

# Wolverhampton City Council

Agenda Item No: **5a**

## OPEN DECISION ITEM

### Audit Committee

Date **07.11.2011**

Originating Service Group(s)

**DELIVERY**

Contact Officer(s)/

**PAT MAIN**

Telephone Number(s)

**4410**

Title

**AUDITED STATEMENT OF ACCOUNTS 2010/2011**

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### **RECOMMENDATIONS**

That Audit Committee agrees to:

- (i) Note that the Council's external auditors have completed their audit of the 2010/2011 Statement of Accounts, and intend to issue an unqualified opinion.
- (ii) Note that no further material changes were identified as a result of the audit work completed since 29 September 2011.
- (iii) Approve the publication of the Annual Audit Letter as part of the Council's Statement of Accounts as attached at Appendix 1.
- (iv) Publish a notice to advise local government electors that the audit has been concluded and that the Statement of Accounts are now available for review.

## **1. PURPOSE**

- 1.1 The draft Statement of Accounts for 2010/2011 was approved by the Assistant Director – Corporate Services (Section 151 Officer) on 30 June 2011 and formal publication of the 2010/2011 Statement of Accounts was achieved on the council's website as required by the Accounts and Audit Regulations 2011 by 30 September 2011. This report provides an update on the finalisation of the audit which is now concluded.
- 1.2 This report recommends that the final Statement of Accounts are published in accordance with the Accounts and Audit Regulations 2011 (27) which require that "As soon as reasonably possible after receipt of the annual letter from the auditor, the members of the relevant body meeting as a whole or, in the case of a larger relevant body only, a committee of that body, must meet to consider it and following that consideration must—
  - (a) publish the annual audit letter received from the auditor; and
  - (b) make copies available for purchase by any person on payment of such sum as the relevant body may reasonably require."
- 1.3 This report also recommends the publication of a notice in the local press and on the council's website, giving notice that the audit has been concluded and that the statement of accounts is available for inspection by local government electors in accordance with the requirements in the Accounts and Audit Regulations 2011 (11).

## **2. BACKGROUND**

- 2.1 The draft Statement of Accounts is required by statute (Accounts and Audit Regulations 2011) to be prepared and approved by the Section 151 Officer by 30 June 2011. The Council succeeded in meeting this very challenging deadline.
- 2.2 The format of the Statement of Accounts is governed by the Code of Practice on Local Authority Accounting (the Code), published by the Chartered Institute of Public Finance and Accountancy (CIPFA). For 2010/2011 there were major changes, brought about by the move to International Financial Reporting Standards (IFRS), from UK Generally Accepted Accounting Practice (GAAP). These changes were very wide-ranging, and list below highlights the major areas which have had an impact on the Council's statements:
  - (a) The format of some of the primary statements is fundamentally different. The Income and Expenditure Account and Statement of Total Recognised Gains and Losses have been replaced by the Comprehensive Income and Expenditure Statement. The Statement of Movement in the General Fund Balance has been removed, and there is a new statement called the Movement in Reserves Statement.
  - (b) As a result of IFRS, the number of transactions which the Council is required to show in its Statement of Accounts, but must not charge or credit to its General Fund or HRA balances ('statutory reversals') has significantly increased, adding to the complexity of the reconciliation between the Statement and the Council's management accounts.

- (c) Under IFRS the Council is required to accrue for any paid leave earned but not taken by its employees at the balance sheet date.
- (d) The assessment of leases under IFRS is different to that applied under UK GAAP, the effect of which is to make it generally more likely that a lease will be treated as 'on balance sheet'. The Council has reviewed all of its lease agreements in order to ensure that it complies with the requirements of IFRS.
- (e) The conditions for recognising grant income under IFRS generally mean that grants are recognised sooner than they would have been under UK GAAP. Furthermore, capital grants are credited to the Comprehensive Income and Expenditure Statement, although capital expenditure is not charged there. A combination of statutory reversals and the use of earmarked reserves has been applied to ensure that this has not had any effect on the Council's budgets.
- (f) The Council has also restated its 2009/2010 accounts in accordance with the requirements of IFRS. The changes brought about by IFRS have been so substantial that it is extremely difficult to relate the restated 2009/2010 figures to the 2009/2010 Statement of Accounts that was published in September 2010. The only meaningful comparisons for the 2010/2011 figures are therefore the restated 2009/2010 figures as included in the 2010/2011 Statement of Accounts.

The impact of these changes on prior years is shown in Note 1 to the Statement of Accounts.

- 2.3 The statutory deadline for publication of the audited Statement of Accounts was 30 September 2011. The following is an extract from a letter from the Department for Communities and Local Government to all English local authorities in March 2011, which confirms the arrangements for publication and audit:

*The publication duties in regulation 8(3)(d) and 13(4)(a) [of The Accounts and Audit (England) Regulations 2011] require the statement of accounts or accounting statements to be published "together with any certificate, opinion or report issued, given or made by the auditor under section 9 (general report) of the [Audit Commission Act 1998]". The duty is therefore to publish with what is available from the auditor at the time, and therefore, for instance, the absence of a closing audit certificate because of an outstanding objection at audit would not prevent publication.*

- 2.4 The audit of the Statement of Accounts by the Council's appointed external auditors, PricewaterhouseCoopers, was completed and their ISA260 report signed on 21 October 2011. It is now possible to confirm that there are no material changes of the following kind to bring to the Members attention:

- accounting issues;
- significant misstatements;
- audit adjustments;
- significant accounting estimates;
- weaknesses in accounting systems or systems of internal control; or
- fraud issues.

- 2.5 The council's Statement of Accounts were published on the council's website on 30 September 2011. A final set of the Accounts were signed on 21 October 2011 by the Assistant Director – Corporate Services (Section 151 Officer) and the Chair of the Audit Committee. A copy of the final Accounts is appended to this report. The accounts may also be viewed on the Council's website:-  
[www.wolverhampton.gov.uk/council/corporate/finance/accounts/](http://www.wolverhampton.gov.uk/council/corporate/finance/accounts/)

### **3 AUDIT OF THE STATEMENT OF ACCOUNTS**

- 3.1 Due to the major changes to the statement of accounts for 2010/2011 it was not only challenging to produce the draft statement of accounts by the 30 June 2011, it has also been challenging to produce all of the working and supporting papers in good time so that PricewaterhouseCoopers could complete their audit. As a result it was equally challenging for PricewaterhouseCoopers to undertake all of their work. The audit was completed on 21 October 2011.
- 3.2 As reported to the Audit Committee on 17 July 2011 there were a small number of elements of the accounts on which further work had to be undertaken, during the audit period, these elements are set out below:
- (a) Equal Pay Provision
  - (b) Carillion contract
  - (c) Movement in Reserves statement
- 3.3 This work was completed and has been reviewed by PricewaterhouseCoopers. Council officers continued to work closely with PricewaterhouseCoopers providing the documentation and support that is required in order to enable the audit opinions and ISA 260 report to be finalised. Regular contact between the Assistant Director – Corporate Services (Section 151 Officer), Financial Controller and PricewaterhouseCoopers took place throughout the audit period.
- 3.4 The Audit (Final Accounts Monitoring and Review) Sub Committee was kept updated with progress on the accounts preparation and minutes of the Audit Sub Committee from their meeting on 19 September 2011 noted that: "because work is still in progress it is likely that the ISA260 report and audited statement of accounts will be sent out after the agenda for the Audit Committee meeting on 29 September 2011 is despatched."
- 3.5 As a result of the audit work prior to 30 September 2011, a number of significant changes were then made to the draft statement of accounts, as outlined below. In addition to these, there have been numerous changes to the formatting of statements and notes, and additional disclosures, which have arisen from a developing understanding of how local government IFRS accounts should look and what information they should contain. These items all appear in Note 5 to the Accounts – Exceptional Items of Income or Expense.

#### Book Value of Council Dwellings

During 2010/2011 the council carried out a revaluation of its council housing stock. This resulted in an upwards revaluation of approximately £8M. However, after that revaluation had concluded, the Government published

revised guidance on stock valuations. Crucially, this amended the Existing Use Value (Social Housing) factor, which is a ratio that reflects the lower level of income generated by social housing in comparison with houses let at open market rents. This factor was reduced from 49% to 34%, which by itself had the effect of reducing the value of the council's housing stock by over 30%, or £412M. This is reflected in the revised accounts, where the fall in value is recognised as an exceptional item in the Comprehensive Income and Expenditure Statement. It is important to note that despite this being a significant figure this has no effect on the Housing Revenue Account, or on the rents that council tenants will pay.

#### Pensions: Past Service Gains

During 2010/2011, the Government announced that future increases in pensions under the Local Government Pension Scheme would be uplifted by the Consumer Price Index (CPI) instead of the Retail Price Index (RPI). Since CPI is generally lower than RPI this means that, all other things being equal, future pension payments will be lower. The council's actuary estimated the current value of this reduction to be approximately £64M. Under IAS 19, the council has to recognise this gain in its Comprehensive Income and Expenditure Statement immediately, although statutory provisions require that it be reversed out and not score against the General Fund Balance. Whilst this figure was included in the draft accounts, due to its size it has been reclassified as an exceptional item.

#### Equal Pay Compensation

Work has been ongoing since the draft accounts were prepared to provide updated estimates of the value of the council's liabilities under Equal Pay legislation. As a result, the council's provision for equal pay compensation has been increased from £14.9M to £21.0M. The council was granted approval to capitalise £6.0M of such spend during 2010/2011, meaning that the effect of this increase can be deferred over many years.

#### West Midlands Pension Fund

In terms of the West Midlands Pension Fund accounts, which are published with the council's accounts, an adjustment of approximately £27M was made to recognise a debtor for the Magistrate's Court, which had not been reflected in the draft accounts. This was not a material adjustment.

## **4. FINANCIAL IMPLICATIONS**

- 4.1 There are no direct financial implications arising from this report.

[JH/251011/Q]

## **5. LEGAL IMPLICATIONS**

- 5.1 The Accounts and Audit Regulations require the 2010/2011 Draft Statement of Accounts to be produced in accordance with proper practice, this is the Code of Practice on Local Authority Accounting which is published by CIPFA. These

regulations also require that the accounts are approved by 30 June 2011 and published by 30 September 2011.

[MW/31102011/Z]

## **6. EQUALITY IMPLICATIONS**

6.1 There are no equality implications arising from this report.

## **7. ENVIRONMENTAL IMPLICATIONS**

7.1 There are no environmental implications arising from this report.

## **8. SCHEDULE OF BACKGROUND PAPERS**

Draft Statement of Accounts 2010/2011 – Audit (Final Accounts Monitoring and Review) Sub Committee, 30 June 2011

Draft Statement of Accounts 2010/2011 – Audit Committee, 18 July 2011

Audited Statement of Accounts 2010/2011 – Audit (Final Accounts Monitoring and Review) Sub Committee, 19 September 2011

Audited Statement of Accounts 2010/11 – Audit Committee, 29 September 2011

**WOLVERHAMPTON CITY COUNCIL**

**STATEMENT OF ACCOUNTS**

**FOR THE YEAR ENDING 31 MARCH 2011**

**Wolverhampton**  
City Council



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The purpose of this foreword is to:-

- outline responsibilities for the accounts
- provide a statement on corporate governance
- outline changes arising from the Code of Practice on Local Authority Accounting 2010
- give a summary of the Council's financial position for 2010/2011
- summarise spending plans for 2011/2012
- give a guide to the different financial statements that make up the accounts of the Council

**Officer Approval of the Accounts**

The Council's Responsibilities

The council is required to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. That officer is the Assistant Director - Corporate Services (Section 151 Officer). In addition, the council is required to make arrangements to secure economic, efficient and effective use of resources and safeguard its assets and to make arrangements to approve the Statement of Accounts.

The Assistant Director - Corporate Services (Section 151 Officer) Responsibilities

Responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

Required to present fairly the financial position of the council at the accounting date and its income and expenditure for the year ended 31 March 2011.

In preparing this Statement of Accounts, has selected suitable accounting policies and then applied them consistently; made judgements and estimates that were reasonable and prudent and complied with the Code of Practice in all material respects.

Has kept proper accounting records which were up to date and taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the council as at 31 March 2011 and its income and expenditure for the year ended the same date.

*Pat Main*

**Assistant Director - Corporate Services (Section 151 Officer)**

Date: 21 October 2011

**Member Approval of the Accounts**

Responsibility for member approval of Wolverhampton City Council's Statement of Accounts lies with the Audit Committee.

The council's Statement of Accounts for 2010/11 has been presented by the council's Responsible Finance Officer, the Assistant Director - Corporate Services (Section 151 Officer), on 29 September 2011 and was formally approved at this meeting.

*K J Inston*

**Chair, Audit Committee**

Date: 21 October 2011

## **NOTE ON THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED**

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) specifies the principles and practices of accounting required to give a true and fair view of the financial position and transactions of a local authority

For 2010/2011, Local Government has adopted a new method of reporting in their financial statements – International Financial Reporting Standards (IFRS). This change from UK GAAP to IFRS is designed to make the Statement of Accounts more informative and transparent. This has meant that the final accounts process started in April 2010 with finance converting and restating the accounts from 2008/2009 and 2009/2010 to be compliant with IFRS requirements. This is a significant change to the production of the Accounts. This has resulted in a set of accounts that looks very different to that previously produced.

