</p> <p>There were no matters arising from our work that changed our view on this.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Authority and Group faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We :</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Findings:</p> <p>We noted that the Council did not have consistent approach to approval of journals. Journals are generally approved in batches after they have been input. We found two examples where there was no evidence of journals having been approved because the approval was said to be verbal. Our testing of these particular journals did not indicate that they were inappropriate. The issue is a control matter, and we consider that the Council should have an appropriate and evidenced approach to journal approvals.</p> <p>We have made some recommendations for changes to disclosure on a number of accounting policies and disclosure of critical judgements and estimates. These were to ensure there was adequate and accurate disclosure rather than being indicative of any management override of controls. Details are contained later in the report.</p> <p>Recommendation</p> <p>We recommend that the Council puts in place a formal, consistent process to ensure that all journals are authorised and approved and that this is evidenced.</p>

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	<p>Land and Buildings – Council Housing - £1,016m</p> <p>The Council revalue land and buildings on a rolling five-yearly basis (3 years for Investment properties). This valuation represents a significant estimate by management in the financial statements due to the value (£1.9 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of PPE and Investment properties, as a significant risk.</p>	<p>Auditor commentary</p> <p>The Council owns 1020 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. In line with the Stock Guidance, Council Housing is valued on a Beacon basis, where a full valuation is carried out every 5 years with desktop valuations carried out in the intervening years. The Council has engaged Savills to complete the valuation of these properties. The year end valuation of Council Housing was £1,106m, a net increase of £89m from 2017/18 (£1,105m). This was the first year of the engagement of the current valuers. We considered that management expert was appropriately qualified and experienced to undertake the valuations.</p> <p>We tested and concluded that the underlying information used to determine the estimate was complete and accurate. There was no significant change to the valuation method. The valuer had followed the DCLG guidance in its approach to valuation, using the beacon methodology.</p> <p>We undertook sample testing of the beacon properties used in the valuation against publicly available sale values and concluded that overall the beacon vales used in the valuation was reasonable.</p> <p>Note (xviii) of the accounts states that non current assets are revalued as a minimum every 5 years as at 1st April. The housing stock was valued as at 1 April 2018, and therefore does not take into account movement in the value of the stock during the financial year. We considered the Gerald Eve indices which showed that the land registry index was that prices had moved by 3.5% nationally and the council's valuer's report which suggested a 4.8% movement was indicated. Both of these provided uncertainty that the balance sheet valuation was materially correct. Following discussions with officers and the valuer, the external valuer subsequently undertook a desk top valuation of the housing stock which indicated that the housing stock had moved in value by £8.5m between 1 April and the year end. Officers then used the information provided by the valuer and applied to the assets bought in year and adjusted for disposals and were able to demonstrate that there was a relatively small movement in the gross value of the housing stock and thus no further adjustment was made.</p> <p>When a revaluation is undertaken any accumulated depreciation should be eliminated. We noted that there was £18m of accumulated depreciation which was reflected in note 10 in error, which related to an error in accounting in a prior years. This has been adjusted for and disclosed as an adjustment to the opening balances in the accounts. (Appendix C adjusted errors). We have now been able to conclude that the valuation of the HRA is a reasonable estimate.</p> <p>Recommendations:</p> <p>Officers should plan to undertake valuations of HRA as at 31 March 2020 in the 2019/20 financial year, or if for practical reasons this is not possible there should be a formal evidenced review by the valuer at the year end to provide assurance that there is not a material uncertainty around the valuation of the housing stock.</p> <p>The Council should review its accounting policy that assets are valued as at 1 April.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

4

Land and Buildings – Other - £653m

Auditor commentary

Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUJ) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 1 April 2018 on a five yearly cyclical basis.

Assets not valued in year

The CIPFA code allows councils to undertake valuations on a 5 year rolling programme, however there should be an annual review to determine whether there are any indications of changes in values, which should trigger a formal valuation. We did not agree with the Council's approach to the annual review. The external valuers provide an annual summary of indices over classes of assets to indicate what the market movement is on these classes of assets. The Council's approach was that using this summary, where this is a 10% overall movement, then this would trigger a response either by applying indices to the valuation or through a formal valuation. In the prior year (2017/18) there was an average index of 10% in the year and this was applied to the asset register and to the balance sheet valuation.

We understand from management that the 10% adjustment that was applied in 2017/18 was only applied to assets valued on a DRC basis, and was undertaken with the full agreement of our internal Valuers and the external auditors at the time

We did not agree with this appropriate approach because:

- the use of 10% as a trigger is an arbitrary judgement which does not take into account the value of the movement, overall or at the level of an individual class of asset, nor does it take into account the cumulative impact of valuation movements since the last valuation.
- applying a general 10% uplift is not an appropriate response (unless this has been specifically agreed to by a qualified valuer) as it is not compliant with the principles of the code. In our view it is generic uplift and does not reflect the fact that different classes of asset may have significant differences in movement year on year.

We discussed our view with officers at our interim audit and agreed an approach whereby officers calculated the impact of the cumulative indices (provided by the external valuer) on the asset base to assess if this indicated a potential material movement, and if it did further specific valuations would be sought from the external valuer. This exercise was undertaken at interim so that there would be sufficient time for additional valuations to be obtained if necessary.

As a consequence of this exercise officers agreed that all schools would be revalued as a class of assets, in line with the code, and it was agreed that to allow the external valuer sufficient time, this would be applied following receipt of the draft accounts. The outcome of his review was a net movement of £17m for schools. (appendix C adjusted errors).

We then agreed the reasonableness of these valuations and sought additional information where there was significant movement at an asset level or against Gerald Eve indices. For any assets where the explanation was not adequate these are reflected in the errors schedule – appendix C.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

4

Land and Buildings – Other - £653m

Auditor commentary

Assets valued in year:

We considered the information provided to the valuer and concluded that there are generally adequate arrangements in place to ensure the completeness and accuracy of the information provided to the valuer to determine the estimate, although testing indicated that there is scope to improve both the accuracy of information supplied to the external valuer and quality checks of the information received back before applying changes to the fixed asset register. The Council has an in-house qualified valuer who has a role in assimilating and directing the external valuer and reviewing the information returned to the Council.

The council and valuer had used 1 April 2018 as a proxy for the 31 March 2019 valuation and used indices to assess whether there are significant movements. This is not good practice, particularly in view of the size and value of the Council asset base as there is a high risk of material misstatement. We have encouraged management to obtain valuations as close as possible to 31 March year end in future valuation exercises and to value the highest value assets more regularly to minimise the risk of misstatement.

We considered the valuations against Gerald Eve indices and also sought explanations where there had been significant movements in values compared to the last valuation. We received satisfactory explanations for most of these movements, although the process did identify that there were errors in some of the prior year valuations, particularly in relation to the valuation of schools. We agreed with management that they would obtain revised valuations for the prior year schools valuations to provide us with assurance over the accuracy of the brought forward balances. This exercise confirmed that the brought forward balances were materially misstated and thus management has restated its prior year financial statements.

We note that some of the year end revaluations have changed due to a revised approach to assessment of floor area. We would expect to see this approach adopted in future year's valuations, and officers consider the impact on prior year as part of this exercise

Other matters

Agreement to asset register: the Council has a cut off date for update of the asset register for valuations – as a result there was a small difference between the asset register and the valuers report .

Officers should reconsider the approach to its revaluation programme, engaging both internal and external valuers as appropriate, to ensure that there is a more robust approach to valuation of PPE and that there has been a robust check and challenge of valuations to ensure that they are reasonable and understood before applying to the asset register.

Significant findings – audit risks

6	Risks identified in our Audit Plan	Commentary
	<p>Investment properties £78.5m (£86.4m) prior year . (net income form these assets £2.8m (£2.2m prior year)</p>	<p>Auditor commentary</p> <p>Investment properties are valued at fair value at the reporting date.</p> <p>Prior to 2018/19 the Council has valued its investment properties on a rolling programme and used indices (global percentages) to determine whether there is an indication of unrecognised changes in valuation, and reflected this within critical judgements. The fair value must reflect market conditions at the end of the reporting period and thus annual revaluations are necessary unless the authority can demonstrate that the carrying value is not materially different from the fair value at that date (paragraph 4.4.2.12 of the Code). In the prior year these had been applied to the asset register, without the sign off of the valuer, and we do not agree that this approach is in line with the code or is a reliable estimate. We understand from management that the approach adopted was agreed with the internal valuers and external auditors at the time.</p> <p>We discussed the approach with officers who subsequently demonstrated that most of the value was concentrated on relatively few assets, which if revalued would leave a balance which was unlikely to be materially misstated, and these could be revalued on a cyclical basis.</p> <p>We have reviewed the valuation of both the investment assets valued in year and those that weren't valued. We are satisfied on the basis of our testing that the value is not materially misstated.</p> <p>By the nature of the assets the valuation can be relatively volatile and there has been a £6m reduction in value (7%) in year as a consequence of the review. We sought additional explanations for some of the movement.</p> <p>In summary, we are now satisfied that the Investment property valuation is a reasonable estimate. However, our estimate indicates that investment properties may be undervalued by £6.8m. We also consider that the cyclical valuation approach is not in line the code, and the Council should review its stated accounting policy in the 2019/20 accounts.</p> <p>Recommendation</p> <p>We consider that all investment assets should be valued on an annual basis.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

7

Valuation of pension fund net liability

The Authority's and the Group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£742 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's and the Group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's and the Group's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's and the Group's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority and its subsidiaries to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures.
- obtained assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Findings

We were satisfied with the approaches adopted by the Council, the pension fund and the Actuary (Barnett Waddingham) in ensuring the accuracy of the underlying information on which the estimates is based and the broad assumption made by the actuary in his valuation of the pension fund.

We had specific conversations with the Council around three key areas:

- The assumptions around the McCloud ruling; and
- Guaranteed Minimum Pension (GMP) court case
- The treatment of the pensions relating to the transfer of staff to the Children Trust.

Significant findings – audit risks

Risks identified in our Audit Plan

8

Valuation of pension fund net liability

The Authority's and the Group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£742 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's and the Group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

Auditor commentary

McCloud

In January 2017, the Employment Tribunal ruled that transitional provisions in the New Judicial Pension Scheme (NJPS) were unlawfully age discriminatory because they were not objectively justified. The Tribunal found that a group of claimant judges had been subject to age discrimination when they were transferred to the NJPS established in April 2015 while under transitional provisions older colleagues were able to remain in the existing Judicial Pension Scheme (JPS). Where the transitional provisions are unlawful then those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. The Government applied to the Supreme Court for permission to appeal and on 27 June 2019 it was announced this was denied.

The legal ruling around age discrimination also has implications for other public service schemes where they have implemented transitional arrangements on changing benefits. Protections were applied to all members within 10 years of retirement in all public service schemes, with the form that protection took varying from scheme to scheme. For example, LGPS introduced a new CARE benefit structure with effect from 1 April 2014 ('the 2014 scheme'). For members who were 10 years or less from Normal Retirement Age on 1 April 2012 (i.e. aged 55 or above), an underpin was provided based on the existing final salary scheme ('the 2008 scheme'). The ruling from the McCloud case impacts on both employer bodies and the pension funds where public sector schemes have been impacted by transitional provisions.

Our internal actuary, highlights that Barnett Waddingham's approach implicitly makes the adjustments for the entity's specific salary increase rate and further allows for the exclusion of post 2012 joiners. It does not, however, make any allowance for the entity specific age profile of the active members. They are comfortable that the adjustments for salary increases and post 2012 joiners are acceptable. However given that adjusting for post 2012 joiners is likely to reduce the estimated McCloud liabilities from the central GAD estimate, they suggest that the active member age profile be considered by engagement teams to ensure that it is not materially different from that of the LGPS Funds as a whole (i.e. 46 years). Where the average age of the actives (weighted by salaries) is either higher than, or within 4 years of, the average age for the Fund of 46, their view is that no further adjustment is required on the grounds of materiality. But if the average age is less than 42 further adjustment may be required.