**Revenue**

Revenue expenditure covers the operational costs of services during the year including capital finance charges and contributions to or from reserve accounts.

**General Fund**

General Fund net revenue expenditure (i.e. after allowing for direct fees and charges for services and the use of reserves) is financed from Government Grants and the Collection Fund (Council Tax).

The following table compares actual spending on the General Fund with the forecast outturn for the year that was reported to Cabinet (Resources) Panel in February 2011, the original budget for 2010/11 is also provided for information.

	<u>Original Budget</u>	<u>Forecast Outturn Feb 2011</u>	<u>Actual</u>	<u>Variance From Budget</u>
	£M	£M	£M	£M
Net Expenditure before Reserves	268.5	258.6	<b>253.4</b>	(15.1)
Contribution to Schools' Reserves	-	-	<b>4.2</b>	4.2
Contribution (from)/to General Reserves	-	6.6	<b>7.6</b>	7.6
<b>Net General Fund Expenditure</b>	<b>268.5</b>	<b>265.2</b>	<b>265.2</b>	<b>(3.3)</b>
<u>Financed by:-</u>				
Formula Grant	(144.1)	(144.1)	<b>(144.1)</b>	-
Area Based Grant	(30.8)	(27.5)	<b>(27.5)</b>	3.3
Collection Fund Surplus	(0.1)	(0.1)	<b>(0.1)</b>	-
Precept on Collection Fund (Council Tax)	(93.5)	(93.5)	<b>(93.5)</b>	-
	<b>(268.5)</b>	<b>(265.2)</b>	<b>(265.2)</b>	<b>3.3</b>

The financing of General Fund Expenditure is fixed for the year, therefore any variation in net expenditure levels by the council must be balanced by an equal contribution to or from General Reserves. Accordingly it will be seen that the overall position for 2010/2011 resulted in a contribution to General Reserves of £7.6M. This was better (£1.0M) than the forecast outturn reported to Cabinet (Resources) Panel in February 2011. The General Fund earmarked reserve stands at £39.5M at the year end.

The major factors that contributed to this increased contribution to General Reserves included savings on net interest costs (£1.2M), and a greater surplus generated by Trading Organisations (£1.1M).

The council faces a medium term requirement to bring net general fund expenditure levels in line with the predicted level of government resources and council tax, and avoid drawing on the council's available reserves over that same period. The existing policy was adhered to throughout the financial year to continue to exercise firm financial control over approved budgets to generate savings. These savings have the effect of temporarily increasing the level of available reserves which can then help smooth the transition in bringing net expenditure levels closer to the available resources. This policy has continued to be successful.

## Housing Revenue Account (HRA)

Legislation requires income and revenue expenditure relating to council housing to be accounted for separately in the Housing Revenue Account (HRA).

The expenditure in this account is financed from rents and charges to tenants and interest from mortgages and cash balances. The position on the HRA for 2010/11 can be summarised as follows:-

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> From <u>Budget</u>
	£M	£M	£M
<b>Expenditure</b>			
Maintenance and Management Services (Including Void Rates)	45.2	<b>43.9</b>	(1.3)
Allowance for Bad and Doubtful Debts	0.3	<b>0.2</b>	(0.1)
Negative Housing Subsidy payable to Government	6.4	<b>5.7</b>	(0.7)
Capital Financing Charges	27.5	<b>28.5</b>	1.0
	<u>79.4</u>	<u><b>78.3</b></u>	<u>(1.1)</u>
<b>Income</b>			
Rents and Charges to Tenants	(78.7)	<b>(79.9)</b>	(1.2)
Mortgage Interest and Interest on Balances	-	-	-
	<u>(78.7)</u>	<u><b>(79.9)</b></u>	<u>(1.2)</u>
<b>(Increase)/Decrease in the HRA Reserve for the Year</b>	0.7	<b>(1.6)</b>	(2.3)

The above outturn position shows a surplus of £1.6M, this being an improvement on the original budgeted deficit of £0.7M.

Retained management and maintenance services delivered an underspend of £1.6M. Income from rents and charges was higher than budgeted due to right to buy council house sales being lower than forecast.

Housing Revenue Account reserves stood at £5.1M at the year end. Apart from a contingency element of this reserve of £1.0M, these have been fully committed as part of the medium term planning process for services and rents.

## Capital

Capital spending relates to the acquisition or construction of property, plant and equipment or its enhancement and improvement which will be of benefit to the council for longer than one year. Property, plant and equipment includes roads and infrastructure, schools and other operational buildings, housing, equipment and plant. Payments of grants to third parties to undertake capital work are also capitalised. The council's capital expenditure in 2010/2011 totalled £165.2M. Full details of the outturn are in the Capital Programme Outturn Report presented to Cabinet (Resources) Panel on 5 July 2011:

<https://wolverhampton.cmis.uk.com/decisionmaking/Calendar/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/726/Committee/1299/Default.aspx>

The main items of capital expenditure during the year were as follows:

	£M
<u>Housing</u>	
Decent Homes Stock Condition	52.3
Private Sector Housing	2.9
Other Stock Condition Improvements	1.9
Sustainable Communities Estate Remodelling	1.7
Adaptations for People with Disabilities	1.2
Service Enhancements and Miscellaneous	0.7
	<b>60.7</b>
<u>Children and Young People</u>	
Building Schools for the Future	18.0
Primary Capital Programme	8.3
Modernisation, Suitability and Condition	5.9
Schools Devolved Formula Capital	3.1
Early Years	2.3
Co-Location Funding	2.2
14-19 Diploma Exemplar Learning Centre	1.1
Children's Centres	0.8
ICT Initiatives	0.6
Primary School Rationalisations	0.4
Extended Schools	0.4
Access Initiatives and Other School Projects	0.3
	<b>43.4</b>
<u>Regeneration and Environment</u>	
Wolverhampton City Centre Interchange	14.4
Highways - West Midlands Major Schemes	8.1
ABCD New Deal for Communities	4.6
Integrated Transport	3.4
Highways - Structural Maintenance	2.3
Vehicles, Plant and Equipment	2.2
Land Acquisitions	2.0
Recycling and Waste Efficiency	1.0
Environmental Services	0.8
City Centre and Other Regeneration	0.6
	<b>39.4</b>
<u>Adults and Community</u>	
Bilston Leisure Centre	8.3
Bereavement Services	1.4
Other Minor Programmes	0.3
Parks Refurbishment Programme	0.2
Wednesfield Library Replacement	0.2
	<b>10.4</b>
<u>Other Programmes</u>	
Addition to Capitalisation Risk Provision	6.0
ICT Developments	2.4
Corporate Asset Management	1.0
PCT Physical Activity Partnership	0.3
Redundancy Capitalisations	1.6
	<b>11.3</b>
TOTAL CAPITAL EXPENDITURE 2010/11	<b>165.2</b>

The 2010/2011 capital expenditure was financed from the following sources:

	£M
Borrowing	86.8
Grants and Contributions	67.2
Major Repairs Allowance	10.3
Capital Receipts	0.6
Reserve Funds	0.2
Revenue Contributions	0.1
	<u>165.2</u>

## SPENDING PLANS FOR 2011/2012

The following paragraphs give a brief summary of budgets approved for all Council Services in 2011/2012.

### General Fund

Budgeted net expenditure for General Fund Services in 2011/2012 and the way in which it is financed is as follows;

	£M
Total Net Spending by Services before Reserves	244.3
Contribution from Reserves	<u>(4.9)</u>
Net General Fund Expenditure	<u>239.4</u>
Financed by:-	
General Revenue Grants	(145.0)
Collection Fund Surplus	(0.9)
Precept on Collection Fund	<u>(93.5)</u>
	<u>(239.4)</u>

This net change from the 2010/2011 original budget primarily comprises revisions to funding arrangements of £15.338M and increases in budgets for services funded by specific grants where the grant has been increased, amounting to £7.231M. It also includes £5.458M increase relating to financing transactions. The council has also implemented a corporate transformation programme which will save £15.821M in 2011/2012.

Over the medium term the successful implementation of the transformation programme and further savings will still be required to achieve a balanced budgetary position if future council tax rises for city council services are to be contained within levels of 0% for 2012/2013 and an increase of 2% for the following three financial years, as reported in the Council's current Medium Term Financial Strategy.

### Housing Revenue Account (HRA)

The 2011/12 budget for the HRA is outlined below:-

	£M
Expenditure	
Maintenance and Management Services (inc Void Rates)	46.5
Allowance for Bad and Doubtful Debts	0.7
Negative Housing Subsidy Payable to Government	2.3
Capital Finance Charges	<u>34.1</u>
	<u>83.6</u>
Income	
Rents and Charges to Tenants	84.6
Mortgage Interest and Interest on Balances	<u>-</u>
	<u>84.6</u>
Budgeted Surplus for the Year	<u>1.0</u>

The above figures include an average rent increase of 6.93% from April 2011. During 2011/2012, the forecast surplus of £1.0M will be set aside to meet in-year deficits in future years. After setting aside the surplus, the balance on the reserve will stand at £5.1M.

## Capital

Capital spending relates to the acquisition or construction of property, plant and equipment or its enhancement and improvement which will be of benefit to the council for longer than one year. Property, plant and equipment includes roads and infrastructure, schools and other operational buildings, housing, equipment and plant. Payments of grants to third parties to undertake capital work are also capitalised. The council's forecast capital expenditure for 2011/2012 totals £193.8M. Full details of the forecasted expenditure can be found in the Budget Book 2011/2012 which was reported to Full Council on 2 March 2011 (and updated 27 April 2011).

<https://wolverhampton.cmis.uk.com/decisionmaking/Calendar/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/5729/Committee/1250/Default.aspx>

The main items of forecast expenditure for 2011/2012 are as follows:

	£M
<u>Delivery</u>	
Provision for Future Rolling Programmes	4.5
Bereavement Services City Services	1.0
Recycling and Waste Efficiency Initiatives	0.7
Energy Efficiency Measures	0.5
Markets Investment	0.2
	<hr/> 6.9
<u>Community</u>	
Bilston Leisure Centre	8.9
Co-Location Funding	3.1
Residential Care for Children and Young People	1.4
Parks Refurbishment Programme	1.0
Replacement Core IT Systems	0.9
Capital Investment in Community Capacity Grant	0.7
	<hr/> <b>16.0</b>
<u>Education and Enterprise</u>	
Building Schools for the Future	51.8
Highways - West Midlands Major Schemes	11.5
Schools Modernisation, Suitability and Condition	5.8
Wolverhampton City Centre Interchange	5.3
Environmental Services Initiatives	4.6
Schools Devolved Formula Capital	4.2
Primary Capital Programme	4.0
Highways - Structural Maintenance	3.4
14-19 Diploma Exemplar Learning Centre	3.3
Private Sector Housing Prosperity	2.9
Highways - Network Development Programme	2.6
Corporate Asset Management Initiatives	1.7
Highways - Other Wolverhampton Major Schemes	1.3
Targeted Disposals Programme	0.6
City Centre Regeneration Initiatives	0.5
Street Lighting	0.3
Extended Schools	0.1
Other Partnerships	0.1
	<hr/> <b>104.0</b>
<u>Assistant Chief Executive</u>	
ICT Developments	1.4
	<hr/> <b>1.4</b>
<u>Housing Revenue Account</u>	
Decent Homes Stock Condition	35.6
HRA Provision to be allocated	25.6
Sustainable Communities Estate Remodelling	1.9
Other Stock Condition Improvements	1.4
Service Enhancements and Miscellaneous	0.6
Adaptations for People with Disabilities	0.2
Other Improvements to the Public Realm	0.2
	<hr/> <b>65.5</b>
<b>TOTAL BUDGETED CAPITAL EXPENDITURE 2011/12</b>	<hr/> <b>193.8</b> <hr/>

The following outlines planned sources of financing in 2011/2012:

	£M
Borrowing	71.1
Grants and Contributions	93.9
Major Repairs Allowance	15
Capital Receipts	13.3
Reserve Funds	0.2
Revenue Contributions	0.3
	<hr/>
	193.8
	<hr/>

## **1 Scope of Responsibility**

- 1.1 Wolverhampton City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2 The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The Local Code of Corporate Governance is incorporated within Part 5 of the Council's Constitution, which is available for review on the Council's website.
- 1.4 Copies of the Local Code of Corporate Governance can be obtained from the Monitoring Officer or Chief Financial Officer. This statement explains how the Council has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2011 in relation to the publication of an annual governance statement.
- 1.5 The authority is also responsible for the strategic management and administration of the West Midlands Authorities Pension Fund.

## **2 The Purpose of the Governance Framework**

- 2.1 Good governance is about running things properly. It is the means by which a public authority shows it is taking decisions for the good of the people of the area, in a fair, equitable and open way. It also requires standards of behaviour that support good decision making - collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality services that meet all local people's needs. It is fundamental to showing public money is well spent. Without good governance councils will struggle to improve services when they perform poorly.
- 2.2 The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It 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 system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's and Pension Fund'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.

2.3 The governance framework has been in place at Wolverhampton City Council for the year ended 31 March 2011 and up to the date of approval of the annual report and statement of accounts.

### **3 The Governance Framework**

3.1 The key elements of the systems and processes which comprise the Council's governance arrangements include the following:

3.2 The overarching ambitions for the City are contained in the City Strategy which is the master plan for development over the next 25 years. The Council adopted this document in December 2010. The Strategy has also been adopted by the Wolverhampton Partnership which is the City's Local Strategic Partnership (LSP).

3.3 The Council's priorities are set and monitored through the Corporate Plan (2009/2012). This document is currently being reviewed, testing the Council's vision and its alignment with City ambitions.

3.4 The policy thread is maintained through service plans which connect with corporate priorities and through their translation into individual work plans.

3.5 The authority has pursued arrangements for determining and delivering the key strategic priorities, supported by a number of related measures. These measures are cascaded throughout the authority and are included in service plans which define service and individual objectives and which are subject to on-going review and monitoring.

3.6 The Council's Cabinet (Performance Management) Panel and the Performance Board receive regular reports on high level performance activity. CMT also receives monthly programme monitoring reports in relation to progress on the delivery of the major corporate programmes and projects. These include: Savings and Transformation, Building Schools for the Future (BSF) and the Local Improvement Finance Trust (LIFT). A programme structure is now in place to manage delivery of the Shared Services Transition (Mainframe Replacement) initiative and a Member Reference Group has been established to oversee this activity.

3.7 The Council ensures value for money through the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised. The Council plans its spending through an established planning cycle for policy development, budget setting and performance management designed to ensure that, as far as possible, resources are aligned to priorities.

3.8 The Council also recognises the challenges and risks in working with over 100 people/organisations with separate, but linked, joint working arrangements, and accepts that improvements in the governance arrangements may be required. It does, however, have extensive experience of partnership working in complex service and project delivery environments.

- 3.9 The Council has an organisational framework for decision making based on a Cabinet Structure with Scrutiny Groups and Panels with an overarching Scrutiny Board. In addition, there are a number of regulatory committees which include Planning Committee and Licensing Committee. There is also an Audit Committee which has specific responsibility for overseeing the Council's corporate governance and risk management arrangements. The Audit Committee works closely with the Council's Standards Committee and there is an annual joint meeting of the two Committees in order to ensure that their roles and responsibilities are co-ordinated.
- 3.10 The Standards Committee has appointed three Sub-Committees, the Assessment Sub-Committee, the Review Sub-Committee and the Hearings Sub-Committee in order to comply with the new legislative requirements which have ensued from the development of the strategic role which has been adopted by the Standards Board for England. The introduction of the new Sub-Committees has necessitated the recruitment of further independent members in line with legislative requirements. A training programme has been adopted in order to ensure that the independent membership have been made aware of their roles and responsibilities. Training has also taken place for all Standards Committee Members. Further training is envisaged for the forthcoming year.
- 3.11 The Council has adopted a Constitution which sets out how the Council operates, the roles and responsibilities of the various executive, scrutiny and officer functions, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. An officer Constitution Review Group reviews the Constitution on an ongoing basis. Further changes to the Constitution were approved by Council this year and an amended Constitution has been issued. Significantly, the changes have incorporated amendments to the Council's contracting regime. Additionally, changes have been made to confirm changes in the senior management structure of the organisation. A further detailed review of the Constitution as a whole is planned.
- 3.12 The Constitution establishes a framework incorporating protocols, schemes of delegation and financial frameworks upon which the Council is to operate. The Council requires compliance with these elements of the Constitution in order that established policies, procedures, laws and regulations, including the Council's risk management practice, is adhered to. Amendments have been made to the Members' Code of Conduct where this has been necessitated by law. There has been training in connection with the provisions of the Code of Conduct and further training is anticipated. There is an induction programme in place for both officers and Members and further work will continue in developing training as appropriate to officers and Members according to their specific roles and responsibilities. The Council has a strong Internal Audit function with a close working relationship and established protocols for working with External Audit. The Audit Commission through its inspectorate functions also reviews compliance with policies, procedures, laws and regulations within their remit.

3.13 The Council has implemented a Risk Management Strategy through a process involving Executive Members, the Chief Executive, Directors, Senior Managers and representatives from External and Internal Audit and Risk Management and Insurance. The strategy is subject to regular review and risk management arrangements are in place which enables the corporate directors, managers and other senior officers to identify, assess, manage and monitor risks within their own work areas which impact on the ability of the Council and its services to meet objectives. Headline assessments of risk are also included in respective service plans and project plans by Service Managers.

3.14 Arrangements are in place for all new Members to receive an induction which consists of several elements including (but not limited to) an introduction to political and decision-making processes, key developments, standards of ethics and behaviour expected of Members and local government finance. For some panels, Members also receive training in order to meet legislative requirements. Additional support is provided through tailored Member guides, books, CDs or one to one officer support.

3.15 Risk management is an integral part of the Member induction process and a guide has been produced for issue to all Members. Specific training in risk management and corporate governance is also provided to Members of the Audit Committee.

3.16 The Council acknowledges its responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the resources concerned. The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. The system includes:

- a robust medium term financial planning process linking budgets to Council priorities;
- comprehensive revenue and capital budgeting systems;
- setting targets to measure financial and other performance;
- the preparation of regular financial monitoring reports which measure actual expenditure and income against forecasts;
- clearly defined expenditure guidelines and formal project management disciplines.

All of the above are subject to continuous monitoring and review and regular financial reports are submitted to Council, Cabinet, Audit Committee and Scrutiny Panels for Member information, review and approval as necessary.

3.17 With regard to the West Midlands Pension Fund, day to day management of the fund is carried out by two separate teams of staff who are dedicated solely to the functions of pensions administration and investments with appropriate support and advice from external investment managers. Both teams report to a dedicated Director of Pensions.

3.18 The key elements of the Pension Fund internal control environment include:

- Procedures for establishing and monitoring the achievement of the Pension Fund objectives.
- The facilitation of policy making and decision making.
- Ensuring compliance with established policies, procedures, laws and regulations.

- Ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which the functions of the Pensions Fund are exercised.
- The financial management of the Pensions Fund and the reporting of financial management.
- The performance management of the Pensions Fund and the reporting of performance management.

#### **4 Review of Effectiveness**

- 4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 4.2 The Council's Constitution clearly sets out the responsibilities of Members and senior managers, particularly those of the three statutory posts of the Head of Paid Service, Monitoring Officer and Section 151 Officer. There is a requirement to report in this Statement that the authority is not fully compliant with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2009) because the Chief Financial Officer post is not at the same level in the authority as members of the Corporate Management Team and they do not report directly to the Chief Executive. Alternative arrangements are in place whereby the Chief Financial Officer attends meetings of the Corporate Management Team and has direct access to the Chief Executive when required.
- 4.3 The Constitution also sets out the responsibilities of Members and senior managers in relation to operation of the Pension Fund and the Chief Financial Officer, as Section 151 Officer to the Fund, has responsibility to review independently and report regularly to the Superannuation Committee to provide assurance on the adequacy and effectiveness of the code of corporate governance and the extent of compliance with it both in respect of the Council and the Pension Fund. The Chief Legal Officer occupies the role of Legal Advisor to the Pension Fund together with external legal support as and when required.

4.4 The Council continually assesses the manner in which its corporate governance responsibilities are discharged as identified by the CIPFA/SOLACE guidance and is able satisfy itself that its approach to corporate governance is both adequate and effective in practice. The Council has an Audit Committee which has clearly defined terms of reference in relation to the Authority's accounting and stewardship functions. The Audit Committee has specific responsibility to oversee the Council's corporate governance arrangements, the work of the Council's internal auditors and the Council's response to external audit and other external inspections that relate to the Committee's work. The Committee regularly receives Risk and Governance reports on each of the Service Directorate's activities and major Projects within the Council. Two sub committees are in place, one to focus on receiving Audit Services' reports on selected financial transaction reviews and current Audit investigations; and the other to review the preparation of the annual financial statements.

The delegation of these functions to sub committees helps allow the main Audit Committee to focus on priority strategic and corporate issues.

4.5 The Council operates under a Cabinet structure with Special Advisory Groups and three Cabinet Panels reporting up to the main Cabinet. There are also six Scrutiny Panels who work with a Scrutiny Board.

4.6 Arrangements for the provision of internal audit are contained within the Council's Constitution. The Chief Financial Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting records and of its systems of internal control as required by the Accounts and Audit Regulations 2003 and Amendment Regulations 2006. Internal Audit operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom under the day to day control of the Head of Audit Services who acts independently. The Internal Audit Division plans and prioritises its work through a combination of assessment and review of the Council's corporate governance arrangements, risk management processes and key internal control systems, supplemented by a programme of managed audit and scheduled visits to Council establishments. The resulting work plan is discussed and agreed with Directors and Chief Officers, shared with the Council's external auditor and approved by the Audit Committee. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted to Elected Members, Directors, Chief Officers, School Heads and Chairs of Governors as appropriate. The review of the effectiveness of the system of internal control is informed by:

- the work of managers within the Council;
- the work of the internal auditors as described above;
- the external auditors in their annual audit letter; and
- reports by other independent inspection bodies (Audit Commission, CQC, OFSTED, etc.).

4.7 The Audit Committee has reviewed and updated the Council's fraud related policies, including the Anti-Fraud and Corruption Policy and the Whistleblowing Policy, and copies are published on the Council's intranet and internet sites.

## 5 Significant Governance Issues

- 5.1 The Council recognises that the identification, evaluation and monitoring of risks is a key aspect in the governance of the organisation. An ongoing review of the Council's operational practice is carried out while the existence of a distinct and separate Risk Management service further embeds practice at both a strategic and operational level and ensures a consistent approach to risk assessment, review and reporting.

The following matters represent the most significant current governance issues that are subject to attention in order to ensure that lessons are learnt and good practice is embedded.

- 5.2 **Partnership governance** arrangements include responsibility for monitoring performance and managing risk. Improvements are required to the Risk Management arrangements within the major partnerships, in others to ensure that the risks associated with joint working are adequately identified and managed by the Council in conjunction with the appropriate partner. A Partnership Protocol has been agreed. Work continues in collating a partnership register and a reporting mechanism whereby the status of partnerships in which the Council is involved at a significant level are monitored. This is to ensure that adequate risk management arrangements are in place.

- 5.3 The Council still has to implement **Single Status**, a national agreement between the National Joint Council (NJC) for Local Government and Signatory Trades Unions made on 1 April 1997. The Council has a dedicated project team to implement and govern this process. An independent 'lessons learned' review into the COT3 payments made in 2007/2008 has been undertaken and good practice recommendations following the review are being fed into the Council's overall improvement plan.

- 5.4 During 2009/2010 the Council concluded negotiations about the proposed strategic partnership with Axon Solutions Limited and agreed a settlement payment for work completed. The Council has commenced an independent 'lessons learned' review of the proposed partnership and the findings will be fed into the Improvement Plan.

- 5.5 It is acknowledged that the Council's **contingency plans** associated with continuity of service in the event of a major service disruption or disaster require improvement, and resources have been committed to this process. There still remain ongoing issues.

- 5.6 During 2010/2011 the Council began a significant **organisational restructure** of its senior management arrangements. The changes in roles and responsibilities present an increase in risk to the delivery of services and the effectiveness of the internal control system during transition to the new structure. These changes are being monitored and evaluated using project management techniques to ensure any issues are identified and addressed at an early stage.

- 5.7 The Council realises the value and importance of effective **information governance** throughout the Council and acknowledges that improvements are required to the way in which information is stored, managed and disposed of. A robust Information Governance Strategy will be developed over the coming year which will be supported by a policy framework containing information policies, procedures and guidelines.

5.8 The Council has identified that it needs to make **significant budget savings** over the medium term in order to address the financial challenges that are predicted. These challenges include the requirement to:

- fund the outcome of single status job evaluation and equal pay claims;
- cope with the impacts of the economic recession on income receipts and demand for services;
- ensure that treasury management risks are identified and managed effectively;
- deliver on major capital programmes at a time of diminishing capital receipts;
- balance the growing demand for Council services against the impact of significant cuts in external funding.

### **Approval**

In approving this statement, the views of all Directors and a number of Senior Managers have been obtained and suitable assurances obtained confirming that this statement is an accurate representation of the current position.

**Simon Warren**  
Chief Executive

**Councillor Roger Lawrence**  
Leader of the Council

Date: 22 June 2011

## INTRODUCTION TO THE FINANCIAL STATEMENTS

The financial statements that follow have been prepared using the accruals concept, and on a going concern basis. These accounts comprise:

### **Core Financial Statements**

#### **Comprehensive Income and Expenditure Statement**

This statement shows the accounting cost in the year of providing services in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (“the Code of Practice”) rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

#### **Movement in Reserves Statement**

This Statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The Surplus or (deficit) on the provision of services' line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for the purpose of setting Council Tax and dwelling rents.