This matter was discussed with the client and the pension fund, and in conjunction with the other West Midland Metropolitan councils, a revised actuary report was prepared. This resulted in a change in the Pension Liability from £701,391 to £717,494 and the balance sheet and the notes to the accounts have been adjusted accordingly (adjusted errors, appendix C)

Significant findings – audit risks

Risks identified in our Audit Plan

9

Valuation of pension fund net liability

The Authority's and the Group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£742 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's and the Group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

Auditor commentary (continued)

GMP

As a result of the High Court's recent Lloyds ruling on the equalisation of GMP's between genders, a number of pension schemes (including the West Midlands Pension Fund) have made adjustments to accounting disclosures to reflect the effect of this ruling has on the value of pension liabilities. Our internal actuary has considered Barnett Waddingham's assumptions on this matter and established that the pension liability at 31/3/19 includes assumptions that for members reaching SPA after 2016 the Fund will be required to pay the entire inflationary increase after this date. It is the view of the Grant Thornton actuary that to make allowances for the post 2021 element in the IAS 19 estimates is not appropriate on the basis that these future liabilities are uncertain. Using information provided by PWC, we estimate that the resulting overstatement of the liability to be 0.15%. Based on Sandwell's liabilities we estimate that the impact is £1074k. Following discussion with management a further valuation was obtained and has been applied to the restated accounts.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

10

Accounting for the transfer of services to the Children's Trust and first time preparation of group accounts.

From 1 April 2018, much of the responsibility for delivering children's services in Sandwell was transferred to Sandwell Children's Trust. Over 400 staff TUPE transferred to the Trust including their associated net pension liability. The Council has a contract of £58m with the Trust to provide children's services.

These agreements gave rise to a number of material accounting transactions in the financial statements for which the economic substance of the transactions needs to be considered.

The Authority will prepare group accounts for the first time in 2018/19.

We therefore identified the accounting transactions associated with the transfer of services to the Trust as a significant risk of material misstatement.

Auditor commentary

We planned and undertook the following procedures:

- reviewed the key agreements to gain an understanding of the arrangements put in place on transfer of services and staff to the company;
- discussed with key group personnel, the underlying substance of the transactions and the basis of the Authority's and Group's proposed accounting treatment of the arrangements;
- critically assess the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance (see next section)

The main area of concern was in relation to the proposed treatment of pension liabilities. The Children's Trust is an admitted body to the West Midlands pension fund and a scheme employer. On TUPE transfers the ongoing pension liability would normally transfer to the new organisation with the people. The Council and the children's trust agreed that they would prefer for the Council to retain this responsibility for these pension liabilities and the actuary was instructed to prepare the ISA19 disclosures and proposed accounting entries on this basis. The draft accounts reflect this position and the Children's Trust reflect pension costs as though it were a defined contributions scheme.

In order to account for the pension in his way the Council should be able to demonstrate that:

- the pension fund has confirmed its understanding that the proposal is in line with the Act; and
- substantially all the actuarial risk remain with the Council after the staff transfer.

Whilst the Council had documentation which demonstrated discussions with the pensions fund and legal advisors, key documents such as a tripartite agreement formally setting out the arrangement were not in place. Overall there was insufficient evidence to support the accounting treatment.

We sought additional assurances and this included an additional legal letter being prepared by the Council lawyers setting out both the Council's and Children's trust understanding of these arrangements. The agreement confirms the Council's responsibility for ongoing pension liabilities. The letter was agreed and signed by representatives of the Children's Trust and the Council. The pension fund also formally confirmed specific clauses of the legal letter which were sufficient to support the assertion that this accounting treatment was the intention of all parties concerned, that it was lawful and, that the Council was bearing substantially all the actuarial risk.

The S151 has confirmed he will undertake further action to formalise the position going forward including putting in place a clear tripartite agreement and fixing the pensions contribution rate for the Children's Trust.

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Sandwell Children's Trust	Grant Thornton LLP	<p>The Council has a 100% shareholding of the Trust, is the major source of funding and whilst it does not have control over the board or operational management, remains statutorily responsible for the services provided, and has a key role in setting the strategic direction and in performance managing the Trust.</p> <p>Management concluded that for accounting purposes the Council has control over the Trust and that, as a subsidiary, the Trust accounts should be consolidated into the Council's group accounts on a line by line basis.</p> <p>We</p> <ul style="list-style-type: none"> considered the Council's assessment and concluded that it was appropriate established that the Trust had consistent accounting policies to the Council reviewed the consolidation of the accounts to ensure that intergroup transactions had been eliminated requested that the draft accounts were adjusted for £5m to reflect the debtor in the Children's Trust accounts with the Council, which the Council had not recognised in the single entity accounts (adjusted error appendix C). <p>We gain assurance from the Trust auditors over the significant transactions within the Trust accounts. An unqualified audit opinion of was issued by Grant Thornton. No significant accounting issues were identified, although clearly the financial pressures of the Trust are an ongoing challenge.</p> <p>Some additional disclosures were requested within the group section of the accounts and have been reflected in the revised accounts.</p> <p>We considered that the judgement that the Council had control over the Trust was a critical judgement, as this is a key determinant of the need to prepare group accounts. The revised accounts have been updated to reflect this.</p>	
Sandwell land and Property Company (SL&P)	Grant Thornton LLP	<p>SL&P was incorporated in 2011. The accounts were audited in year 1 but subsequently the Board relied on Section 477 (small companies) of the Companies Act 2006 to be exempt from audit.</p> <p>We provide further detail on our audit at page 28 of this report. In summary, we disagree with the historic accounting treatment for the Trust. As a consequence of the adjustments referred to later within this report, SL&P's balance sheet was adjusted by £28m to reflect its ownership of the school land transferred to the company by the Council in exchange for shares.</p> <p>As a result the company is no longer exempt from audit and management have appointed Grant Thornton as auditors. In addition management judged that the Council's has control over the company and due to materiality have incorporated into the group accounts.</p>	

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Sandwell land and Property Company (SL&P)	Grant Thornton LLP	<p>We have reviewed the work of the component auditor in targeted areas and have reviewed the revised group accounts and consolidated working papers.</p> <p>The audit of SL&P is not yet complete and the audit process and subsequent follow up by management identified a number of historic weaknesses in the establishment of the company including processes around share issue and transfer of assets. Further reference is made later in the report.</p> <p>Management has agreed to make appropriate disclosure in Sandwell Council's 2018/19 accounts of the relationship and status of the SL&P.</p> <p>We are satisfied that we have sufficient assurance that the restated group accounts are not materially misstated in relation to SL&P.</p>	

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	Auditor view
1	Operating expenditure/ creditors	<p>Our testing of operating expenditure did not indicate any significant matters and we have no material concerns in this area.</p> <p>Our testing of creditors identified the following errors:</p> <ul style="list-style-type: none"> • One item sampled related to a different financial year and therefore failed our 'cut off' test. • One item to potential future PFI costs, £3.7m. We concluded that this was not a valid creditor and officers agreed that it should be more appropriately reflected as a reserve. The accounts, and the prior year accounts were adjusted accordingly. <p>Due to these issues, we judged that it was necessary to extend our sample from that we originally planned due to the heightened risk. We then extrapolated the errors and these are reflected in Appendix C. We are satisfied that the creditors balance has not been materially misstated.</p>	<p>The finance team sets a timetable for departments to provide details of accruals to be included in the accounts. Departments should be reminded of the need to work to the closedown timetable to ensure creditors listing are as accurate as possible</p>

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>2 Debtors/ provision for bad debt</p>	<p>Our audit approach involves testing debtor balances, at a transaction level, to supporting evidence, on a sample basis. We encountered some difficulty in obtaining complete transaction listings for several debtor balances to facilitate testing. Officers struggled to produce these listings, partly due to the size and because the information had not been requested in prior years and so reports had not been run as part of the closedown. This information was prepared on request, with some difficulty experienced by officers, and some reports did not reconcile exactly due to not having been run at the year end. However, in the main the differences were not significant and we were able to complete our testing.</p> <p>In one instance it was not possible for officers to provide a listing. This related to £3.8m for Council tax receipt in advance (creditors). As such we have not been able to test this balance and it is included as an error as a result in Appendix C. We note that over half of the balance was over 1 year old and if written back would improve the Council's reserves.</p> <p>The Council has good collection rates for its current debt and Council tax and NNDR collection rates are good. However we noted that the Council has a significant value of old debtor balances. For example, it has £6.1m of pre 2013/14 council tax debt and £1m of community charge debt. We estimate that there is over £11m of debt which should be written off due to its age and the low probability of collection. The Council provides 100% against revenues debt over 2 years and debt reflected in the accounts is net of this, so we are comfortable that the debtor position in the balance sheet is not materially overstated. However, we also noted a number of balances that had remained static year on year, approximately £1.4m of sundry which had not specifically been provided for.</p> <p>Debtor balances should reflect collectable debt and uncollectable amounts should be routinely written off. Large valued of uncollectable debt, even where it has been provide for, could mean that there is a lack of clear focus on recovery action on debt. The Revenues manager has explained that he is currently developing a policy for management and write off of old debt.</p> <p>The CIPFA code and accounting standards expect that a provision for bad debts is based on an assessment of collectability of debt at the year end, and therefore should be an annual evidence based assessment. For some of the balances officers struggled to explain the basis of the debt, suggesting that it had note been reviewed at the year end. For council tax and business rates the provision was based on expected income rather than arrears. For housing benefits the council could not initially explain the basis of the £6.9m provision, which appeared to be the prior year provision rolled forward.</p> <p>Overall, we are satisfied that debtors are not materially misstated but consider that debtors are overstated by £1.341m. Action is needed by the Council to improve debtor management.</p>	<p>Officers should prepare transaction listings (electronic) to support all debtor (and creditor) balances as part of closedown.</p> <p>There should be regular review and write off of debt over 2 years. The policy on debt management should be progressed to support better management of old debt.</p> <p>Officers should provide evidence to support the basis of year end provisions and of the annual review.</p>

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>3 PFI / service concessions</p>	<p>The Council has four PFI schemes and one service concession arrangement with Serco, relating to refuse collection and disposal.</p> <p>Per the Code, private finance initiatives (PFI), and similar schemes shall be accounted for in a manner that is consistent with the adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual (FRM). The criteria in IFRIC 12 is used for determining whether the operator controls the asset used in a service concession arrangement or whether the grantor (local authority) controls the asset. This determines the accounting treatment, in essence whether the asset and liability is reflected on the Council's balance sheet.</p> <p>We requested the Council's IFRIC12 assessments for the PFI and service concession assets, to demonstrate the Council's judgement on these arrangements and these were prepared on request. We subsequently concluded that we agreed with the Council's judgement in the IFRIC 12 assessments and thus the accounting treatment, in principle was correct.</p> <p>The accounts included an explanation of the Council's judgements around control of these assets within accounting policies (xxii) although due to the value of the assets involved, we consider this should be disclosed as a critical judgement.</p> <p>The notes to the accounts (note 40) reflects the estimated value of the assets, the associated estimated liability plus other relevant disclosures such as the unitary charges paid in year. PFI schemes have relatively complex models in place which drive the accounting entries – in particular the disclosed liabilities(£77m long term Liabilities and the current liability £3.9m). There is an operating model and a related financial model for each scheme which should inform the accounting and disclosures. We considered the operating model and compared to the Grant Thornton model to make an assessment whether the assumptions are reasonable.</p> <p>At year end we compared the accounting entries to the accounting model and noted differences. Officers subsequently established there was a net £9.2m difference between the liability reflected in the accounts and that driven by the model, the most significant being on the Riverside Scheme where there was a difference of £12.4m. This occurred because the model had not been updated nor was it reconciled it to the ledger, the figures for the accounts had been derived outside the model. Officers investigated the difference and then updated the financial model and as a consequence have reduced long term liabilities by £6.3m and increase short term liabilities by £0.3m, on this one scheme. We sought support from Grant Thornton Specialists to support our review of the models and adjustments have been agreed with management.</p> <p>We discussed with management the need for further training and development in this area management confirmed that PFI models would be updated and reconciled to the 2019/20 financial statements.</p>	<p>Auditor view</p> <p>The accounts should reflect the judgement around PFI contracts as a critical judgement.</p> <p>The Council should update the accounting models annually and ensure they are consistent with the financial statements.</p>