The 'Net Increase /Decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

The 'Net Increase /Decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

#### **Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council.

Reserves are reported in two categories. The first category of reserves is usable reserves, ie those reserves that the council 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 council is not able to use to provide services.

The Balance Sheet includes the assets and liabilities of all activities of the Council but excludes all activities relating to the West Midlands Pension Fund and Trust Funds.

#### **Cash Flow Statement**

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

### **Statement of Accounting Policies**

The purpose of this statement is to explain the basis on which the figures within the accounts have been recorded. In certain circumstances more than one accounting policy or estimation technique may be acceptable and therefore all those which are significant to the understanding of the Statement of Accounts are disclosed.

## **Supplementary Financial Statements**

### **Housing Revenue Account**

This statement reflects a statutory obligation to account separately for local authority housing provision, as defined in particular in Schedule 4 of the Local Government and Housing Act 1989. It shows the major elements of housing revenue expenditure and capital financing costs, and how these are met by rents and other income.

### **Collection Fund**

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to National Non-Domestic Rates (NNDR) and the Council Tax, and illustrates the way in which these have been distributed to all preceptors and Wolverhampton's General Fund.

### **Group Accounts**

Where activities of the Council are carried out through other undertakings in which the Council has a significant interest, and the consolidation of the income, expenditure, assets, liabilities and reserves of those undertakings into the Council's financial statements would result in a material change to the statements, the Council is required to prepare Group Accounts in order to represent more accurately the economic activities and financial position associated with the provision of all services for which the Council is responsible.

The only such undertaking with regard to Wolverhampton City Council is Wolverhampton Homes. The Group Accounts consolidate the statements for the City Council with those for Wolverhampton Homes to show the financial position of the group entity as a whole.

### **Pension Fund Accounts**

Following local government reorganisation in 1986, Wolverhampton City Council assumed responsibility for administering the West Midlands Metropolitan Authorities Pension Fund on behalf of all local authorities in the West Midlands and other employers who have members in the Fund. While the Pension Fund constitutes a separate legal and accounting entity, and its accounts do not form part of the Local Authority single entity or group accounts, the the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice") requires that the Council includes financial statements for the Pension Fund alongside its own statements. The annual report for the Pension Fund is published separately and is available on request from the Assistant Director Corporate Services (Section 151 Officer) , Civic Centre, Wolverhampton WV1 1RL.

## CORE FINANCIAL STATEMENTS FOR THE YEAR ENDING 2010/2011

### MOVEMENT IN RESERVES STATEMENT

This Statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus or (deficit) on the provision of services' line shows the true economic cost of providing the council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charges to the General Fund Balance and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The 'Net increase /Decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance £000	Earmarked GF Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Major Repair Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total council Reserves £000
<b>Balance 1 April 2009</b>	<b>29,313</b>	<b>36,886</b>	<b>1,140</b>	<b>868</b>	<b>11,941</b>	<b>-</b>	<b>80,148</b>	<b>958,377</b>	<b>1,038,525</b>
<b>Movement in reserves during 2009/2010</b>									
Surplus or (deficit) on provision of services (accounting basis)	(30,812)	-	2,750	-	-	-	(28,062)	-	(28,062)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(96,280)	(96,280)
<b>Total Comprehensive Income and Expenditure</b>	<b>(30,812)</b>	<b>-</b>	<b>2,750</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28,062)</b>	<b>(96,280)</b>	<b>(124,342)</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	47,332	(644)	(353)	(301)	2,036	99	48,169	(48,169)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>16,520</b>	<b>(644)</b>	<b>2,397</b>	<b>(301)</b>	<b>2,036</b>	<b>99</b>	<b>20,107</b>	<b>(144,449)</b>	<b>(124,342)</b>
Transfers to/from Earmarked Reserves (Note 8)	(13,913)	13,913	-	-	-	-	-	-	-
<b>Increase/Decrease</b>	<b>2,607</b>	<b>13,269</b>	<b>2,397</b>	<b>(301)</b>	<b>2,036</b>	<b>99</b>	<b>20,107</b>	<b>(144,448)</b>	<b>(124,341)</b>
<b>Balance at 31 March 2010 carried forward</b>	<b>31,920</b>	<b>50,155</b>	<b>3,537</b>	<b>567</b>	<b>13,977</b>	<b>99</b>	<b>100,255</b>	<b>813,929</b>	<b>914,184</b>
<b>Movement in reserves during 2010/2011</b>									
Surplus or (deficit) on provision of services (accounting basis)	96,838	-	(407,999)	-	-	-	(311,161)	-	(311,161)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	50,651	50,651
<b>Total Comprehensive Income and Expenditure</b>	<b>96,838</b>	<b>-</b>	<b>(407,999)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(311,161)</b>	<b>50,651</b>	<b>(260,510)</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	(75,901)	(202)	409,732	1,188	23,185	4,517	362,519	(362,519)	-
<b>Net Increase/Decrease before Transfers to</b>	<b>20,937</b>	<b>(202)</b>	<b>1,733</b>	<b>1,188</b>	<b>23,185</b>	<b>4,517</b>	<b>51,358</b>	<b>(311,868)</b>	<b>(260,510)</b>
Transfers to/from Earmarked Reserves (Note 8)	(13,316)	13,529	(213)	-	-	-	-	-	-
<b>Increase/Decrease</b>	<b>7,621</b>	<b>13,327</b>	<b>1,520</b>	<b>1,188</b>	<b>23,185</b>	<b>4,517</b>	<b>51,358</b>	<b>(311,868)</b>	<b>(260,510)</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>39,541</b>	<b>63,482</b>	<b>5,057</b>	<b>1,755</b>	<b>37,162</b>	<b>4,616</b>	<b>151,613</b>	<b>502,061</b>	<b>653,674</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This 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. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

31 March 2010			31 March 2011			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000s	£000s	£000s	Single Entity	£000s	£000s	£000s
121,562	(49,415)	72,147	Adult social care	128,366	(53,346)	75,020
7,258	(3,416)	3,841	Central services to the public	14,711	(3,614)	11,097
324,350	(259,460)	64,889	Education & children's services	342,100	(267,197)	74,903
10,660	(1)	10,659	Corporate & democratic core	4,676	-	4,676
97,014	(23,849)	73,165	Cultural, environmental, regulatory & planning services	77,762	(25,143)	52,619
26,102	(5,099)	21,003	Highways & transport services	41,245	(5,089)	36,156
65,742	(77,664)	(11,922)	Housing services	83,479	(79,848)	3,632
158,321	(149,240)	9,081	Non-distributed costs	161,994	(156,812)	5,182
			Exceptional Items (Note 5)			
5,417	-	5,417	Contribution to Provision	6,036	-	6,036
-	-	-	Housing Revaluation	404,443	-	404,443
-	-	-	Pensions Indexation	(63,818)	-	(63,818)
<b>816,427</b>	<b>(568,145)</b>	<b>248,281</b>	<b>Cost of Services</b>	<b>1,200,994</b>	<b>(591,049)</b>	<b>609,945</b>
		13,938	Other Operating Expenditure (Note 9)			12,397
		50,997	Financing and Investment Income and Expenditure (Note 10)			44,393
		(285,154)	Taxation and Non-Specific Grant Income (Note 11)			(355,574)
		<b>28,062</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>311,161</b>
		(30,212)	Surplus or Deficit on Revaluation of Non current Assets			(684)
		(10,392)	Surplus or Deficit on Revaluation of Available for Sale Financial Assets			-
		136,884	Actuarial Gains / Losses on Pension Assets / Liabilities			(49,967)
		<b>96,280</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(50,651)</b>
		<b>124,342</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>260,510</b>

## BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves is usable reserves, ie those reserves that the council 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 council 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 were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

1 April 2009 £000	31 March 2010 £000		Notes	31 March 2011 £000
1,876,899	1,941,655	Property, Plant & Equipment	12	1,595,878
1,600	7,381	Investment Property	13	17,712
-	1,115	Intangible Assets	14	920
6,461	16,853	Long Term Investments	15	16,853
206	139	Long Term Debtors	15	103
<b>1,885,166</b>	<b>1,967,143</b>	<b>Long Term Assets</b>		<b>1,631,466</b>
53,786	5,337	Short Term Investments	15	27,790
412	370	Inventories	16	574
45,432	51,957	Short Term Debtors	18	64,577
4,185	4,118	Cash and Cash Equivalents	19	1,889
<b>103,815</b>	<b>61,782</b>	<b>Current Assets</b>		<b>94,830</b>
(99)	(37,359)	Short Term Borrowing	15	(16,207)
(69,435)	(66,428)	Short Term Creditors	21	(75,130)
(12,388)	(17,808)	Provisions	22	(26,298)
<b>(81,922)</b>	<b>(121,595)</b>	<b>Current Liabilities</b>		<b>(117,635)</b>
(495,303)	(470,850)	Long Term Borrowing	15	(530,413)
(363,145)	(512,037)	Other Long Term Liabilities	41,42	(413,101)
(10,084)	(10,259)	Capital Grants Receipts in Advance	38	(11,473)
<b>(868,532)</b>	<b>(993,146)</b>	<b>Long Term Liabilities</b>		<b>(954,987)</b>
<b>1,038,527</b>	<b>914,184</b>	<b>Net Assets</b>		<b>653,674</b>
(29,312)	(31,920)	Usable Reserves	23	(39,540)
(36,887)	(50,155)	- General Fund		(63,484)
(1,140)	(3,537)	- Earmarked reserves		(5,057)
0	(98)	- Housing Revenue Account		(4,614)
(868)	(567)	- Major Repairs Reserve		(1,755)
(11,941)	(13,977)	- Capital Receipts Reserve		(37,162)
<b>(80,148)</b>	<b>(100,254)</b>	- Capital Grants Unapplied		<b>(151,612)</b>
(958,379)	(813,930)	Unusable Reserves	24	(502,062)
<b>(958,379)</b>	<b>(813,930)</b>			<b>(502,062)</b>
<b>(1,038,527)</b>	<b>(914,184)</b>	<b>Total Reserves</b>		<b>(653,674)</b>

## CASH FLOW STATEMENT

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

Year Ending 31 March 2010 £000		Year Ending 31 March 2011 £000
28,062	Net (surplus) or deficit on the provision of services	311,161
(122,920)	Adjust net surplus or deficit on the provision of services for noncash movements	(418,419)
50,117	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	44,346
<u>(44,741)</u>	<b>Net cash flows from Operating Activities (Note 25)</b>	<u>(62,912)</u>
<b>46,454</b>	<b>Investing Activities (Note 26)</b>	<b>98,415</b>
<b>(1,646)</b>	<b>Financing Activities (Note 27)</b>	<b>(33,274)</b>
<u>67</u>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<u>2,229</u>
(4,185)	Cash and cash equivalents at the beginning of the reporting period	(4,118)
<u><b>(4,118)</b></u>	<b>Cash and cash equivalents at the end of the reporting period</b>	<u><b>(1,889)</b></u>

**1 IFRS**

This is the first year that the council has prepared accounts in accordance with International Financial Reporting Standards (IFRS). The move to IFRS has brought about a number of changes in the treatment of certain transactions and balances, as discussed below.

Short-term Accumulating Compensated Absences

The council has recognised a liability for short-term absences earned by employees, but not yet taken at the balance sheet date. This liability had a value of £5.3M at 31 March 2011 (£5.3M at 31 March 2010, £4.6M at 1 April 2009).

Leases

The council has reclassified a number of leases that were previously operating leases in accordance with UK GAAP as finance leases. The effect of this has been to increase the value of the council's property, plant and equipment assets at 31 March 2011 by £0.9M (31 March 2010: £1.2M), and to increase its long-term liabilities at 31 March 2011 by £0.8M (31 March 2010: £1.0M).

Grants and Contributions

In accordance with IFRS, the council has recognised grants and contributions received where there were no outstanding conditions at the Balance Sheet date. In several cases, the timing of this recognition differs from the timing of the application of the grant for the purposes of management accounting and/or funder requirements. This has resulted in a reduction of £0.997M of revenue grants being recognised in 2010/2011 (2009/2010: increase of £5.7M). The balance of revenue grants recognised but not yet applied has been credited to an earmarked reserve.

The council has also credited capital grants and contributions receivable to the Comprehensive Income and Expenditure Statement, as required under IFRS. This differs from the treatment under UK GAAP, which was to defer recognition of capital grants and contributions over the life of the associated property, plant and equipment. The council recognised £90.4M of capital grants in 2010/2011 (2009/2010: £29.3M).