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view																								
<p>3 PFI / service concessions (continued)</p>	<p>The differences on the remaining schemes, which have not been investigated or adjusted for, are summarised below and are reported as errors in Appendix C:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">PFI Scheme</th> <th style="text-align: right;">2018-19 Ledger Balance</th> <th style="text-align: right;">2018-19 Model Balance</th> <th style="text-align: right;">2018-19 Difference</th> </tr> <tr> <td></td> <th style="text-align: right;">£m</th> <th style="text-align: right;">£m</th> <th style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>Total Schools</td> <td style="text-align: right;">-7.279</td> <td style="text-align: right;">-9.170</td> <td style="text-align: right;">-1.891</td> </tr> <tr> <td>Portway</td> <td style="text-align: right;">-7.447</td> <td style="text-align: right;">-8.752</td> <td style="text-align: right;">-1.305</td> </tr> <tr> <td>Rowley BSF</td> <td style="text-align: right;">-38.177</td> <td style="text-align: right;">-38.177</td> <td style="text-align: right;">0.000</td> </tr> <tr> <td></td> <td style="text-align: right;">-52.903</td> <td style="text-align: right;">-56.099</td> <td style="text-align: right;">-3.196</td> </tr> </tbody> </table> <p>Accounting policies and the code refer to the PFI liabilities being reflected at fair value. The draft accounts do not correctly disclose the fair value (current value used) and subsequently a valuation was sought following audit request. Prior year and current year disclosures have been adjusted accordingly and then further updated to reflect the above adjustment for Riverside.</p>	PFI Scheme	2018-19 Ledger Balance	2018-19 Model Balance	2018-19 Difference		£m	£m	£m	Total Schools	-7.279	-9.170	-1.891	Portway	-7.447	-8.752	-1.305	Rowley BSF	-38.177	-38.177	0.000		-52.903	-56.099	-3.196	<p>Officers should update the accounting models for the remaining schemes as part of the 2019/20 closedown</p>
PFI Scheme	2018-19 Ledger Balance	2018-19 Model Balance	2018-19 Difference																							
	£m	£m	£m																							
Total Schools	-7.279	-9.170	-1.891																							
Portway	-7.447	-8.752	-1.305																							
Rowley BSF	-38.177	-38.177	0.000																							
	-52.903	-56.099	-3.196																							
<p>4 Pension guarantees</p>	<p>Where a Council has TUPE transferred staff to a service company and there is a contractual guarantee made by the Council to the pension scheme or to the new employer/ service company. Such guarantees can either be an insurance contract (IFRS 4) or a derivative financial liability (IFRS 9).</p> <p>The Council has made a number of TUPE transfers but officers had not considered the accounting implications. Officers undertook work on this and considered the three largest staff transfers as these were judged likely to have the biggest financial implications. Officers considered both the associated guarantees, the financial risk associated to the related companies and the likely probability of the guarantee being realised. Officers concluded that for the three guarantees considered they were insurance contracts and the financial consequences were not material to the Council. We have reviewed officers conclusion and consider that they are reasonable.</p>	<p>The Council should complete its review of the remaining guarantees in readiness for the 2019/20 accounts.</p>																								

Significant findings - other issues (continued)

Issue	Commentary	Auditor view
<p>5 Sandwell Land and property Company</p>	<p>The Sandwell Land and Property Company (SL&P) was established late in 2010/11 in order to protect and maintain Council ownership of land and property currently occupied by school establishments. The company is wholly owned by Sandwell Council and the directors are appointed by the Council.</p> <p>The legal ownership of land and property currently utilised by schools transferred into SL&P (in return for the issue of shares) and was leased back to the Council by SL&P at £1 per annum for a duration of 125 years. Underleases were subsequently put in place between the Council and academy schools. The transfer was effectively for £217m of land and property of around 98 schools. In return the company issued £217m shares (of £1 each). Following the lease of schools back to the Council the school value was written to £nil in the company accounts. As a result the company and the related shares had a £nil value in the Council's accounts. While the investment in the Company was valued at £nil in the Council's accounts it continued to recognise the value of schools and land. The value of the land and buildings in the 2018/19 accounts is £442m (£89m land, £352m buildings)</p> <p>The original transfer of the schools was done without Secretary of State approval and with limited consultation of the schools concerned. The Council has continued to maintain and develop the school assets as part of its statutory responsibility for education and behaved in both operational and accounting terms as though the arrangement did not exist. The company is effectively a dormant company as there has been no further addition of schools since the original transfer tranche and financial transactions through the accounts are minimal. The original purpose of the company was to protect school assets with the establishment of academies. With the passage of time there remains no particular purpose to the company and the Council has confirmed its intention that it will wind up the company in the 2019/20 financial year.</p> <p>We have challenged the Council on both the purpose of the arrangement, the related disclosures and the accounting treatment as reflected in the draft accounts.</p> <p>As highlighted above, the accounts presented for audit reflected the value of school land and buildings, as if no transfer has occurred. The notes to the accounts and accounting policies made some reference to the arrangement but not in sufficient detail to allow a reader of the accounts to understand that the company has the legal title to the Council's schools. It was also not clear that the Council has an investment in a company which effectively had no value, nor did the note clearly set out the accounting judgement around the treatment of over £400m of assets, reflected on the balance sheet, to which the Council does not have legal title.</p> <p>Officers provided us with a paper setting out their view and the judgements made. The key accounting assumption is that Standing Interpretations Committee, SIC 27 applies. The basic principle of SIC 27 is that for a series of transactions, that involve the legal form of a lease, they should be accounted for in accordance with their substance. The Council asserted that this applied in relation to the leases for both school buildings and land because there has been no change to the substance of the arrangement in that the Council still controls and operates the school land and building. As such it is as if no transaction took place between the Council and the company and therefore the underlying assets should remain on the Council Single Entity Balance Sheet and no group accounts are required.</p>	<p>We disagree with the historic accounting treatment. We have required the Council to restate its and the company's financial statements as outlined in the commentary.</p>

Significant findings - other issues (continued)

Issue	Commentary
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<p>6 Sandwell Land and property Company (continued)</p>	<p>We reviewed the accounting judgements and concluded that they were not correct, particularly in respect of the land. The transfer of the school buildings and land to the company is legally binding. Whilst there are 125 year operating leases in place between the Council and the company, once these come to an end both the school buildings and the land will be the legal property of the company. There is no written confirmation within these leases or any other documentation to confirm that the Council has any rights or obligations with respect to these assets at the end of the lease period. In particular, the land will have a residual value at the end of the period and thus we consider that there is substance to the transaction, and it would in accounting terms be more appropriate for the land to be accounted for as an operating lease and to remain on the company balance sheet.</p> <p>Whilst we note the Council's intention to wind up the company and transfer the legal title of the assets back to the Council, or to incorporate clearer terms into the leases, this has no bearing on the position as at 31 March 2019. As such changes could not be applied retrospectively.</p> <p>Restatement of the accounts</p> <p>Management considered our view and subsequently agreed with our interpretation and confirmed the accounts had been historically misstated. Historic records were obtained to identify the value of the land transferred which should be reflected on SL&P balance sheet and removed from SMBC single entity accounts. The historic value of land was £28.7m. The broad impact of the adjustments is as follows:</p> <p>Council (single entity)</p> <p>The Council has recognised an investment 'at cost' in its accounts with investment on the balance sheet increased by £26m, which was equal to the cost of land. The land previously recognised at the fair value on the balance sheet in the Council's single entity accounts has been removed. An opposite entry has been made in the revaluation reserve/disposals. The share value relating to the buildings is nominal. The Council continues to include the value of the school buildings at fair value under Standard Interpretations Committee note 27.</p> <p>Council (Group)</p> <p>The land is now consolidated at fair value into the Council's group accounts with the investment in SL&P being removed from consolidated financial statements.</p> <p>SL&P</p> <p>The adjustments required SL&P to treat its lease of the land to the Council as an operating lease. The accounting entries proposed recognise £28.7m of land on SL&P balance sheet, with the corresponding entry in P&L reserve. This reflects the historic 'fair value' of land transferred and is allowable under FRS102.</p> <p>Accounting changes summary</p> <p>There is no loss to the Council from these accounting changes. However, as the balances are material adjustments have been made to the Council's accounts. We note that the accounting errors date back to the inception of SL&P.</p>
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Significant findings - other issues (continued)

Issue	Commentary
<p>6 Sandwell Land and property Company (continued)</p>	<p>Other issues</p> <p>The audit process identified that a number of errors had been made in the original set up and transfer of the assets:</p> <ul style="list-style-type: none"> • We noted that some assets were not recognised on the land registry as in the ownership of SL&P • Several of the larger secondary schools had transferred at nil or very low value and thus the shares issued in consideration were not commensurate with the value • Some of the schools were not owned by SMBC at the date of the transfer however shares were issued as consideration. • The company did not follow Company Act requirements in the issue of shares. <p>We note that external advisors to the Council have indicated that the SL&P should recognise a debtor (and the Council a creditor) where shares were issued and SL&P did not receive consideration in the form of an asset. Management consider that It is unlikely that the company will require payment of the debt and have recognised this potential liability as a contingent liability to reflect the position. We are satisfied with this judgement.</p> <p>We have agreed adjustments to the accounts for the school land which should not be recognised in SL&P accounts and a corresponding reduction in the investment recognised on SMBC balance sheet.</p> <p>We have agreed that if management make appropriate disclosure that we have sufficient assurance that the restated group accounts are not materially misstated.</p> <p>Governance</p> <p>Our audit has highlighted a number of weaknesses in the governance arrangements for SL&P. In particular:</p> <ul style="list-style-type: none"> • The accounting for transactions has not been appropriately assessed and there have been material errors in the financial statements for a number of years • The Board has not appropriately authorised in all cases the issue of shares • The Board has not secured the agreed transfer of assets, in all cases, for the issue of shares. <p>On this basis we consider that the Council's governance of SL&P has not been adequate.</p> <p>Recommendation</p> <p>We recommend that Council representatives discuss with the Directors of the company the ongoing purpose of the company and whether it should continue in its current form.</p>

Significant findings - other issues (continued)

Issue	Commentary
6 Financial instruments disclosures	<p>We considered the disclosures in financial instruments and agreed a number of adjustments to narratives and the notes:</p> <ul style="list-style-type: none"> • The council had previously included non statutory debtors within financial instruments. This is incorrect and the creditors disclosure gas been adjusted to remove council tax, business rates and HMRC balances. Prepayments had also previously been included and have been adjusted for. As these were historic errors the council has chosen to adjust the prior year statement also. (appendix C adjusted errors) There is no impact on the primary statements for these matters. • Lender Option Borrower Option Loans (LOBOs) - we were not satisfied that the council made clear that some of the loans were held as LOBOs. These type of loans can often have a higher inherent risk than other types of loans and therefore we felt that the council's assessment of and management of these risks should be made clear within the accounts. In addition the interest rates and the basis for the assessment of the fair values should be clear (LINK asset services have been used, who have used the PWLB rate as the basis for the fair value disclosure- however as these are market loans this is a matter of judgement and the council has not adequately disclosed this judgement (appendix C disclosure adjustments) • PFI debt - the council had not this year or previously obtained a fair value valuation for the PFI debt. This has b now been done and reflected in the accounts. • Reclassification of airport shares as level 3 – the prior year comparatives should be restated to ensure comparability and the change explained (it's not a transfer between levels as the method of valuation has remained the same).
7	



Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment	
Net pension liability – £759m (restated)	<p>The Council's net pension liability at 31 March 2019 is £759m (restated) (PY £742m) comprising the West Midlands Local Government and unfunded defined benefit pension scheme obligations (teachers pension). The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this WMLGPF scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £39m net actuarial loss during 2018/19.</p>	<p>We considered the basis of the estimate with the assistance of our auditors expert (PwC). We concluded that the general assumptions made by the actuary were appropriate, subject to the assumptions referred to earlier in the report on McCloud and GMP. We also include details of the general procedures undertaken in relation to the estimate earlier in the report.</p>	
			
Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4%-2.5%	●
Pension increase rate	2.4%	2.3%-2.2%	●
Salary growth	3.9%	Scheme and employer specific	●
Life expectancy – Males currently aged 45 / 65	22.6/20.9	24.8-26.3 22.2-23.7	●
Life expectancy – Females currently aged 45 / 65	25/23.2	27.9-29.0 25.0-26.4	●


Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 2/3 investments	<p>The council holds shares in Birmingham Airport Holdings Limited represented by 5.62% of equity shares and 11.48% of preference shares and is valued on the balance sheet as at 31 Mar 2019 at £28.4m. The investment is not traded on an open exchange/market and the valuation of the investment is subjective. These were re-valued in 2018/19 by Solihull MBC and reviewed by their valuers BDO LLP. The value of ordinary shares had increased by £0.081m while there has been no change to the value of preference shares.</p> <p>The authority has used earnings techniques to establish the fair value of its Birmingham Airport</p> <p>The Council has previously categorised the airport shares as level 2. This was because some of the inputs used to determine the valuation are observable. However, as they also include some unobservable inputs such as calculation of an earnings multiple using non-quoted information, the decision to reclassify the instruments at input level 3 from input level 2 was made in 2018/19.</p>	<p>The shares are held by the other metropolitan councils audited by Grant Thornton and we have coordinated our approach to the audit of this balance. We have :</p> <ul style="list-style-type: none"> • Undertaken an assessment of management's expert a • Considered the appropriateness of the underlying information used to determine the estimate • Considered the consistency of estimate against peers/industry practice • considered the adequacy of disclosure of estimate in the financial statements <p>We have not identified any matters in relation to the fair value measurement of the investment. We are satisfied with the councils reasoning to reclassify the asset as a level 3 investment and to designate the financial instrument as measured at fair value through the other comprehensive income and expenditure (under IFRS9). We understand the council's reasoning as to why this was not formally designated prior to the year of audit.</p>	
Critical judgements	<p>The draft financial statements included statements on critical judgements on agency arrangements . Following the work on Investment properties we agreed that this was no longer a critical policy as the element that was a critical judgement was not material, although there should be some disclosure in the more general accounting policies that the Council has not complied with the code by adopting a rolling programme, although the impact is not considered to be material in view of the value of the assets not valued.</p> <p>Accounting for voluntarily aided and voluntary controlled schools- the judgement around whether individual schools are on or off balance sheet is likely to result in a material value of assets included or excluded from the balance sheet depending on the assessment. The Council had a clear document setting out the assessment and reasoning but had not included as a critical judgement within the financial statements.</p>	<p>Accounting for schools</p> <p>As part of the audit we considered the historic assessment the Council had made around its control of voluntary aided and voluntarily controlled schools, and whether they should be accounted for as Council assets. An assessment was undertaken for both land and buildings for each school and a judgement made whether the control was with the governors of the individual schools, Sandwell Land and Buildings Company or the Council. Subject to separate considerations on SL&P outlined separately in this report, we concluded that we were satisfied with the approach adopted and consequently a number of school buildings/ and or land are not recognised in the Council's financial statements.. As the value of the schools is highly material, we did consider that this was a critical judgement and should be disclosed as such in the financial statements.</p>	

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Critical judgements (continued)		<p>Children's Trust pension</p> <p>Detail on this matter is included earlier in this report. We concluded that the judgment around the children's Trust pension being included within the single entity pension liability was a critical judgement, and officers agreed to disclose the matter as such.</p> <p>Group accounts</p> <p>We consider that the basis for preparation of group accounts is a critical judgment, however it was not included as such within the draft financial statements.</p>	
Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	<p>The draft accounts contain disclosures on:</p> <ul style="list-style-type: none"> Investment property (rolling programme) Pensions liability Long term investment Birmingham airport Non domestic rates provision for appeals Fair value measurement 	<p>We would expect disclosures to be made where the uncertainty could have a material impact on the accounts. For these items we would expect there to be sensitivity analysis to inform the reader over the likely impact of a change in assumption on the item within the financial statements.</p> <p>Investment properties: We agreed that following the change in approach on investment properties then this disclosure was no longer required as the amount subject to the rolling programme was unlikely to result in a material misstatement..</p> <p>Pension liability – we agreed that the note should be extended to include the other matters which had been highlighted by the actuary as significant and this is now appropriately disclosed</p> <p>Birmingham airport shareholding – it is possible although not likely that assumptions on the valuation could result in a material impact on the accounts. The in year impact is set out as £0.081m but does not make clear under what circumstances there could be a material impact on the accounts or the nature of the of the uncertainty. We do not consider that this is a major source of estimation uncertainty.</p> <p>Non domestic rates provision. The note sets out what the Council considers to be a material judgement and the basis of that judgement. We have reviewed the underlying information as part of our audit procedures . We note that a number of other councils have made a different judgement on the ATM matter and included as a provision, however we understand the Councils judgement on the matter. We do not consider that this is a major source of estimation uncertainty.</p> <p>Fair value measurement; this narrative sets out the basis of the judgment but not the nature of the estimation uncertainty or how that might have a material impact on the accounts.</p> <p>Other areas where judgments have a could potentially material impact are:</p> <ul style="list-style-type: none"> Depreciation around the approaches to calculation of materiality where a change in assumed asset lives could potentially be material Assumptions around impairment allowance Regional discount factor on housing stock valuation <p>However the Council has judged that these are not material uncertainties</p>	

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
<p>① Significant events or transactions that occurred during the year</p>	<ul style="list-style-type: none"> Children’s Trust: We discussed the Council’s assessment of its relationship with the Children’s Trust and the basis of preparation of group accounts. We discussed the accounting treatment of the associated pension fund liabilities 	<ul style="list-style-type: none"> Covered in detail earlier in this report <p>Management response n/a</p>
<p>② Business conditions affecting the Group, and business plans and strategies that may affect the risks of material misstatement</p>	<ul style="list-style-type: none"> Officers had not prepared a specific going concern paper to support this assertion within the financial statements. When the accounts were drafted reference was made to the medium term financial plan and the level of council balances, which at the time we judged to be reasonable. COVID- 19 has had a significant impact on many councils, both in terms of additional costs including the costs of social care, but also on expected revenue and collectability of debt. Several councils are reporting significant financial pressures as a consequence. The position is likely to impact on the assumptions made within the MTFP. We have therefore requested that management provide us with a going concern assessment before we can issue the opinion. We have discussed with officers and considered the findings of the audit of the Children’s Trust and are aware that additional assurances were provided from the Council to the children’s trust in order to provide the auditors with sufficient assurance that the Children’s Trust is a going concern. 	<p>Auditor view</p> <ul style="list-style-type: none"> The Council should provide specific reference on the position on the Children’s Trust within the financial foreword. of the accounts because the Trust accounts are consolidated into the Council’s financial statements.. <p>Management response</p> <ul style="list-style-type: none"> Will reflect in the 2019/20 accounts

Going concern

Our responsibility

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

Going concern commentary

Management’s assessment process

The Councils medium term financial plan (MTFP) is the basis of the going concern assertion. The going concern assertion is prepared by the S151.

Auditor commentary

- The medium term financial plan demonstrates that the Council does not rely on the unplanned use of balances to support general fund expenditure. The level of balances is currently adequate for a Council of this size and complexity. The MTFP shows that the Council requires relatively modest levels of savings over the next two years. The Council has also considered the level of borrowing required to support the Council’s capital programme, within the MTFP and the level of borrowing will remain broadly comparable with the other metropolitan councils locally.
- We have requested that management provide a cashflow forecast to support the going concern assumption.

Work performed

We have reviewed the MTFP, budget setting and in year reporting as part of our review. A cash flow forecast is not prepared.

Auditor commentary

- We consider that the disclosures are adequate.

Concluding comments

Auditor commentary

- There are no matters which would impact adversely on our audit opinion in relation to the going concern assertion.
-

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. With the exception of the item below we have not identified any other incidences in relation to law and regulations from our audit work. As referred to earlier in our report, the original transfer of the school buildings and land in 2011, was not formally approved by the secretary of state for education, this was referred to in Counsels advice sought in 2017. This arrangement has not subsequently been challenged by the secretary of state, although a challenge was received from an academy school. It is uncertain whether the Council has fully complied with all laws and regulations. However, as the Council is planning to transfer the assets back to the Council from SL&P we do not plan taking any further action.
④ Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council, including specific representations in respect of the Group] which is included in the Audit and Risk Assurance Committee papers. We are requesting no specific representations.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> As part of our usual procedures we requested confirmation from the bank of year end balances. For our sample of 10 schools, the bank was not prepared to release this information to us for 4 schools because the authorisation from the individual schools to the bank to release the information to the auditor did not match the mandate signature held at the bank. We have therefore undertaken alternative procedures to obtain our assurance over the school balances included in cash.
⑥ Disclosures	<ul style="list-style-type: none"> There are a number of disclosure changes as a consequence of the audit. These are detailed in Appendix C.
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management was provided. There were a number of matters which required additional procedures to be undertaken and these are detailed within the report. There were some delays in obtaining transactions listings for some of the balance sheet items as they had not been run at the year end, and these should be incorporated in 2019/20 year end procedures In addition, the Council should review the policy for valuation of PPE at 1 April as a year end valuation would reduce the level of uncertainty associated with PPE year end valuations and would streamline the audit process.

Other responsibilities under the Code

Issue	Commentary
1 Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. The annual Governance statement should include reference to matters in relation to the Group – but doesn't currently make specific reference to group entities. In particular the children's trust. <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
3 Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Our work is not yet completed and we will agree the timescale for completion of the procedures with officers following receipt of the submission document to be audited.</p>
4 Certification of the closure of the audit	<p>We are unable to certify the closure of the 2018/19 audit of Sandwell Metropolitan Borough Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

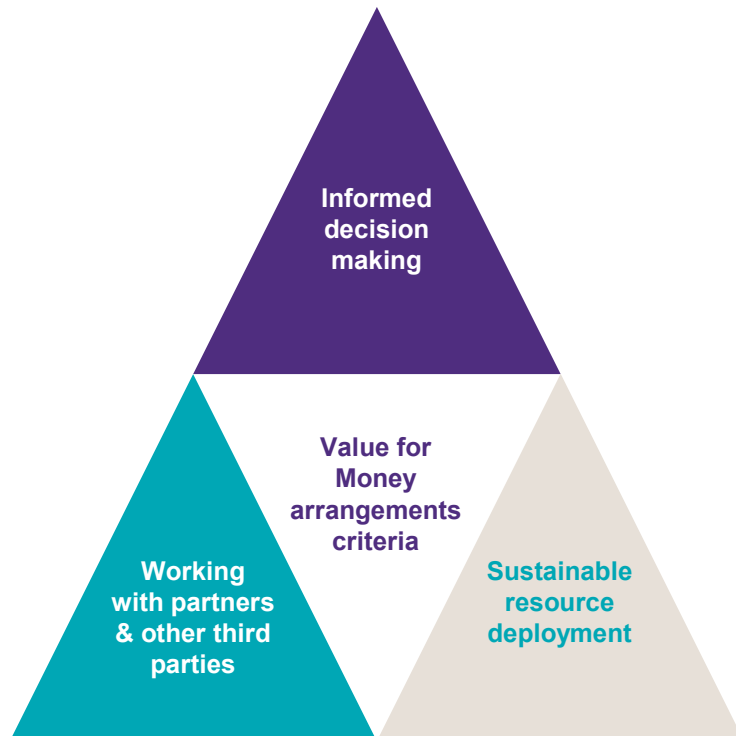
Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in December 2018 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2019.