**Restated Comprehensive Income and Expenditure Statement 2009/10**

<b>Published 2009/2010</b>	<b>Changes</b>	<b>Notes</b>	<b>2009/2010</b>
<b>Net Expenditure</b>			<b>Restated</b>
<b>£M</b>	<b>£M</b>		<b>Net Expenditure</b>
			<b>£M</b>
245.893 Net cost of services	2.388	(1)	248.281
10.703 Other operating expenditure	3.235	(2)	13.938
50.865 Financing and investment income and expenditure	0.132		50.997
-255.853 Taxation and non-specific grant income	-29.301	(3)	-285.154
<b>51.608 (Surplus)/deficit on provision of services</b>	<b>-23.546</b>		<b>28.062</b>
97.489 Other comprehensive income and expenditure	-1.209		96.28
<b>149.097 Total comprehensive income and expenditure</b>	<b>-24.755</b>		<b>124.342</b>

Notes:

- (1) Revenue grants received in 2009/10 credited in their entirety to the Income and Expenditure account even where unused less amortisation adjustment.
- (2) Trading surpluses on internal trading operations, previously charged to Other comprehensive income and expenditure.
- (3) Capital grants received in 2009/10 credited in their entirety to the Income and Expenditure account even where unused.

**Restated Balance Sheet as at 1 April 2009 (2008/09 Financial Year)**

<b>Previously Published 1 April 2009</b>	<b>Changes</b>	<b>Notes</b>	<b>Restated Balance 1 April 2009</b>
<b>£M</b>	<b>£M</b>		<b>£M</b>
1,883.570 Long Term Assets	1.596	(1)	1,885.166
105.166 Current Assets	-	(2)	103.815
- 89.471 Current Liabilities	7.549	(2)	-
-1,029.861 Long Term Liabilities	161.329	(3)	-
<b>869.404 Net Assets</b>	<b>169.123</b>		<b>1,038.527</b>
- 66.130 Usable Reserves	-	(2)	-
- 803.274 Unusable Reserves	-	(3)	-
- <b>869.404 Total Reserves</b>	<b>- 169.123</b>		<b>- 1,038.527</b>

Notes:

(1) Recognising finance leases has the effect of introducing values for property, plant and equipment onto the balance sheet for items previously treated as operating leases (i.e. Income and Expenditure only items).

(2) The change of grants treatment has led to the reclassification of some items previously treated as short term creditors to reserves.

(3) The change in treatment of grants is responsible for a large shift in an item previously being recognised as a Long Term Liability (Government Grants Deferred Account) being recognised as an Unusable Reserve.

**Restated Balance Sheet as at 31 March 2010 (2009/10 Financial Year)**

<b>Previously Published 31 March 2010</b>	<b>Changes</b>	<b>Notes</b>	<b>Restated Balance 31 March 2010</b>
<b>£M</b>	<b>£M</b>		<b>£M</b>
1,965.935 Long Term Assets	1.208	(1)	1,967.143
63.133 Current Assets	-	(2)	61.782
- 115.106 Current Liabilities	-	(2)	-
-1,193.655 Long Term Liabilities	200.509	(3)	-
<b>720.307 Net Assets</b>	<b>193.877</b>		<b>914.184</b>
- 639.769 Unusable Reserves	-	(3)	-
- <b>720.307 Total Reserves</b>	<b>- 193.877</b>		<b>- 914.184</b>

Notes:

(1) Recognising finance leases has the effect of introducing values for property, plant and equipment onto the balance sheet for items previously treated as operating leases (i.e. Income and Expenditure only items).

(2) The change of grants treatment has led to the reclassification of some items previously treated as short term creditors to reserves.

(3) The change in treatment of grants is responsible for a large shift in an item previously being recognised as a Long Term Liability (Government Grants Deferred Account) being recognised as an Unusable Reserve.

## **2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

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The Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012 (the Code) will incorporate the requirements of FRS 30 Heritage Assets. This will require that a new class of assets, heritage assets, is disclosed separately on the face of the council's Balance Sheet in the 2011/2012 financial statements.

The council is required to disclose information relating to the impact on the financial statements of any new standard that has been issued, but not yet adopted by the council. As is set out above, full adoption of the standard will be required for the 2011/2012 financial statements. However, the council is required to make disclosure of the estimated effect of the new standard in these (2010/2011) financial statements.

Heritage assets are assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. The heritage assets held by the council are the collections of assets and artefacts either exhibited or stored in the Wolverhampton Museum and Art Gallery, Bilston Craft Gallery and the Bantock House Museum.

These collections are not currently recognised in the financial statements as no information is available on the cost of the assets (detailed records are however maintained by the curators of the museums, including insurance valuation information). They are regularly valued for insurance purposes, the most recent valuation being for £15.3M.

The council does not anticipate that it will charge depreciation on its heritage assets, on the grounds that they have long useful lives and high residual values, and any depreciation charge would not therefore be material to the accounts.

## **3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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### **Implications of Funding Reductions**

In applying the accounting policies set out in Note 51 "Statement of Accounting Policies", the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are as follows:

The council faces major reductions in its funding over the medium term, and it is currently forecast to require an additional £60M of savings and/or income over the period to 2015/2016. However, no instances have been identified as a result of this savings requirement of assets which need to be impaired due to a need to close facilities and reduce levels of service provision.

### **Group Accounts**

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

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

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

### **Private Finance Initiative (PFI) Contracts**

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

### **Leases for Non-current Assets**

The council reviews all leases involving non-current assets for their treatment under IAS 17. As a result of this, the council's leasehold interest in the Light House cinema building has been reclassified as a finance lease, and accordingly the item of property, plant and equipment has been derecognised and a financial asset recognised.

### **Equal Pay Back Pay**

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

The timing and amount of any such compensation payments are not certain, however a provision has been established, based on high-level estimates of the total potential liability. The change to the provision in 2010/2011 has been accounted for as an exceptional item due to the nature of the transaction.

### **Property, Plant and Equipment belonging to Voluntary Aided and Voluntary Controlled Schools**

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

### **Accounting for National Insurance Contributions**

The council is currently working with Her Majesty's Revenue and Customs (HMRC) as a result of enquiries regarding aggregation of earnings for National Insurance Contributions purposes. The council believes that it currently meets the requirements for non-aggregation based on the provisions of the Regulation 14 of the Social Security (Contributions) Regulations 2001 and has presented initial arguments that substantiate this to HMRC. As a result HMRC have requested further detailed information in order to assist them with their enquiries. These discussions are likely to take some time to finalise and should HMRC conclude that the council has not met the requirements for non-aggregation the financial implications for the council could be significant. It is however not possible to estimate the extent of the potential financial implications at this stage due to the complex nature of this matter. The council is being supported and advised with this matter by Elysian Associates, a firm of VAT and Taxation Consultants.

### **Accounting for the Voluntary Redundancy Programme**

The council undertook a major voluntary redundancy exercise during 2010/2011, and there were a number of employees who were part-way through the approval process at the year end. The council has taken a prudent approach to the treatment of the anticipated costs of such employees, recognising those costs in 2010/2011 where it seemed likely that approval would be given and a redundancy would result.

### **Accounting for Carbon Reduction Commitment**

The Carbon Reduction Commitment (CRC) scheme has applied since 1 April 2010. However, the first compliance year of the scheme (2010/2011) was a reporting-only year. No allowances were therefore be required for 2010/2011 and consequently no liabilities arose. No accounting for the CRC scheme is therefore required in 2010/2011. The scheme was due to come into operation from 1 April 2011 but this has now been delayed to 1 April 2012. The council has collected the data required and will make the necessary disclosures and accounting entries in future statements of accounts.

#### 4 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

The items in the council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

##### **Pensions Net Liability**

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

<b>Variation to Assumptions</b>	<b>Impact on Net Liability</b>
Discount Rate 0.1% higher	Decrease of £17.225M
Salary Inflation 0.1% p.a. higher	Increase of £5.302M
Life expectancy of scheme members 1 year higher	Increase of £24.115M

##### **Property, Plant and Equipment**

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

## **5 EXCEPTIONAL ITEMS OF INCOME AND EXPENSE**

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There were three exceptional items of expense in 2010/11.

Under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendments) Regulations 2003, employees are entitled to equal pay for work of equal value. Where this has historically not been the case, the Council may be liable to make compensatory payments to employees who were disadvantaged by the prevailing rates of pay. At 1 April 2010, the council held £14.917M in a provision for any such costs. Based on updated forecasts, the provision has been increased by £6.036M in 2010/2011. In order to ensure that in future, employees whose work is of equal value will receive equal pay, the Council is nearing the completion of an extensive job evaluation exercise, in line with the 1997 Single Status agreement between the National Joint Council and trade unions.

During 2010/11 the Council's housing stock has been revalued downwards by a net £404.443M. This is due to a fall in the Existing Use Value (Social Housing) adjustment factor. This factor reflects the economic cost to government of providing housing at less than open market rents. For the West Midlands Area the factor fell from 49% in 2009/10 to 34% in 2010/11.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2010 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the Council's liabilities in the West Midlands Pension Fund and the Teachers Discretionary Pension Fund by £63.818M and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact on the General Fund or Housing Revenue Account.

## **6 EVENTS AFTER THE BALANCE SHEET DATE**

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There were no post balance sheet events requiring disclosure in the financial statements or notes.

## 7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2010/11	Usable Reserves						
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Earmarked Reserves	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>							
Charges for depreciation and impairment of non-current assets	(39,501)	(427,072)					466,573
Revenue Expenditure Funded from Capital under Statute	(32,681)	(13)					32,694
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	789	959					(1,748)
Difference between HRA depreciation and Major Repairs Allowance		(1,117)					1,117
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>							
Statutory provision for the repayment of debt	9,574	445					(10,019)
Capital expenditure financed from earmarked reserve						202	(202)
Revenue contribution to finance capital	148						(148)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	90,403				(90,403)		0
Application of grants to capital financing transferred to the Capital Adjustment Account					67,218		(67,218)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	514	1,977	(3,952)				1,461
Use of capital receipts reserve to finance capital expenditure			621				(621)
HRA capital receipts to housing central pool	(2,142)		2,142				0
<b>Adjustment primarily involving the Major Repairs Reserve:</b>							
Reversal of Major Repairs Allowance credited to the HRA		14,782		(14,782)			0
Use of the Major Repairs Reserve to finance new capital expenditure				10,265			(10,265)
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>							
Differences between statutory debits/credits and amounts recognised as income and expenditure in relation to financial instruments e.g. Soft loans	1,549	(7)					(1,542)
<b>Adjustments primarily involving the Pensions Reserve:</b>							
Amount by which pension costs calculated in accordance with the code (i.e. in accordance with IAS19) are different from the contributions due under the pension scheme regulations	46,884	308					(47,192)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							
Amount by which council tax income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	392						(392)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(27)	6					21
<b>Total Adjustments Usable Reserves</b>	<b>75,902</b>	<b>(409,732)</b>	<b>(1,189)</b>	<b>(4,517)</b>	<b>(23,185)</b>	<b>202</b>	<b>362,519</b>

2009/2010 comparative figures	Usable Reserves							Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Earmarked Reserves		
	£000	£000	£000	£000	£000	£000	£000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>								
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>								
Charges for depreciation and impairment of non-current assets	(62,363)	(15,801)						78,164
Amortisation of deferred income	347							(347)
Capital grant and contributions applied	27,265							(27,265)
Donated assets fair value less consideration								0
Revenue Expenditure Funded from Capital under Statute	(8,505)	(3)						8,508
Difference between HRA depreciation and Major Repairs Allowance		(866)						866
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>								
Statutory provision for the repayment of debt	8,356	440						(8,796)
Capital expenditure financed from earmarked reserve						644		(644)
Revenue contribution to finance capital	439							(439)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	2,036				(2,036)			0
Application of grants to capital financing transferred to the Capital Adjustment Account								0
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>								
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(1,116)	1,500	(2,828)					2,444
Capital receipts from sale of de minimis assets	965		(965)					0
Use of capital receipts reserve to finance capital expenditure			2,848					(2,848)
HRA capital receipts to housing central pool	(1,246)		1,246					0
<b>Adjustment primarily involving the Major Repairs Reserve:</b>								
Reversal of Major Repairs Allowance credited to the HRA		14,581		(14,581)				0
Use of the Major Repairs Reserve to finance new capital expenditure				14,482				(14,482)
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>								
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	(117)	191						(74)
<b>Adjustments primarily involving the Pensions Reserve:</b>								
Amount by which pension costs calculated in accordance with the code (i.e. in accordance with IAS19) are different from the contributions due under the pension scheme regulations	(14,437)	311						14,126
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>								
Amount by which council tax income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	1,692							(1,692)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>								
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(648)							648
<b>Total Adjustments Usable Reserves</b>	<b>(47,332)</b>	<b>353</b>	<b>301</b>	<b>(99)</b>	<b>(2,036)</b>	<b>644</b>		<b>48,169</b>

## 8 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/2011.

	Balance at 1 April 2009 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2010 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2011 £000
<b>General Fund:</b>							
Schools Balances	12,459	(3,623)	4,262	13,098	(2,389)	7,658	18,367
Job Evaluation Reserve	6,300	(376)	-	5,924	(438)	-	5,486
Unapplied Specific Grants	1,182	-	5,355	6,537	(1,274)	-	5,263
Efficiency Programme	2,400	(91)	1,691	4,000	(328)	1,328	5,000
Budget 2011/2012 Support	-	-	-	-	-	4,910	4,910
Southside Reserve	-	-	-	-	-	4,600	4,600
Insurance Fund Reserve	2,265	-	1,334	3,599	(444)	883	4,038
Shared Services Transition Programme Reserve	-	-	-	-	-	4,000	4,000
Other Earmarked Reserves	1,288	(225)	334	1,397	(444)	2,114	3,067
Budget Carry Forwards	4,299	(5,648)	10,447	9,098	(9,418)	2,019	1,699
Learning Disabilities Continuing Health Care Pressures	1,416	-	-	1,416	-	-	1,416
Building Schools for the Future	160	-	-	160	-	1,244	1,404
Budget Contingency Reserve	-	-	-	-	(3,878)	4,878	1,000
Winter Pressures	-	-	-	-	-	944	944
Jennie Lee Centre Disposal	-	-	-	-	-	650	650
Local Strategic Partnership	20	(20)	-	-	-	595	595
Professional Support and Advice	-	-	500	500	-	-	500
Voluntary Sector & Community Partnerships	653	-	-	653	(379)	37	311
Trading Organisations	1,128	(7,557)	6,885	456	(6,306)	6,084	234
Local Area Agreement Reserve	3,317	-	-	3,317	(3,317)	-	-
<b>Total</b>	<b>36,887</b>	<b>(17,540)</b>	<b>30,808</b>	<b>50,155</b>	<b>(28,615)</b>	<b>41,944</b>	<b>63,484</b>

The Council has elected to set aside each of its earmarked Reserves for a specific purpose and in so doing it has placed conditions on the use of those funds such that they are not available to fund general expenditure without further specific approvals being sought.