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

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

Value for Money

Our work

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

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

- Children's services
- Budget Planning

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 37 to 49.

Overall conclusion

We have completed our risk based review of the Council's value for money arrangements with regard to budget setting and have no issues to report to you on this matter.

Except for the matter we identified in relation to Children's Services, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'except for' conclusion.

The text of our proposed report can be found at Appendix E.

The text of our proposed report can be found at Appendix E.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

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

Significant Risk: Children's Services

Risk areas: Informed decision making, Sustainable resource deployment, and Working with third parties.

Risk

OFSTED have rated the provision of Children's Services in Sandwell as inadequate. Following consideration of the findings of Inspectorates, KPMG issued an 'except for' value for money conclusion for in this area in 2017/18. The Council has responded to recommendations by setting up a Children's Trust from 1st April 2018. However children's services retain an inadequate assessment and this presents a significant value for money risk.

We have considered how the Council is responding to the inadequate inspection assessment, in particular how the Council is establishing its commissioning arrangements with the Children's Trust.

Findings

The Sandwell Children's Trust became fully operational from 1 April 2019 when over 400 former Sandwell Council staff transferred. The establishment of a Trust was a key requirement of the Secretary of State in response to the inadequate Ofsted assessment. The Council retains legal responsibility for the services, and the Trust has operational responsibility. The Trust is a limited company, 100% owned by the Council although the Board and management team are independent (only 1 manager and board member are from the Council).

The Council and the Trust have together developed an Improvement plan which was signed off at the first Improvement Board and was submitted to Ofsted in May 2018. The improvement plan has eight key priorities and supports the service's 'journey' to 'requires improvement' by 2021 and 'good' by 2022.

There is a contract between the Trust and the Council effectively commissioning services from the Trust over the 10 year contract term. The Council has a performance management role in monitoring the contract with the Trust. There are no financial contract penalties for non performance and we understand that the Council does not have a formal financial guarantee with the Trust (for example to support any overspend).

However from discussion with the Director of Children's services and from committee papers it is clear that the Council still has a developing but close relationship with the Trust management, in particular the Director of Children's services meets regularly with the Trust and is clearly closely sighted on developments - such as the development of the medium term financial plan and savings plans.

Whilst operationally independent of the Council there are appropriate governance arrangements in place to involve the council meet its responsibilities, both at an operational level and committee level. Both committee and council management receive performance reports which includes assurance around the progress around the Ofsted improvement plan. These reports are readily accessible on the council website.

Key findings

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

Children's Services

Findings (cont.)

The Council has had a number of targeted Ofsted visits over the past year, a full Ofsted inspection is not yet expected. The feedback from Ofsted on these inspections has been positive in some areas, particularly in terms of direction of travel, however evidence of measurable improvement is not yet there. For example the January foster care inspection assessed the Council as inadequate and gave the Trust 3 directions (2 of which have now been lifted).

The financial resources available to the Trust to invest in improvement to achieve better Ofsted ratings, are limited. Relatively early in the financial year, an overspend was identified, and this increased over the financial year. The outturn overspend was over £6.9m, and the Council agreed to fund £5m of this after the year end (draft accounts excluded the £5m commitment) although this had been assumed by the Trust as committed in its draft financial statements. There is an assumed overspend in 2019/20 and currently no clarity as to how the Trust will achieve a balanced budget, although development of a medium term financial plan is a priority.

The overspend this year was due to a combination of factors which include a potentially unrealistic budget but crucially a significant increase in looked after children increasing by 200 in the year. The Trust is an outlier relative to its neighbours on looked after children. In addition there has been invest to improve activity and increased expenditure on staffing (to improve services) including agency and staff retention measures.

The Council has made clear that it does not have the resources to effectively underwrite the Trust's overspends and is not contractually required to do so. This year's overspends were in part funded by reserves and the Council MTFP does not make assumptions around funding future overspends. There is not currently in place a MTFP to demonstrate how investment upfront by the Council will lead to savings down the line and development of such a plan, which is affordable to the Council, must be a priority. The current financial position poses a risk to the Trust ambitions of improved ratings but also provides a risk to the Council.

This first year of the Trust has inevitably been challenging both operationally but also in establishing/ understanding the role of the council relative to that of the children's Trust. Arrangements are bedding in.

Overall we can see that there have been considerable changes with the establishment of the Trust and there is appropriate reporting on the Ofsted improvements, however there is insufficient evidence to demonstrate that children's services would no longer be assessed as inadequate were there to be a full inspection. The emerging financial challenges at the Trust pose a risk to the Trust in delivering the improvement plan in the current timetable.

Conclusion

We are unable to conclude that the identified risk has been mitigated and therefore we are proposing an 'except for' value for money conclusion.

Key findings

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

Significant Risk : Budget Planning

Risk areas: Informed decision making, Sustainable resource deployment and Working with third parties

Risk

The sector faces continuing financial pressures due to the reductions in central government grants. Council approved a balanced budget for 2018/19. Following the provisional settlement in December 2018, a balanced position is anticipated until 2020 when additional pressures of £5.5m are anticipated for the following two years. Due to the continuing pressures and uncertainties in the sector we consider that this is a significant risk. We will consider your arrangements for managing and reporting your financial resources and the Council's arrangements for achieving savings

Findings

Budget setting/ Medium Tern Financial Plan

The Council has a good track record for managing its finances, this was commented on by the follow up Peer review in January 2019, who highlighted that setting balanced budgets was a particular strength for the council. The medium term financial plan (MTFP) shows that there is a growing gap between funding and expenditure and the Council will be seeking savings to meet the gap. There is an identified funding gap of £5.6m over the next three years and a challenge group has been established to manage the position and ensure savings are identified and agreed.

2018/19 outturn

The 2018/19 outturn report shows some variance between budget and out-turn over the council departments, however, with the exception of children's services, this was managed within in year. The Council operates a 3 year budget programme, which means that underspends in some departments is approved to be rolled forward into subsequent years where there is an agreed purpose (e.g. invest to save). At the 2019 year end there is £22m in GF reserves for these purposes.

The 2018/19 out-turn report sought approval of £5m to be used to support the Children's Trust £6.5m overspend.

Capital programme

The draft financial statements are showing a £10m reduction in need to borrow during 2018/19 despite £79m (£87.5m 2017/18) of capital investment. Over the next three years the Council has a relatively large capital programme of £318m, to be funded partly by an increase in borrowing of £145m, resulting in an overall increase in borrowing of 27% to £670m.

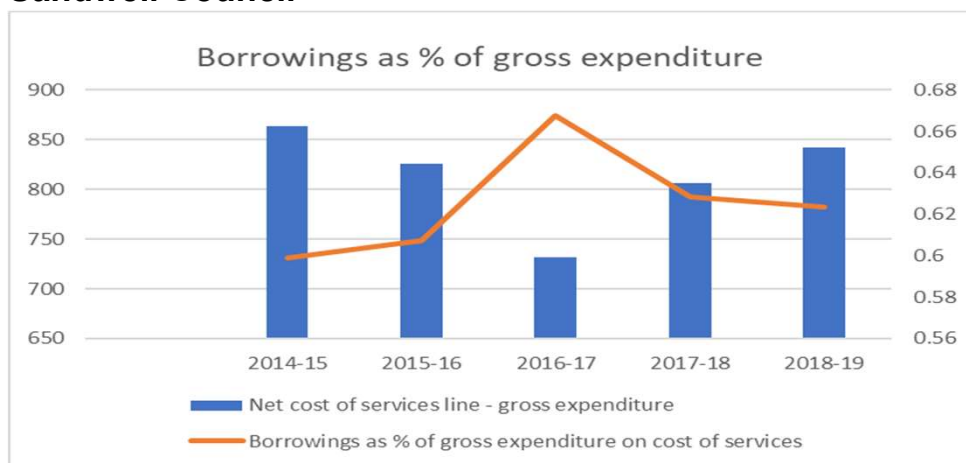
Reserves and borrowing

Review of GF balances indicates a net reduction in General Fund balances compared to the prior year, whilst the Housing Revenue account is showing a £5m (15%) increase in year end reserves (based in draft accounts).

Sandwell council	2018/19 £000	2017/18
Housing Revenue account	40,436	35,281
Total General Fund Comprising:	117,961	133,676
School balances	32,551	33,551
Earmarked general	23,373	24,916
Departmental surpluses	22,203	17,257
Other GF	39,834	57,952

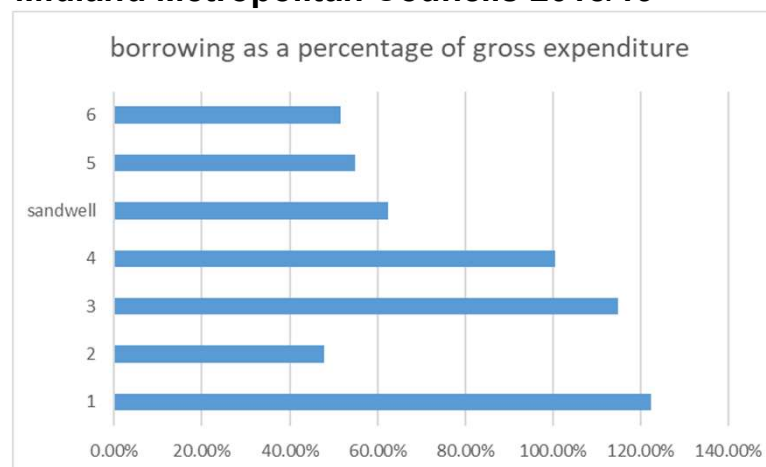
We have reviewed the level of borrowing against other similar local metropolitan councils and the trend over the last 5 years. (see below)

Sandwell Council



Note: 2016/17 had a £102m reversal of income which skewed GE in that year

Midland Metropolitan Councils 2018/19



Children's Trust

There is an ongoing financial risk associated with children services, particularly in relation to the children's trust. The Council does not have operational control over the Trust but is the main source of funding to the Trust. This year the council funded most of the Trust overspend from reserves (£5M). For the Trust to remain a going concern the council has provided assurance that it will provide ongoing financial support to the Children's Trust. The overspend on the children's trust was not formally agreed to be funded by the council until June 2019. The draft accounts did not reflect the Council's commitment (although the Trust's accounts included a corresponding debtor) and it was not transparent in in year financial reports the scale of this risk. The Trust is expecting a potentially similar level of overspend during 2019/20 and has relatively limited alternative funding sources. Whilst the potential risk is known by officers and key members it is not transparent in forward financial plans

Conclusion

In common with other councils, Sandwell is highlighting in committee reports and the MTFP that there are a number of uncertainties in relation to its forward forecasting. Consequently assumptions have been made and the future financial position is subject to risk due to funding uncertainties. However in view of the track record of the council and current financial position, we are satisfied that the council is well placed to manage these financial risks in the near future.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements. We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services




For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits subsidy	£16,000	Self-Interest (because this is a recurring fee), self review and management.	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,000 in comparison to the total fee for the audit of £153,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. We are not expecting material changes to accounting entries as a result from our work and any amendments required to forms are made by officers who have the authority and understanding of the relevant area rather than us. These factors all mitigate the perceived threats to an acceptable level. 2017/18 audit undertaken by KPMG
Certification of Teachers pension*	£5,000	Self interest (because this is a recurring fee) self review and management.	We have been asked to undertake this work, however the terms of the engagement and fee have not yet been agreed. It is unlikely that the recurring fee will exceed £5000, and therefore not considered a significant threat to independence in comparison to the total fee for the audit of £153,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. We are not expecting material changes to accounting entries as a result from our work and any amendments required to forms are made by officers who have the authority and understanding of the relevant area rather than us. These factors all mitigate the perceived threats to an acceptable level. 2017/18 audit undertaken by KPMG
Educations Skills Funding Agency Grant*	tbc	Self interest (because this is a recurring fee) self review and management.	We have been asked to undertake this work, however the terms of the engagement and fee have not yet been agreed. It is unlikely that the recurring fee will exceed £5000, and therefore not considered a significant threat to independence in comparison to the total fee for the audit of £153,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. We are not expecting material changes to accounting entries as a result from our work and any amendments required to forms are made by officers who have the authority and understanding of the relevant area rather than us. These factors all mitigate the perceived threats to an acceptable level. Audit not undertaken n 2017/18.
Non-audit related	£12,500	Self interest	The fee is a subscription fee. However, the fee for this work is negligible in comparison to the total PSA's turnover overall. It is also a fixed fee with no contingent element. These factors all mitigate the perceived self-interest threat to an acceptable level. The CFOi service is provided on a fixed fee basis. There is no contingent element.