Schools Balances: these relate to balances held by individual schools arising out of unspent Direct Schools Grant. Although they are included in the council's accounts, the council does not have discretion to spend that money.

Job Evaluation Reserve: This sum is available to assist with the funding of the implementation of new pay scales arising from job evaluation.

Efficiency Programme Reserve: established to fund redundancy costs and allow pump priming and investment in new developments and initiatives, where the main aim is to generate efficiencies and savings in the future.

Budget 2011/2012 Support Reserve: this amount has been set aside to fund the £4.910M budgeted use of reserves during 2011/2012. This will avoid drawing on general reserves for this amount.

Budget Carry Forwards Reserve: requests to carry forward sums of unspent budget from one year to the next to fund high priority issues and commitments.

Further information on other reserves and their intended usage can be found by accessing the following report from the council's CMIS website, presented to Cabinet on 20 July 2011.  
<https://wolverhampton.cmis.uk.com/decisionmaking/Calendar/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/7714/Committee/1296/Default.aspx>

## 9 OTHER OPERATING EXPENDITURE

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2009/2010 £000	2010/2011 £000
12,675 Levies	12,773
1,246 Payments to the Government Housing Capital Receipts Pool	2,142
(364) Gains/losses on the disposal of non-current assets	(2,476)
381 External Trading Organisations	(42)
<b><u>13,938</u></b> Total	<b><u>12,397</u></b>

## 10 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

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2009/2010 £000	2010/2011 £000
26,289 Interest payable and similar charges	28,520
24,620 Pensions interest cost and expected return on pensions assets	18,365
(1,318) Interest receivable and similar income	(747)
1,499 changes in their fair value	(1,698)
(93) Other investment income	(47)
<b><u>50,997</u></b> Total	<b><u>44,393</u></b>

## 11 TAXATION AND NON-SPECIFIC GRANT INCOME

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2009/2010 £000	2010/2011 £000
(91,639) Council tax income	(93,528)
(114,916) Non-domestic rates	(125,823)
(49,298) Non-ring-fenced government grants	(45,820)
(29,301) Capital grants	(90,403)
<b><u>(285,154)</u></b> Total	<b><u>(355,574)</u></b>

## Movements on Balances

	Movements in 2010/2011:								
	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
<b>At 1 April 2010</b>	<b>1,177,364</b>	<b>902,568</b>	<b>52,551</b>	<b>229,723</b>	<b>22,653</b>	<b>32,090</b>	<b>2,560</b>	<b>2,419,509</b>	<b>26,512</b>
<b>Movements arising from Cost or Valuation:</b>									
Additions	57,886	52,572	6,905	10,678	451	3,199	988	132,679	14
Revaluation increases/ (decreases) to revaluation reserve	-	504	-	-	-	450	-	954	-
Derecognition - disposals	(1,461)	-	-	-	-	-	-	(1,461)	-
Other reclassifications	-	4,834	-	-	(605)	(26,480)	310	(21,941)	-
Other movements in cost or valuation	216,394	-	-	-	43,840	2,191	-	262,425	-
<b>At 31 March 2011</b>	<b>1,450,183</b>	<b>960,478</b>	<b>59,456</b>	<b>240,401</b>	<b>66,339</b>	<b>11,450</b>	<b>3,858</b>	<b>2,792,165</b>	<b>26,526</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1 April 2010</b>	<b>(166,243)</b>	<b>(173,812)</b>	<b>(29,106)</b>	<b>(95,663)</b>	<b>(480)</b>	<b>(12,543)</b>	<b>0</b>	<b>(477,847)</b>	<b>(1,594)</b>
Adjustments between cost/value & depreciation/ impairment	-	-	-	-	-	-	-	-	-
<b>Adjusted 1 April 2010 balance</b>	<b>(166,243)</b>	<b>(173,812)</b>	<b>(29,106)</b>	<b>(95,663)</b>	<b>(480)</b>	<b>(12,543)</b>	<b>0</b>	<b>(477,847)</b>	<b>(1,594)</b>
Depreciation charge	(14,782)	(23,035)	(7,914)	(9,670)	-	(249)	-	(55,650)	(1,609)
Impairment losses/ (reversals) recognised in the revaluation reserve	-	-	-	-	(269)	-	-	(269)	-
Impairment losses/ (reversals) recognised in the surplus/deficit on provision of services	(404,541)	-	-	-	(286)	(7,837)	-	(412,664)	-
Reclassifications	-	203	-	-	-	12,365	-	12,568	-
Other movements in depreciation and impairment	(216,394)	-	-	-	(43,840)	(2,191)	-	(262,425)	-
<b>At 31 March 2011</b>	<b>(801,960)</b>	<b>(196,644)</b>	<b>(37,020)</b>	<b>(105,333)</b>	<b>(44,875)</b>	<b>(10,455)</b>	<b>0</b>	<b>(1,196,287)</b>	<b>(3,203)</b>
<b>Net Book Value:</b>									
<b>At 31 March 2011</b>	<b>648,223</b>	<b>763,834</b>	<b>22,436</b>	<b>135,068</b>	<b>21,464</b>	<b>995</b>	<b>3,858</b>	<b>1,595,878</b>	<b>23,323</b>
<b>At 31 March 2010</b>	<b>1,011,121</b>	<b>728,756</b>	<b>23,445</b>	<b>134,060</b>	<b>22,173</b>	<b>19,547</b>	<b>2,560</b>	<b>1,941,662</b>	<b>24,918</b>

Movements in 2009/2010:									
	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
<b>Movements arising from Cost or Valuation:</b>									
<b>At 1 April 2009</b>	<b>1,097,652</b>	<b>896,835</b>	<b>45,856</b>	<b>218,489</b>	<b>10,433</b>	<b>29,018</b>	<b>2,429</b>	<b>2,300,712</b>	<b>26,512</b>
Adjustments between cost/value & depreciation/ impairment	-	-	2,025	-	-	-	-	2,025	-
<b>Adjusted 1 April 2009 balance</b>	<b>1,097,652</b>	<b>896,835</b>	<b>47,881</b>	<b>218,489</b>	<b>10,433</b>	<b>29,018</b>	<b>2,429</b>	<b>2,302,737</b>	<b>26,512</b>
Additions	80,944	18,198	4,670	11,051	2,411	4,395	839	122,508	-
Revaluation increases/ (decreases) to revaluation reserve	-	26,466	-	183	-	3,563	0	30,212	-
Derecognition - disposals	(1,232)	(878)	-	-	-	-	-	(2,110)	-
Other reclassifications	-	(9,809)	-	-	9,809	(4,886)	(708)	(5,594)	-
Other movements in cost or valuation	-	(28,244)	-	-	-	-	-	(28,244)	-
<b>At 31 March 2010</b>	<b>1,177,364</b>	<b>902,568</b>	<b>52,551</b>	<b>229,723</b>	<b>22,653</b>	<b>32,090</b>	<b>2,560</b>	<b>2,419,509</b>	<b>26,512</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1 April 2009</b>	<b>(150,442)</b>	<b>(157,032)</b>	<b>(21,458)</b>	<b>(86,501)</b>	<b>(477)</b>	<b>(9,499)</b>	<b>-</b>	<b>(425,409)</b>	<b>-</b>
Adjustments between cost/value & depreciation/ impairment	-	-	(422)	-	-	-	-	(422)	-
<b>Adjusted 1 April 2009 balance</b>	<b>(150,442)</b>	<b>(157,032)</b>	<b>(21,880)</b>	<b>(86,501)</b>	<b>(477)</b>	<b>(9,499)</b>	<b>-</b>	<b>(425,831)</b>	<b>-</b>
Depreciation charge	(14,581)	(26,583)	(7,217)	(9,162)	-	(976)	-	(58,519)	(1,594)
Impairment losses/(reversals) recognised in the revaluation reserve	-	(1,415)	-	-	-	-	-	(1,415)	-
Impairment losses/(reversals) recognised in the surplus/deficit on provision of services	(1,220)	(17,026)	(9)	-	(3)	(1,732)	-	(19,990)	-
Derecognition - disposals	-	-	-	-	-	(336)	-	(336)	-
Other movements in depreciation and impairment	-	28,244	-	-	-	-	-	28,244	-
<b>At 31 March 2010</b>	<b>(166,243)</b>	<b>(173,812)</b>	<b>(29,106)</b>	<b>(95,663)</b>	<b>(480)</b>	<b>(12,543)</b>	<b>-</b>	<b>(477,847)</b>	<b>(1,594)</b>
<b>Net Book Value:</b>									
<b>At 31 March 2010</b>	<b>1,011,121</b>	<b>728,756</b>	<b>23,445</b>	<b>134,060</b>	<b>22,173</b>	<b>19,547</b>	<b>2,560</b>	<b>1,941,662</b>	<b>24,918</b>
<b>At 31 March 2009</b>	<b>947,210</b>	<b>739,803</b>	<b>26,001</b>	<b>131,988</b>	<b>9,956</b>	<b>19,519</b>	<b>2,429</b>	<b>1,876,906</b>	<b>26,512</b>

## Depreciation

Assets are individually assessed to determine their useful economic life and are depreciated on a straight line basis, with the exception of Council Dwellings where Major Repairs Allowance, as calculated by Government as part of the HRA Subsidy Determination, is used instead as the council has determined that it is an appropriate proxy for depreciation.

## Capital Commitments

At 31 March 2011, the authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/2012 and future years budgeted to cost £106.1M. The major commitments are:

	<b>£M</b>
<b>Children and Young People</b>	
Building Schools for the Future	68.2
14-19 Diploma Exemplar Building	2.7
Co-location Schemes	2.7
<b>Regeneration and Environment</b>	
Interchange	7
West Midlands UTC Programme	14.8
<b>Adults and the Community</b>	
Bilston Leisure Centre	7.7
Bushbury Crematorium	0.3
Central Library	0.6

## Effects of Changes in Estimates

In 2010/2011 the council made no material changes to its accounting estimates for property, plant and equipment

## Revaluations

<b>Asset Type</b>	<b>Basis of Valuation</b>	<b>Details of Valuer</b>
Council Dwellings	The valuations have been made in accordance with the RICS Appraisal and Valuation manual as published by the Royal Institute of Chartered Surveyors. In the case of housing stock this is based upon Existing Use Value for Social Housing. A full revaluation of council dwellings was carried out during 2010/2011.	District Valuer, Wolverhampton Group, Crown House, Birch Street, Wolverhampton
Other Land and Buildings and Non Operational Assets	The lower of depreciated replacement cost or open market value established in accordance with the guidance notes published by RICS and variances agreed between the Assistant Director for Corporate Services and the Group Manager, Estates Services. Where no market for an asset was identified, the depreciated replacement cost has been utilised. Valuations are adjusted between revaluations to reflect material variations such as acquisitions or disposals together with a depreciation charge. Individual assets with a de-minimis value of less than £100,000 are currently excluded from the balance sheet. All land and buildings have been subject to detailed revaluation reviews within the last five years. In addition, high-level impairment reviews have been carried out annually for all land and buildings that were not subject to a detailed revaluation review in a given year.	Land - Group Manager (Estate Services) Buildings - Group Manager (Corporate Asset Management)
Vehicles, Plant and Equipment	Assets are valued at their depreciated historical cost. Valuations have subsequently been adjusted to reflect material variations such as acquisitions or disposals. Individual assets acquired having values less than the de-minimis limit for this category (currently £10,000) are not included in the balance sheet.	
Infrastructure Assets and Community Assets	Valuations of assets existing at 1 April 1994 are equivalent to the amount of identified debt relating to those assets, as at that date, as proxy for their historical cost value. Valuations have subsequently been adjusted to reflect material variations such as acquisitions (at cost), depreciation and disposals.	