These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Risk Assurance Committee. None of the services provided are subject to contingent fees.


Action plan


We have identified 10 of recommendations for the group /Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1	<p> Aged debt</p> <p>We estimate that the council has material balances of potentially uncollectible debt, particularly in revenues. We are content that much has been provided for and consequently there is not a material misstatement in the balance sheet.</p> <p>It is indicative of poor housekeeping that such balances have not been cleared and it also means that there is a lack of clarity around which old debts are being actively pursued .</p>	<ul style="list-style-type: none"> A review should be undertaken of debts over 2 years and balances considered uncollectible should be written off. officers should finalize and implement the Revenues debt collection policy as discussed with officers. <p>Management response</p> <ul style="list-style-type: none"> A strategy has now been produced by the Revs and Bens Team and signed off. I have asked for it to be updated to reflect an analysis of aged debts up to 31st March 2020. Once this has been completed management will share with GT.
2	<p> Children's Trust pensions</p> <p>We are satisfied that the accounts reflect the children's trust pensions consistent with the intention of both parties. However the paper trail to support the accounting was poor, although following discussions and legal letters was adequate for audit purposes.</p>	<ul style="list-style-type: none"> The council and Trust and pension fund should more formally set out the position on the pension in a tripartite agreement As discussed with the S151 the Trust a fixed contribution rate should be confirmed as payable by the children's trust <p>Management response</p> <p>agreed</p>
3	<p> Pension guarantees</p> <p>The accounting impact of pension guarantees had not previously been considered and the 3 guarantees with the largest staff transfer was undertaken on audit request.</p>	<ul style="list-style-type: none"> There should be a working paper prepared annually to support the council's assessment of pension guarantees and this should be extended to cover all guarantees. <p>Management response</p> <ul style="list-style-type: none"> A working paper is now produced annually as per the recommendation but the assessment of pension guarantees has not been extended to cover all 18 guarantees. We agreed to only focus on the three biggest contracts. Details of the other 15 schemes are given in the working paper appendix.

Controls

 High – Significant effect on control system

 Medium – Effect on control system

 Low – Best practice

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Action plan (continued)

	Assessment	Issue and risk	Recommendations
4		<p>PPE valuations:</p> <p>Valuations are undertaken at 1 April which results in a risk of material misstatement as it does not reflect in year changes.</p> <p>There were some significant changes in valuation which had not been challenged by staff before the audit. Officers should have better ownership and understanding of the valuations before reflecting in the asset register and accounts.</p>	<ul style="list-style-type: none"> Valuations should be undertaken at the year end rather than the current policy of 1 April. Officers should review all valuations for reasonableness before applying to the asset register and investigate outliers. <p>Management response</p> <p>Valuations will be undertaken as at the 31st December in 2019/20. Valuations will be reviewed before being applied to the registers and anomalies raised with the Valuers via the Valuation Log.</p>
5		<p>PPE valuations:</p> <p>The Council values its investment properties on a cyclical basis, although all significant assets were valued this year following discussions. The Code requires that the carrying amount (the recognised value) of investment property shall reflect market conditions at the balance sheet date. This means that the rolling valuation programme approach may only be used for investment property where the carrying amount does not differ materially from that which would be determined if the property were revalued at the balance sheet date. This effectively means that unless market conditions are static or are moving in a manner that does not materially affect values, investment property should be valued annually.</p>	<ul style="list-style-type: none"> The Council should comply with the requirements of the code in valuing Investment properties. <p>Management response</p> <p>This has been discussed with the Councils Valuers. Due to the number of Investment Properties held by the Council it is not possible to get all of these valued each year. For 2019/20 all Investment Properties with a carrying value greater than £1m will be re-valued annually. The remaining assets will be re-valued every 3 years and those that are not due to be revalued will be assessed against market indices to establish if a more current valuation is required.</p>
6		<p>PPE valuations</p> <p>Officers should take steps to ensure that the approach to valuation is in line with the code and be able to demonstrate this to auditors. The covering reports to valuations setting out assumptions in the valuations were received late in the audit and did not set out all assumptions. We noted that better information was used in later valuations, for example more accurate floor areas based on GIS information; we had to seek confirmation that the MEA approach had been properly adopted in schools valuations with the assumption that schools current occupation met needs and there was no excess land – as this was not set out in working papers.</p> <p>Management, supported by internal valuers should ensure that external valuers are provided with full information on any changes to the buildings such as extensions or impairments, and check all returned valuations for reasonableness prior to them being applied to the fixed asset register.</p>	<ul style="list-style-type: none"> Officers should ensure that key assumptions to demonstrate that the council and valuers have met the requirements of the code should be more clearly set out. Valuers should ensure that the best information available is used in undertaking valuations, this is set out in working papers and where there are changes in assumptions these are clear and any indication of errors in previous years has been considered. <p>Management response</p> <p>Agreed</p>

Action plan (continued)

7	●	<p>Support for debtor and creditor year end balances: Transactions listing were not easily available for year end balances to facilitate our sample testing. It is not always possible to run such listings.</p>	<ul style="list-style-type: none"> Year end closedown procedures should incorporate preparing transactions reports as at the year end for the balance sheet <p>Management response agreed</p>
8	●	<p>PFI schemes Officers had not updated either the accounting or the operators model on the council's PFI schemes. This meant that there are differences between the accounts and the accounting models which reflect known changes. The accounts reflect an assessment outside of the model which take into account known changes in assumptions. However when the accounting model was updated at audit request it did not correspond with either the accounting model or the accounts. We understand the PFI 'expert' has recently left the council. Discussions with officers revealed that there officers did not have a full understanding of the basis or operation of the model.</p>	<ul style="list-style-type: none"> Officers should update the accounting model for all the PFI schemes for the 2019/20 financial statements. This should be completed in readiness for the for the Grant Thornton interim visit, to enable audit procedures to be undertaken in a timely manner. The PFI team should seek appropriate training on PFI and the basis of the models. <p>Management response</p> <ul style="list-style-type: none"> Total Schools balance has been corrected in 2019/20, however the by Portway remains unresolved. Management have stated that they will aim to correct this in 20-21. Appropriate training on PFI and the basis of the models was planned but could not be fully delivered due to Covid 19 which was out of our control and was therefore deferred until 20-21.
9	●	<p>Sandwell Land and Property Company As outlined in the report, we have had extensive discussions with officers around the accounting for SL&P property but also around the history and purpose of the company. We agree with management view that the company should be wound up as soon as possible.</p>	<p>Council representatives should discuss with the Directors of the company the ongoing purpose of the company and whether it should continue in its current form</p> <p>Management response agreed</p>
10	●	<p>Accounting policies and disclosures We agreed with officers changes to disclosures in accounting policies where we considered that they did not reflect material matters. We found that the notes contained some matters which would be more appropriately reflected within accounting polices.</p>	<p>As part of the closedown process, the Council should consider annually the disclosures in key areas such as critical judgements, significant estimates and accounting policies generally to ensure that they remain appropriate and reflect the basis of material transactions or assumptions</p> <p>Management response agreed</p>

Follow up of prior year recommendations

We identified the following issues in the audit of Sandwell Metropolitan Borough Council's 2017/18 financial statements, which resulted in 11 recommendations being reported in the 2017/18 Audit Findings report. We have followed up on the implementation of the recommendations and note 2 are still to be completed.

Assessment	Recommendation previously communicated	Update on actions taken to address the issue
✓	<p><u>Performance of bank reconciliations</u> Management should ensure that bank reconciliations are completed and reviewed on a monthly basis.</p> <p>Management should review the current process for performing bank reconciliations to identify if it can be made more efficient, whilst still providing the same assurance.</p>	<p><u>Management Response</u> A review of the process has been undertaken and findings reported back to management. Risks raised in 2017-18 have been mitigated as there is now a permanent employee (Senior Accountant) in post, key procedures have been established and the process more thoroughly understood. As a result key errors will be identified during the monthly reconciliation processes and highlighted much sooner. A full reconciliation is sent to the Principal Accountant at the end of each month to review (highlighting errors found) and authorise. The process has been streamlined to make it more easily understood and more transparent.</p> <p><u>Audit Team Response</u> We have undertaken a review of the bank reconciliations completed by the Local Authority (task completed in November 2018 and as part of year-end procedures), and have not identified any issues. All related reconciliations were complete in a timely manner and were appropriately authorised.</p>
X	<p><u>Unrecorded liabilities & cut off procedure</u> Management should refresh financial training, and circulation of guidance to the wider team involved in the closedown process to ensure that they understand what is required. Also see recommendation 11 review of closedown process.</p>	<p><u>Management Response</u> The timetable has also been reviewed thoroughly and updated and regular Principal Accountants meetings are taking place to ensure that all teams are aware of their responsibilities and deadlines.</p> <p><u>Audit Team Response</u> It has been established through our testing of year-end creditor balances, that a number of accruals in place at 31st March 2019 were not appropriately accounted for. This has resulted in an overstatement of trade creditors on the Council's balance sheet. Although we acknowledge that further training has been provided to the team to help support closedown procedures, this recommendation has not been met given the level of errors identified as part of our substantive work.</p>
✓	<p><u>Review of closedown/ period 13 journals</u> Management should review their journal review process, in particular around period 13 journals made as part of the close-down process. This could include analysis of all journal postings made during this period and an assessment of which of those should be reviewed in more detail.</p>	<p><u>Management Response</u> Still on track to be implemented for 2018/19 closedown.</p> <p><u>Audit Team Response</u> No issues have been identified from our testing undertaken in regard to the recommendation made.</p>
✓	<p><u>School closedown process and accruals completeness</u> Management should review their schools close-down process, in particular around the use of estimates, unrepresented cheques and school bank account reconciliations.</p>	<p><u>Management Response</u> The Principal Accountant for Schools will now be undertaking the entire process with regard to consolidating school balances on to the corporate balance sheet. Also, for 2017/18, the use of February estimates to close down the schools ledger was trialled but it has been decided that this will not continue in 2018/19. Both of these should assist in addressing the issues highlighted.</p> <p><u>Audit Team Response</u> No issues have been identified from our testing undertaken in regards to the recommendation made.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations

Assessment	Recommendation previously communicated	Update on actions taken to address the issue
✓	<p><u>Valuation of Council Dwellings</u> Management should ensure that all key guidance is followed, and that checks are made for updated guidance on a timely basis. Management should undertake a review of the guidance to identify areas where improvements can be made.</p>	<p><u>Management Response</u> A full review of the process was carried out. As a result, the beacon selection and valuation process has been re-procured. A procurement exercise was carried out in order to appoint a suitably qualified valuer to carry this out, ensuring that all guidance was followed. This included management check and challenge, along with director sign off at each stage of the process.</p> <p><u>Audit Team Response</u> No issues have been identified from our audit testing in relation to the recommendation made. We are satisfied that the Local Authority have used the most relevant guidance to support their valuation of Council Dwellings.</p>
✓	<p><u>TB mapping</u> Management should ensure that key accounts production documentation is reviewed, and made available at the start of the audit process.</p>	<p><u>Management Response</u> The Trial Balance has been reviewed and the new format agreed with Grant Thornton.</p> <p><u>Audit Team Response</u> No issues have been identified from our audit testing in relation to the recommendation made.</p>
✓	<p><u>Non-current asset (Academy School) de-recognition</u> Management should review the process by which finance are notified of any changes in status of land.</p>	<p><u>Management Response</u> Finance have met with colleagues from Schools (SFS) Financial Services and Sandwell Asset Management (SAM) to review and agree the process. The Capital Team have liaised with Legal Services and Property Services to re-iterate the need for Finance to be notified of all Property Sales in a timely manner.</p> <p><u>Audit Team Response</u> No issues have been identified from our audit testing in relation to the recommendation made.</p>
✓	<p><u>Contract Monitoring</u> Ensure that the contract monitoring process is improved by obtaining a clear position of each large contract as at year-end, and maintaining a clear audit trail as to how this position has been derived.</p>	<p><u>Management Response</u> Procurement team are currently in the process of implementing the contract management module of In-Tend. This should provide clearer and more robust information about the contracts held by the council.</p> <p><u>Audit Team Response</u> No issues have been identified from our audit testing in relation to the recommendation made.</p>

Follow up of prior year recommendations

Assessment	Recommendation previously communicated	Update on actions taken to address the issue
✓	<p><u>Payroll reconciliation</u></p> <p>Management should ensure that the payroll reconciliation (and all other key financial control reconciliations) are completed on a timely basis, and that reconciling items are appropriately investigated.</p>	<p><u>Management Response</u></p> <p>A review of the process has been undertaken and the findings reported back to senior management. Risks raised in 2017-18 have been mitigated as there is now a permanent employee (Accountancy Assistant) taking on the role. Where there are reconciling items outstanding at the month end, these will be investigated by the Accountancy Assistant who will contact the HR department to request further details and ensure that the necessary corrections are made. The Accountancy Assistant will monitor progress and if items are still outstanding after 3 months will escalate the queries to the Principal Accountant who will liaise with the necessary managers to get them resolved.</p> <p><u>Audit Team Response</u></p> <p>No issues have been identified from our audit testing in relation to the recommendation made.</p>
✓	<p><u>Closedown process</u></p> <p>Management should review the closedown process. This should include; clarification of key deliverables and the timetable on which they should be provided; updating of roles and responsibilities; as well as identifying training needs particularly of staff outside the core Finance team who are involved in the closedown process. This should also factor in the other recommendations as set out above, with a particular focus on journals and accruals made (or missing) during closedown.</p>	<p><u>Management Response</u></p> <p>The timetable has also been reviewed thoroughly and updated and regular Principal Accountants meetings are taking place to ensure that all teams are aware of their responsibilities and deadlines.</p> <p><u>Audit Team Response</u></p> <p>No issues have been identified from our audit testing in relation to the recommendation made.</p>
X	<p><u>Monthly review of journals process</u></p> <p>Management may wish to consider review of the control over circularisation of monthly journal postings and consider whether additional assurance is required. This could include requiring returns from budget holders (with evidence of what has been reviewed), or identifying key or unusual postings for which individual confirmation of review is required.</p>	<p><u>Management Response</u></p> <p>The process has been reviewed and additional controls have been agreed and implemented. Principal Accountants must complete a monthly return formally agreeing journals processed in year. Journals due to be posted during period 13 need to be approved in advance of processing. Journals to be processed after account closure will need to be authorised by a Service Manager.</p> <p><u>Audit Team Response</u></p> <p>As part of our year-end testing of manual journal entries, we identified two errors, these were:</p> <ul style="list-style-type: none"> - An inconsistency within the approval process. It was established that service managers were approving monthly journals (which included period 13), via a set pro-forma or via the use of an email. We were satisfied that all entries were appropriate however there needs to be a level of consistency/ formality within the Council's approach to ensure a more robust process . - We identified a total of 5 journals (out of 18 tested), where approval was given verbally. We concluded that the entries themselves are reasonable based on the data supplied, however, we were unable to confirm that they had been appropriately authorised due to no audit trail being available. The Council need to ensure that approval of monthly journal entries including period 13 are documented.

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Note 35 grants: we identified from our testing that the note was overstated by £1.1m, relating to the adult social care grant and war pensions – these had been double counted in the note, but correctly stated in the CIES (as charged to services)	n/a – disclosure in the note	n/a– disclosure in the note	n/a – disclosure in the note
2 Note 10- council houses disclosure. The brought forward and carry forward gross depreciation, contained a balance of £18.7m which should have been adjusted for some years ago. This provided a spurious carry forward of £18.7m of accumulated depreciation, even though it should have been eliminated on revaluation, some years ago. Officers were unclear the rationale for the impairment balance and have adjusted gross assets and carry forward depreciation to eliminate the balance. As material, the prior year balances have also been adjusted. The council has not provided a clear rationale for the source of the balance, however eliminating the balance on revaluation is an appropriate response.		n/a – adjustment made within the note 10 and adjustment to opening balance is highlighted.	
3a Pensions; McCloud judgement: adjustment due to revised actuary report	Cost of services £16,103	Pension fund liabilities £16,103	£16,103
3b Pensions; GMP: Our auditors expert (Actuary) had a different view of the impact of the GMP ruling to the council's actuary. The Council's Actuary has reconsidered the position and the accounts have been updated accordingly	Cr cost of services £3,136 Dr actuarial gains £3,136	Pension fund liabilities (£3,136)	(£3,136)
4 Adjustment for schools valuation general fund:		(£17,784) PPE 17,784 unusable reserves	

Audit Adjustments

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
5 Adjustment for other valuation (includes net effect of SL&P in prior year net adjustments) SL&P separately identified in 17/18 adjustments overleaf		Revaluation gain (£87,548) Revaluation loss £47,020 Net adjustments re previous years (£14,352) academy disposal £1113 Dep't] £56 Other £144 Unusable reserves £53,568	
6 Creditors: item identified as creditor, should be treated as reserve PFI Sinking fund	(£3700)	creditors (£3,700 Useable Reserves £3,700	(£3,700)
7 PFI: adjusted error in liabilities as a consequence of updating the PFI model (riverside)	(£5,968) HRA £5,967 MRP contribution	Finance lease creditor (£5,967) CAA £5,967	£nil
8 Adjustment in single entity accounts for children's Trust Creditor not accrued (but reflected in the children's Trust accounts)	£5000 children's services	Creditors £5000 Useable Reserves (£5000)	£5,000
9 SL&P: Adjustment to investments on single entity balance sheet for the investment in SL&P		Long term investments £28,682 Reserves (£28,682)	
10 SL&P further adjustment for the school land incorrectly transferred to SL&- corresponding reduction in investment		Long term investments (£2,396) Reserves £2,396	

Audit Adjustments

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
2017/18 adjustments			
11	Portway and Sandwell sixth form – a deferment factor was applied to the valuations for these 2 assets in 2018/19, but included gross in the prior year. Management was unclear the rationale for the treatment. We consulted with the Grant Thornton valuation specialist who confirmed that the 2018/19 approach was correct and as the council is making prior period adjustments, changes were made to the prior year accounts to correct the error.		Non current assets (£9.5m) Revaluation reserve £9.5m
12	SL&P: Adjustment to single entity balance sheet for school land transferred to SL&P at current value. This is then reflected in the group balance sheet on consolidation.		GF PPE (£51,274) Revaluation reserve 35,881 Capital adjustments account £15,393
13	2016/17 valuation adjustments (net of SL&P)		Valuation gain £72,950 Valuation loss ((£43,843) Derecognition SL&P (£51275) Unusable reserves 22168
14	2017/18 valuation adjustments		Prior year adjustments (£22,166) Depreciation 284 Revaluation gain 7146 Revaluation loss (65) Academy disposal 471 Other (322) Unusable reserves 14352

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Accounting policies	Updated to remove reference to Scottish standard, new standards IFRS9 and 15 and accounting policy for pooled budgets	Updated disclosures as detailed	✓
Significant estimates	Reference to Investment policy removed as change in approach to valuation removes the need for disclosure, however the accounts should make clear that some Investment assets are assessed on a rolling programme which is not in line with the code but not judged to be material Pensions- agreed that the council should include more detail on pension sensitivity as impact could be material	Updated disclosures as detailed	✓
Critical judgements	Critical judgments omitted in a number of areas including: accounting for schools, judgement around inclusion of Children's Trust as a subsidiary and resulting preparation of group accounts, accounting treatment around children trust pensions, PFI / IFRIC 12 assessments for accounting for assets on balance sheet, SL&P investment in the company, reference to HRA discount factor , basis for impairment of debts and reference to pension guarantees.	Updated disclosures as detailed	✓
Note 30: pooled budget	The note in the draft accounts was unclear, it contained matters that set out accounting policies The note also set out all the transactions in relation to the pool, however not all the transactions are reflected in the council's accounts because under IFRS11 each party should account for its own transactions – and thus including all transactions is misleading as the note is a note to Sandwell's accounts.	<ul style="list-style-type: none"> A footnote has now been added to the note to clarify the accounting. An accounting policy (xxxi) has been added and removed from the note. Superfluous information has been deleted from the note. 	✓

Audit Adjustments

Misclassification and disclosure changes continued

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Comprehensive income and expenditure statement	The CIES included the net position for the prior year.	The accounts should show the gross income and expenditure for the prior year, to comply with the code and to facilitate the users understanding of the financial statements.	✓
External audit costs (note 33)	The accounts disclosure does not make clear that some of the fees payable to KPMG relate to the previous financial year, does not include known fees payable to Grant Thornton for 2018/19 for audit of grant claims or the statutory audit of the subsidiary. These fees are set out in Appendix D.	The accounts should clearly set out the fees associated with the audit year to which the accounts relate.	✓
Note 36 related parties	Updated to reflect information not available at draft accounts stage	none	✓
Financial instruments note 18	<p>There were a number of disclosure matters in relation to financial instruments::</p> <ul style="list-style-type: none"> We considered that there was insufficient reference to LOBOs which have a different risk profile to other council debt There was no fair value for PFI liabilities so valuations were sought – these have yet to be finalised and adjustment should be reflected on pages 68,69,70 and 71 Not all level 3 disclosures were made Financial assets had incorrectly been included in contractual debt and creditors had incorrectly included prepayments. (prior year matter also) 	<p>Adjustments broadly result in required disclosures.</p> <p>Recommend further consideration is given to the layout of both the note and the accounting policies within the 2019/20 accounts to improve the disclosure and relationship with the primary statements</p> <p>Management response agreed</p>	✓
MIRS	The MIRS should show the movement between the available for sale reserve and the financial instrument reserve split between the opening adjustment of application of IFRS 9 and true movements in the year	Not considered material	

Audit Adjustments

Misclassification and disclosure changes continued

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 31: officer remuneration	<p>Minor numerical errors in the table for director of regeneration and growth and Director of public health. officers, now updated:</p> <p>85,109 should be 85,131</p> <p>93,949 should be 91073</p> <p>13,796 should be 13006</p> <p>The table of other employees over £50k in bandings had been omitted from the draft accounts</p>	Required adjustments made.	✓
Note 43	<p>Fair value of scheme assets incorrectly stated 2018/19 as £1,403,323, revised to £1,386,323</p> <p>CPI incorrectly stated as 2.3% should be 2.4%</p>	Required adjustments made.	✓
Accounting policies on financial instruments are insufficient (policy xi)	<p>Policy contain insufficient detail on:</p> <ul style="list-style-type: none"> Financial assets held at amortised costs - Application of the expected credit loss model FVOCI - the airport is on this basis but it doesn't say so in the policy - expanded policy setting out the fair value measurements applied. 	<p>The accounts should reflect accounting policies in sufficient detail in the accounting policies section – rather than relying on disclosures within the notes.</p> <p>As referenced above, further consideration should be given to the layout of both the note and the accounting policies within the 2019/20 accounts to improve the disclosure and clarity of relationship with the primary statements</p>	partly
Group accounts	<p>Note 2 to the group accounts has been updated, however is still misleading because the council has prepared group accounts, consolidating on a line by line basis, because the Council has determined it does have control and that the entity is a subsidiary.</p> <p>Accounting policy xv:</p> <ul style="list-style-type: none"> describes group accounts as 'supplementary' but group accounts are not supplementary and shouldn't be described as such. There is reference to SL&P as a subsidiary – however it has not been consolidated and included in the group accounts which would be expected for a subsidiary – however the impact on the draft accounts is not material because the property assets are currently accounted for within the single entity accounts (see section of the report on SL&P) 	<p>Note 2 to the group accounts should be clearer on the basis of consolidation.</p> <p>Reference to supplementary should be removed and the accounting policy on SL&P should be reworded</p>	partly