<b>Summary Valuations of Property Plant and Equipment</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Surplus Assets £000</b>	<b>Total £000</b>
Carried at historical cost	0	0	22,436	0	<b>22,436</b>
Valued at fair value as at:					
31 March 2011	648,223	763,834	-	995	<b>1,413,052</b>
31 March 2010	1,011,121	729,636	-	19,547	<b>1,760,304</b>
31 March 2009	947,210	739,803	-	19,519	<b>1,706,532</b>
31 March 2008	879,441	807,749	-	23,266	<b>1,710,456</b>
31 March 2007	866,699	573,086	-	24,296	<b>1,464,081</b>

### 13 INVESTMENT PROPERTIES

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

	<b>2009/2010 £000</b>	<b>2010/2011 £000</b>
Rental income from investment property	1,499	1,656
Direct operating expenses arising from investment property	(945)	(917)
<b>Net gain</b>	<b><u>554</u></b>	<b><u>739</u></b>

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

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

	<b>2009/2010 £000</b>	<b>2010/2011 £000</b>
<b>Balance at start of the year</b>	1,600	7,381
<b>Additions:</b>		
Purchases	-	-
Construction	-	-
Subsequent expenditure	-	-
Disposals	-	-
Net gains/losses from fair value adjustments	895	959
<b>Transfers:</b>		
to/from Inventories	-	-
(to)/from Property, Plant and Equipment	4,886	9,372
Other changes	-	-
<b>Balance at end of the year</b>	<b><u>7,381</u></b>	<b><u>17,712</u></b>

## 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 accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and internally generated software.

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 lives assigned to the major software suites used by the council are:

	<u>Internally Generated Assets</u>	<u>Other Assets</u>
3 years	None	None
7 years	None	Northgate
10 years	None	None

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £205,000 charged to revenue in 2010/2011 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2010/2011			2009/2010		
	Internally Generated Assets £000	Other Assets £000	Total £000	Internally Generated Assets £000	Other Assets £000	Total £000
<b>Balance at start of year:</b>						
Gross carrying amounts	-	1,115	1,115	-	-	-
Net carrying amount at start of year	-	1,115	1,115	-	-	-
<b>Additions:</b>						
Purchases	-	11	11	-	407	407
Amortisation for the period	-	-	206	-	-	-
Other changes		-	-	-	708	708
<b>Net carrying amount at end of year</b>	-	920	920	-	1,115	1,115
<b>Comprising:</b>						
Gross carrying amounts	-	1,125	1,125	-	1,115	1,115
Accumulated amortisation	-	-	205	-	-	-
	-	920	920	-	1,115	1,115

There is one item of capitalised software that is individually material to the financial statements:

	<u>Carrying Amount</u>		<u>Remaining Amortisation Period</u>
	31 March 2011 £000	31 March 2010 £000	
Northgate	920	1,115	5 years

## 15 FINANCIAL INSTRUMENTS

The table below sets out the total carrying values and fair values of financial instruments by category.

	Carrying Values				Fair Values			
	Long-Term		Current		Long-Term		Current	
	31 March	31 March	31	31 March	31 March	31 March	31 March	31 March
	2011	2010	March	2010	2011	2010	2011	2010
£000		£000		£000		£000		
<b>Financial Assets</b>								
Loans and receivables	103	139	92,367	57,294	103	139	92,367	57,707
Available-for-sale financial assets	6	6	-	-	6	6	-	-
Unquoted equity investment at cost	16,847	16,847	-	-	16,847	16,847	-	-
<b>Total Financial Assets</b>	<b>16,956</b>	<b>16,992</b>	<b>92,367</b>	<b>57,294</b>	<b>16,956</b>	<b>16,992</b>	<b>92,367</b>	<b>57,707</b>
<b>Financial Liabilities</b>								
Financial liabilities at amortised cost	(587,143)	(528,143)	(91,337)	(103,787)	(580,708)	(568,429)	(91,337)	(103,738)
<b>Total Financial Liabilities</b>	<b>(587,143)</b>	<b>(528,143)</b>	<b>(91,337)</b>	<b>(103,787)</b>	<b>(580,708)</b>	<b>(568,429)</b>	<b>(91,337)</b>	<b>(103,738)</b>
<b>Net Financial Liabilities</b>	<b>(570,187)</b>	<b>(511,151)</b>	<b>1,030</b>	<b>(46,493)</b>	<b>(563,752)</b>	<b>(551,437)</b>	<b>1,030</b>	<b>(46,031)</b>

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

	2010/2011				2009/2010			
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available-for-Sale £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available-for-Sale £000	Total £000
Interest expense	28,520	-	-	28,520	26,289	-	-	26,289
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>28,520</b>	<b>-</b>	<b>-</b>	<b>28,520</b>	<b>26,289</b>	<b>-</b>	<b>-</b>	<b>26,289</b>
Interest income	-	(794)	-	(794)	-	(1,411)	-	(1,411)
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>(794)</b>	<b>-</b>	<b>(794)</b>	<b>-</b>	<b>(1,411)</b>	<b>-</b>	<b>(1,411)</b>
<b>Net gain/(loss) for the year</b>	<b>28,520</b>	<b>(794)</b>	<b>-</b>	<b>27,726</b>	<b>26,289</b>	<b>(1,411)</b>	<b>-</b>	<b>24,878</b>

The council holds a small amount of Treasury loans, which have been valued according to published quotations in an active market. The fair values of all other financial instruments have been derived from valuation techniques.

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

## 16 INVENTORIES

	Consumable Stores		Maintenance Materials		Total	
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
	£000	£000	£000	£000	£000	£000
<b>Balance brought forward</b>	<b>292</b>	<b>334</b>	<b>78</b>	<b>78</b>	<b>370</b>	<b>412</b>
Purchases	457	522	265	1	722	523
Recognised as expense in year	(457)	(564)	(61)	(1)	(518)	(565)
Written off balances	-	-	-	-	-	-
Reversals of write-offs in prior years	-	-	-	-	-	-
<b>Balance carried forward</b>	<b>292</b>	<b>292</b>	<b>282</b>	<b>78</b>	<b>574</b>	<b>370</b>

## 17 CONSTRUCTION CONTRACTS

There were no construction contracts undertaken by the council on behalf of clients during 2009/2010 or 2010/2011 that require disclosure in the financial statements or notes.

## 18 DEBTORS

31 March 2009	31 March 2010		31 March 2011
£000	£000		£000
7,884	14,164	Central government bodies	15,570
-	569	Other local authorities	646
-	-	- NHS Bodies	-
1,535	806	Public Corporations and trading funds (*)	662
36,013	36,418	Bodies external to government	47,699
<b>45,432</b>	<b>51,957</b>	<b>Total Debtors</b>	<b>64,577</b>

\* This represents a debtor with Wolverhampton Homes Ltd.

## 19 CASH AND CASH EQUIVALENTS

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

31 March 2009	31 March 2010		31 March 2011
£000	£000		£000
194	194	Cash held by the council	191
3,991	3,924	Bank current accounts	1,698
<b>4,185</b>	<b>4,118</b>	<b>Total Cash and Cash Equivalents</b>	<b>1,889</b>

## 20 ASSETS HELD FOR SALE

The Council has determined that as at the Balance Sheet date it had no assets being held for sale which qualified for disclosure under IFRS5. The assets which the council is currently in the process of selling are either being sold with terms and conditions limiting the use of the asset once sold, or are not being actively marketed.

## 21 CREDITORS

31 March 2009	31 March 2010		31 March 2011
£000	£000		£000
(5,020)	(2,389)	Central government bodies	(4,232)
-	-	Other Local Authorities	-
-	-	NHS Bodies	(3,335)
(1,120)	(2,014)	Public Corporations and trading funds (*)	(2,010)
(63,295)	(62,025)	Bodies external to general government	(65,553)
<b>(69,435)</b>	<b>(66,428)</b>	<b>Total Creditors</b>	<b>(75,130)</b>

\* This represents a creditor payment due to Wolverhampton Homes Ltd.

## 22 PROVISIONS

	<b>Balance at 31 March 2009</b>	<b>Balance at 1 April 2010</b>	<b>Additional Provisions Made in 2010/2011</b>	<b>Amounts Used in 2010/2011</b>	<b>Balance at 31 March 2011</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Capitalisation Risks	<b>(9,500)</b>	<b>(14,917)</b>	(6,036)	-	<b>(20,953)</b>
Insurance	<b>(2,326)</b>	<b>(2,326)</b>	-	-	<b>(2,326)</b>
Termination Benefits	-	-	(2,297)	-	<b>(2,297)</b>
Midlands Housing Consortium	<b>(302)</b>	<b>(281)</b>	-	22	<b>(259)</b>
Aborted Project Costs (LIFT)	-	-	(250)	-	<b>(250)</b>
Housing Revenue Account	<b>(106)</b>	<b>(120)</b>	-	45	<b>(75)</b>
Other	<b>(154)</b>	<b>(164)</b>	-	26	<b>(138)</b>
<b>Total</b>	<b>(12,388)</b>	<b>(17,808)</b>	(8,583)	93	<b>(26,298)</b>

### Capitalisation Risks

This provision is in respect of potential claims under equal pay legislation. The Council has had approval from central government to capitalise payments it may need to make in respect of Equal Pay Back Pay claims.

### Insurance

The Council self-insures risks to property and assets up to a total aggregate limit of £1M and its liability exposures up to a limit of £0.25M on any one occurrence above which limits the external insurance cover operates. The insurance provision of £2.3M is in respect of the outstanding claims under the self-insurance programme covering the current and past years.

### Termination Benefits

During 2010/2011, the council undertook a senior management restructure, and a voluntary redundancy exercise. As a result of these two initiatives, there were a number of employees and former employees to whom termination benefits were due, but had not yet been made, at 31 March 2011.

### Midlands Housing Consortium (MHC)

MHC was previously a member of the West Midlands Pension Fund. It paid a lump sum to the Council to support pension payments to Fund members. This provision will reduce gradually over time as pension payments are made.

### Aborted Project Costs (LIFT)

Due to a LIFT project to which the council was party being aborted, the council may incur costs relating to this. These have been estimated at £0.250M.

### Housing Revenue Account

There are four separate provisions: for legal disrepair claims, for tenant management organisation expenditure, for a bond from a housing contractor and for rent bonds.

### Other

These are small amounts relating to ex-members of the pension fund.

## 23 USABLE RESERVES

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

## 24 UNUSABLE RESERVES

31 March 2010		31 March 2011
£000		£000
5,267	Short-Term Accumulating Compensated Absences Account	5,288
(10,390)	Available for Sale Financial Instruments Reserve	(10,390)
(1,022,216)	Capital Adjustment Account	(610,606)
(797)	Collection Fund Adjustment Account	(1,188)
4,583	Financial Instruments Adjustment Account	3,041
465,004	Pensions Reserve	367,844
(255,381)	Revaluation Reserve	(256,052)
<b>(813,930)</b>	<b>Total Unusable Reserves</b>	<b>(502,062)</b>

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2009/2010			2010/2011
£000			£000
<b>4,619</b>	<b>Balance at 1 April</b>		<b>5,267</b>
(4,619)	Settlement or cancellation of accrual made at the end of the preceding year	(5,267)	
5,267	Amounts accrued at the end of the current year	5,288	
648	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		21
<b>5,267</b>	<b>Balance at 31 March</b>		<b>5,288</b>

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

2009/2010			2010/2011
£000			£000
<b>2</b>	<b>Balance at 1 April</b>		<b>(10,390)</b>
(10,392)	Upward revaluation of assets		-
	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of other investment income		-
<b>(10,390)</b>	<b>Balance at 31 March</b>		<b>(10,390)</b>

## Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2009/2010 £000		2010/2011 £000
(1,046,480)	<b>Balance at 1 April</b>	(1,022,216)
-	Increases/(Decreases) recognised in the Comprehensive Income and Expenditure Statement	-
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
67,270	- Charges for depreciation and impairment of noncurrent assets	55,012
(347)	- Deferred income	
3,091	- Revaluation losses on Property, Plant and Equipment	411,574
5,417	- Revenue expenditure funded from capital under statute	25,032
	- Expenditure capitalised by Direction of the Secretary of State	7,662
2,441	- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,461
<u>77,872</u>		<u>500,741</u>
-	Adjusting amounts written out of the Revaluation Reserve	-
<u>77,872</u>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<u>500,741</u>
	Capital financing applied in the year:	
(2,848)	- Use of the Capital Receipts Reserve to finance new capital expenditure	(621)
(14,482)	- Use of the Major Repairs Reserve to finance new capital expenditure	(10,265)
(27,265)	- Application of grants to capital financing from the Capital Grants Unapplied Account	(67,185)
(7,930)	- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(8,902)
(644)	- Capital expenditure funded directly from earmarked reserves	(202)
(439)	- Capital expenditure charged against the General Fund and HRA balances	(148)
	Other adjustment	31
<u>(53,608)</u>		<u>(87,292)</u>
-	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,839)
<u>(1,022,216)</u>	<b>Balance at 31 March</b>	<u>(610,606)</u>

## Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2009/2010 £000		2010/2011 £000
896	<b>Balance at 1 April</b>	(797)
	Amount by which council tax income credited to the	
	Comprehensive Income and Expenditure Statement is different	
(1,693)	from council tax income calculated for the year in accordance	(391)
	with statutory requirements	
<u>(797)</u>	<b>Balance at 31 March</b>	<u>(1,188)</u>

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2012 will be charged to the General Fund over the next 14 years.