Audit Adjustments

Impact of unadjusted misstatements and uncertainties

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Risk Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 Depreciation: prior year useful economic lives and component split have been used to determine depreciation, for expediency and with the assumption that it is reasonable not to expect useful lives to change significantly year on year. From our reperformance using UEL as per the valuers report we have estimated that this has resulted in a £1m overstatement of depreciation	(£1,100)	£1,100	(£1,100) reduction in expenditure as overstated	It is reasonable for the council to make such an estimate if the impact is not material.
2 Note 10: The council undertakes a rolling programme of valuations. We have considered whether there is an indication whether the assets not revalued in year are materially misstated. We have undertaken this review using the indices provided by the auditor expert Gerald Eve. We have concluded that by conducting a rolling programme, the assets not valued in year are likely to be understated by £5.1m		Non current assets £5,100 Revaluation reserve (£5,100)		Not material
3 Investment properties: We have compared the revaluation movement of investment properties with the auditor expert, Gerald Eve indices and have identified a difference to our estimate of £6.8m (balance sheet understated). This represents an uncertainty rather than an error and consists of: <ul style="list-style-type: none"> Valued assets - A difference of £3.8m between our estimated value using indices and the actual valuation Unvalued assets – a difference of £3m between the balance sheet value and our estimate. 	(£6,800)	Non current assets £6,800	£nil	Officers consider that the valuation made by the councils valuation expert is reliable and the difference is not material.

Audit Adjustments

Impact of unadjusted misstatements (continued)

:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
4 Difference between balance sheet and valuer reports: <ul style="list-style-type: none"> Investment Properties: we noted a difference between the balance sheet and the valuer's report, suggesting the Balance sheet is overstated by £604k. Other land and buildings: Variance identified between the balance sheet and the valuer's report, Balance sheet is overstated by £214k. 	£604	Non current assets (£604) Non current assets (£261) Revaluation reserve £865	£nil	Considered immaterial
5 Perryfield academy – the 2017/18 valuation process recently undertaken to restate school values also identified that an extension to the school had not been taken into account in the 2018/19 valuation. This has resulted in an understatement of the 2018/19 valuation of around £2.1m – based on the 2017/18 valuation. This amount is not exact as the 2018/19 valuation has not been updated	n/a	£2,100 increase in land and buildings (£2,100) revaluation reserve	n/a	A valuation for 2018/19 has not been updated and so the 'adjustment is approximate and is unlikely to result in a material misstatement
subtotal	(£7,296)	£14,235		

Audit Adjustments

Impact of unadjusted misstatements (continued)

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Risk and Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
6 Debtors: We noted that the debtors balances included large balances of aged debt. At our request officers undertook a review of balances which had not moved year on year and we noted £2.38m was unchanged when compared with the prior year. £1.3m did not have a corresponding provisions for bad debt, consequently debtors are likely overstated. We understand that the CFO will be reviewing all these balances and recommending write offs as appropriate	£1,341	Short term debtors (£1,341)	£1,341 reflecting an increase in provision-increased charge to CIES	Considered immaterial
7 Council tax arrears: there is £6.1m of debts pre 2013/14 which are likely to be uncollectible and therefore should be written off. As these have been 100% provided for then there is no impact on the accounts, but remains a house keeping matter. To recognise a debt there should be some expectation of collection,	n/a	n/a	n/a – fully provided for.	The view of the Head of Revenues is his is still being collected in small amounts and is therefore not uncollectible.
8 Creditors: receipt in advance for council tax, no evidence provided to enable us to test the balance and much of the balance is over 2 years old which seems unusual for this type of debt. This represents an uncertainty rather than an error.	(£3,800)	(£3,800) creditors £3,800 general fund	(£3,800) reduction in expenditure	Immaterial. Officers did not consider it necessary to provide an audit trail to support this balance as they were not specifically asked to do so, and the report cannot be re-run after the year end.
9 Errors identified in testing of creditors items incorrectly included – extrapolated error	(£1,300)	(£1,300) creditors £1,300 general fund	(£1,300) reduction in expenditure	Immaterial and extrapolated figure considered too crude to apply

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Risk and Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
10 PFI: Differences between the balance sheet and the accounting models: Total schools Portway Rowley BSF		(pfi long term creditors) (£1,891) (£1,305) CAA £3,196	(£3,196)	Without further analysis the error cannot be confirmed
Overall impact	£11,055	£4,598		

Impact of unadjusted misstatements re 2017/18

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
2016/17 Subsequent to the adjustment for revised valuations for 2016/17 and 2017/18 further valuations were received.	n/a	(£1,022) non current assets £1,022 revaluation reserve	n/a	Not material
2017/18 As above	n/a	£1,330 non current assets (£1,330) revaluation reserve		

Fees

Audit Fees

	2017/18 fee	2018/19 Planned fee	Final fee
Council Audit	£198,878	£153,136	£204,536
Total audit fees (excluding VAT)	£198,878	£153,136	£204, 536

Required Additional Work	Description of work required	Proposed fee
Core fee		£153,136
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements.	£3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted the need for more in depth work by audit firms in respect of IAS 19. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	£3,000
PPE	The Financial Reporting Council has highlighted the need for more in depth work by audit firms in respect of PPE. We have increased the volume and scope of our audit work to reflect this. This work revealed a number of matters around the approach to valuations which required additional time to resolve and an number of restatements of valuations and adjustments were made which required consideration and review.	£6,000
PPE valuations	The GT valuer was used to support the team, to liaise with the Council external valuer and to form a view of the reasonableness of assumptions. This was because the council had made historic judgements which adjusted the valuation provided by the valuer which could not be explained.	£4,100
Group accounts	First time preparation and of group accounts has required additional work reviewing the consolidation and new disclosures	£5400
Children's Trust pension	The accounting treatment of the Children's Trust pension was initially unclear and additional work was undertaken, including consultation with the council layers and our own technical team to be satisfied that the approach adopted was appropriate	£3000

Fees

Audit Fees (continued)

Required Additional Work	Description of work required	Proposed fee
Sandwell Land and Property Company	The accounting treatment of the interest in the company and the associated land and buildings was unclear in the draft accounts and due to the elapsed time there was a limited understanding at the council. This matter took some time to resolve	£10500
PFI	Additional work and specific technical advice was required to be satisfied that the proposed adjustments to the draft accounts was appropriate.	£6500
IFRS 15 implementation	We considered the paper provided by the council to support its assumptions around the application of IFRS15 (revenue for contracts around customers) new application in 2018/19 accounts.	£1500
IFRS 9 implementation	We considered the councils application of IFRS9 this year and the disclosures in the accounts, particularly within Financial Instruments – new application in 2018/19 accounts	£1500
Debtors and creditors	The council did not initially have available working papers to support a number of the debtors and creditors balances to enable us to sample and test items. This therefore required work over and above that we would expect to obtain and test these populations. We also investigated unusual balances due to their age or lack of movement year on year, to establish whether items included as debt or creditors were valid.	£1500
Completion	Additional time to review revised financial statements	£5400
Total audit fees (excluding VAT)		£204,536

The final fees are subject to review and agreement with PSAA Ltd and have not been included in the 2018/19 statements

Other Fees

We confirm below our final fees charged for the provision of audit and non-audit services.. Grant Thornton did not undertake any work at the council during 2017/18.

Other Audit Fees	Proposed fee	Final fee
Audit of subsidiary company Sandwell Children's Trust	£23,000	£23,000
Total audit fees (excluding VAT)	£23,000	£23,000

Non Audit Fees	Final fee
Fees for other services	
Audit related services	
• Housing benefit subsidy claim proposed fee	£24,000 tbc
• Teachers pension return proposed fee	£5,000
Non audit Services	
CFO insights annual subscription	£12,500
Total non audit fees (excluding VAT)	£41,500

Notes:

- Fees disclosed in the financial statements payable to KPMG are for matters relating to the 2017/18 audit of accounts and grants and returns which were raised in the 2018/19 financial year.
- The additional fees listed on the previous pages have yet to be agreed with PSAA and are therefore excluded from the financial statements.

Audit opinion

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of Sandwell Metropolitan Borough Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sandwell Metropolitan Borough Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2019 which comprise the, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement in Reserves Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement, the Group Movement in Reserves Statement and notes to the financial statements, including a summary of significant accounting policies.

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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Executive Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or

Audit opinion

otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report 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
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Risk Assurance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, 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 2019.

Basis for qualified conclusion

Our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

Audit opinion

The Council's children's social care service has been subject to an improvement notice since March 2010. In June 2015 Ofsted reported findings with an overall judgement that children's services were inadequate, and consequently the Council implemented an improvement plan. The required improvements in performance were not made and on 6 October 2016 the Council was issued with a Statutory Direction, from the Secretary of State for Education, to set up a Children's Trust to deliver children's social care services.

In response to this Direction, the Council set up a Children's Trust, with the service ultimately transferring on 1 April 2018. However, the basis of the findings of the Ofsted and CQC inspection of local area services for children and young people with special educational needs and/or disabilities, published on 27 March 2017, in addition to the reports of the current Ofsted inspection programme into children's services, most recently published on 29 January 2018, was that Children's services in Sandwell were still inadequate. There have been six monitoring visits since the last inspection. Ofsted have recognised that improvements in the service are being made but have noted that further progress is needed if the issues raised in their last inspection report are to be fully addressed.

Having considered the findings and conclusions of Ofsted's inspections and monitoring visits, together with the results of our audit work, we have concluded that there are weaknesses in the Authority's arrangements for delivering services for children in need of help and protection, children looked after and care leavers. These matters are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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 for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority 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 Comptroller and Auditor General determined this criterion as that necessary for us to

consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature to be added

Mark C Stocks, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Management Letter of Representation

Dear Sirs

**Sandwell Metropolitan Borough Council
Financial Statements for the year ended 31 March 2020**

This representation letter is provided in connection with the audit of the financial statements of Sandwell Metropolitan Borough Council and its subsidiary undertakings, Sandwell Children's Trust and Sandwell land and Property Company for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

- vii. Except as disclosed in the group and Council financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the [group and]Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in the appendix. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end .
- xii. The financial statements are free of material misstatements, including omissions.
- xiii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. The prior period adjustments disclosed in Note 7 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.
- xvi. We have considered the legal issues with regard to the issues of shares issued to SLAP as documented on page 26 of the External Auditors report. We consider that it is appropriate for the Council to recognise a contingent liability with regard to any claim by the company against the Council for the incorrect issues of shares by the company. We do not consider that the Council will be liable to make any claim made by the company.
- xvii. We have reviewed the accounting with regard to SLAP. We consider that it is appropriate for the Council to recognise school buildings on its balance sheet as at 31 March 2019 despite the buildings having been transferred to SLAP in return for the issue of shares Information Provided

Management Letter of Representation

- xviii. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xix. We have communicated to you all deficiencies in internal control of which management is aware
- xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 3 September 2020.

Yours faithfully

Name.....



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