2009/2010 £000		2010/2011 £000
4,657	<b>Balance at 1 April</b>	4,583
	Differences between statutory debits/credits and amounts	
	recognised as income and expenditure in relation to financial	
(74)	instruments	(1,542)
	Proportion of premiums incurred in previous financial years to	
-	be charged against the General Fund Balance in accordance	-
	with statutory requirements	
	Amount by which finance costs charged to the Comprehensive	
	Income and Expenditure Statement are different from finance	
(74)	costs chargeable in the year in accordance with statutory	(1,542)
	requirements	
<u>4,583</u>	<b>Balance at 31 March</b>	<u>3,041</u>

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2009/2010 £000		2010/2011 £000
<b>313,993</b>	<b>Balance at 1 April</b>	<b>465,004</b>
	Increases/(Decreases) Recognised in the Comprehensive Income and Expenditure Statement	
136,884	Actuarial gains or losses on pensions assets and liabilities	(49,967)
41,728	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	(76,926)
(27,601)	Employer's pensions contributions and direct payments to pensioners payable in the year	29,733
<b>465,004</b>	<b>Balance at 31 March</b>	<b>367,844</b>

## Revaluation Reserve

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009/2010 £000		2010/2011 £000
<b>(236,066)</b>	<b>Balance at 1 April</b>	<b>(255,381)</b>
(30,212)	Upward revaluation of assets	(954)
1,415	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the Provision of Services	269
(28,797)	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the Provision of Services	(685)
(10,508)	Difference between fair value depreciation and historical cost depreciation	(412,650)
19,990	Downward revaluation of assets and impairment losses charged to the surplus/deficit on the Provision of Services	412,664
9,482	Amount written off to the Capital Adjustment Account	14
<b>(255,381)</b>	<b>Balance at 31 March</b>	<b>(256,052)</b>

## 25 CASH FLOW STATEMENT - OPERATING ACTIVITIES

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The cash flows for operating activities include the following items:

2009/2010		2010/2011
£000		£000
(1,318)	Interest received	(747)
26,289	Interest paid	28,520
(93)	Dividends received	(47)
<b>24,878</b>		<b>27,726</b>

## 26 CASH FLOW STATEMENT - INVESTING ACTIVITIES

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2009/2010		2010/2011
£000		£000
122,904	Purchase of property, plant and equipment, investment property and intangible assets	132,690
(48,449)	Net purchase of short-term and long-term investments	22,453
3,091	Other payments for investing activities	32,717
(3,793)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(3,952)
(27,299)	Other receipts from investing activities	(85,493)
<b>46,454</b>	<b>Net cash flows from investing activities</b>	<b>98,415</b>

## 27 CASH FLOW STATEMENT - FINANCING ACTIVITIES

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2009/2010		2010/2011
£000		£000
(17,224)	Cash receipts of short and long-term borrowing	(60,000)
-	Other receipts from financing activities	-
243	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,350
9,509	Repayments of short and long-term borrowing	26,500
5,826	Other payments for financing activities	(1,124)
<b>(1,646)</b>	<b>Net cash flows from financing activities</b>	<b>(33,274)</b>

## 28 AMOUNTS REPORTED FOR RESOURCE ALLOCATION

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

In particular:

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

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

<b>Income and Expenditure 2010/11</b>	<b>Children &amp; Young People £000</b>	<b>Adults &amp; Community £000</b>	<b>Regeneration &amp; Environment £000</b>	<b>CSS/OCE (1) £000</b>	<b>Corporate £000</b>	<b>Total £000</b>
Fees, charges & other service income	(56,112)	(73,227)	(49,235)	(56,171)	(28,241)	(262,986)
Interest and investment income	-	-	-	-	(12,194)	(12,194)
Income from council tax	-	-	-	-	(93,528)	(93,528)
Government grants and contributions	(214,293)	(4,365)	(8,746)	(135,230)	(202,527)	(565,161)
<b>Total Income</b>	<b>(270,405)</b>	<b>(77,592)</b>	<b>(57,981)</b>	<b>(191,401)</b>	<b>(336,490)</b>	<b>(933,869)</b>
Employee expenses	191,659	40,812	30,091	32,598	-	295,160
Other operating expenses	122,753	106,457	63,666	157,254	146,606	596,736
Support Service recharges	12,800	22,119	8,550	19,616	-	63,085
Depreciation, amortisation and impairment	17,093	6,373	9,595	2,684	(64,477)	(28,732)
Interest payments	-	-	-	-	-	-
Precepts & Levies	-	-	-	-	-	-
<b>Total Cost to Services</b>	<b>344,305</b>	<b>175,761</b>	<b>111,902</b>	<b>212,152</b>	<b>82,129</b>	<b>926,249</b>
<b>Net Cost to Services</b>	<b>73,900</b>	<b>98,169</b>	<b>53,921</b>	<b>20,751</b>	<b>(254,361)</b>	<b>(7,620)</b>

<b>Income and Expenditure 2009/2010</b>	<b>Children &amp; Young People £000</b>	<b>Adults &amp; Community £000</b>	<b>Regeneration &amp; Environment £000</b>	<b>CSS/OCE £000</b>	<b>Corporate £000</b>	<b>Total £000</b>
Fees, charges & other service income	(53,726)	(73,285)	(45,608)	(46,714)	(22,802)	(242,135)
Interest and investment income	-	-	-	-	(14,260)	(14,260)
Income from council tax	-	-	-	-	(91,639)	(91,639)
Government grants and contributions	(208,457)	(11,010)	(7,199)	(127,323)	(124,059)	(478,048)
<b>Total Income</b>	<b>(262,183)</b>	<b>(84,295)</b>	<b>(52,807)</b>	<b>(174,037)</b>	<b>(252,760)</b>	<b>(826,082)</b>
Employee expenses	189,264	40,814	28,533	27,352	-	285,963
Other operating expenses	115,721	107,241	55,590	141,015	88,582	508,149
Support Service recharges	11,756	24,207	8,562	19,332	98	63,955
Depreciation, amortisation and impairment	15,808	5,787	37,830	3,864	(97,880)	(34,591)
Interest payments	-	-	-	-	-	-
Precepts & Levies	-	-	-	-	-	-
<b>Total Cost to Services</b>	<b>332,549</b>	<b>178,049</b>	<b>130,515</b>	<b>191,563</b>	<b>(9,200)</b>	<b>823,476</b>
<b>Net Cost to Services</b>	<b>70,366</b>	<b>93,754</b>	<b>77,708</b>	<b>17,526</b>	<b>(261,960)</b>	<b>(2,606)</b>

Note (1) - CSS/OCE is an acronym for Customer Shared Services and Office of Chief Executives

### Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of services' income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	<b>2009/2010 £000</b>	<b>2010/2011 £000</b>
<b>Cost of Services in Service Analysis</b>	<b>(2,606)</b>	<b>(7,620)</b>
Add net expenditure of services and support services not included in the analysis	-	-
Add amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(34,149)	411,051
Remove amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(64,817)	92,270
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>28,062</b>	<b>311,161</b>

## 29 ACQUIRED AND DISCONTINUED OPERATIONS

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There were no acquired or discontinued operations during 2010/2011.

## 30 TRADING OPERATIONS

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The council operates a number of trading accounts consisting of both external (i.e. trading with the public and third parties), and internal (i.e. primarily ex-Compulsory Competitive Tendering Direct Service Organisation) contracts.

The financial results of the Council's Trading Accounts are summarised below:-

Year Ending 31 March 2010 (Surplus) / Deficit £000	Year Ending 31 March 2011		
	Expenditure £000	Income £000	(Surplus) / Deficit £000
<b>External Trading Accounts</b>			
381 Markets	2,212	(2,254)	(42)
<b>Internal Trading Accounts</b>			
(34) Building Works Maintenance	-	-	-
(495) Cleaning of Buildings	3,249	(3,663)	(414)
(235) Ground Maintenance	3,340	(3,496)	(156)
(134) Street Cleaning	2,856	(2,945)	(89)
(1,339) Schools and Welfare Catering	5,868	(6,759)	(891)
(25) Other Catering	6,318	(7,646)	(1,328)
(1,026) Transport Services	1,128	(856)	272
72 Former DSO Depots	290	(290)	-
<b>(2,835) TOTAL</b>	<b>25,261</b>	<b>(27,909)</b>	<b>(2,648)</b>

Under IFRS, financing costs are not charged to trading accounts, with the exception of Transport Services for which notional interest was charged for 2010/2011.

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement Other Operating Expenditure (Note 9).

## 31 AGENCY SERVICES

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The council does not currently participate in any shared services or agency arrangements for the provision of services which would give rise to a disclosure being made under this heading.

## 32 ROAD CHARGING SCHEMES UNDER THE TRANSPORT ACT 2000

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There were no road charging schemes or workplace charging schemes during 2010/2011.

### 33 POOLED BUDGETS

Wolverhampton City Council has five pooled budget schemes with Wolverhampton Primary Care Trust (PCT): Child Placements with External Agencies, Home-based Intermediate Care Services, Learning Disability Service, the Integrated Community Equipment Service and Mental Health.

Child Placements with external agencies is administered by the council. The Home-based Intermediate Care Service is administered by the PCT and provides an integrated service which has a focus on independence and effective rehabilitation. The Learning Disability Service is administered by Wolverhampton City Council and covers the provision and purchase of residential and nursing, domiciliary and day care placements. The Integrated Community Equipment Service is also administered by the city council and provides equipment and adaptations for Wolverhampton residents. The joint Mental Health scheme is administered by the PCT and covers the provision and purchase of residential and nursing, domiciliary and day care placements.

	2009/2010 £000	2010/2011 £000
<b>Child Placements with External Agencies</b>		
Total Expenditure	2,829	2,687
Contributions to the Pool		
- Wolverhampton City Council	1,988	1,626
- Wolverhampton PCT	841	1,061
	<u>2,829</u>	<u>2,687</u>
<b>Intermediate Care Services</b>		
Total Expenditure	1,204	1,224
Contributions to the Pool		
- Wolverhampton City Council	432	446
- Wolverhampton PCT	772	778
	<u>1,204</u>	<u>1,224</u>
<b>Learning Disability Services</b>		
Total Expenditure	24,110	23,915
- Wolverhampton City Council	12,767	13,675
- Wolverhampton PCT	11,343	10,240
	<u>24,110</u>	<u>23,915</u>
<b>Independent Living Service</b>		
Total Expenditure	1,918	1,930
Contributions to the Pool		
- Wolverhampton City Council	1,506	1,510
- Wolverhampton PCT	412	420
	<u>1,918</u>	<u>1,930</u>
<b>Mental Health Service</b>		
Total Expenditure	20,383	20,282
Contributions to the Pool		
- Wolverhampton City Council	5,392	5,161
- Wolverhampton PCT	14,991	15,121
	<u>20,383</u>	<u>20,282</u>

### 34 MEMBERS' ALLOWANCES

The council paid the following amounts to members of the council during the year.

	2009/2010 £000	2010/2011 £000
Allowances	1,061	1,043
<b>Total</b>	<u>1,061</u>	<u>1,043</u>

### 35 OFFICERS' REMUNERATION

Remuneration for senior officers is analysed in the tables below. "Remuneration" means all amounts paid to or receivable by a person, and includes sums due by way of expenses allowance (so far as those sums are chargeable to United Kingdom income tax), and the estimated money value of any other benefits received by an employee otherwise than in cash. This includes salary, taxable allowances and termination benefits.

#### Year Ending 31 March 2010

Name / Post	Salary, Fees and Allowances	Bonuses	Expenses Allowances	Termination Benefits	Employers' Pension Contribution	West Midlands Pension Fund Responsibilities (2)	TOTAL
	£	£	£	£	£	£	£
<u>Senior Employees with a salary of £150,000 or more.</u>							
Mr Richard Carr, Chief Executive (1)	77,086	-	1,128	-	14,921	9,559	<b>102,695</b>
<u>Senior Employees with a salary of less than £150,000</u>							
Director: Pensions	113,817	-	1,989	-	23,649	23,308	<b>162,764</b>
Director: Regeneration & Environment(1)	121,073	-	1,989	-	22,273	7,956	<b>153,291</b>
Director: Children & Young People	113,817	-	1,989	-	19,687	-	<b>135,493</b>
Director: Customer & Shared Services	113,817	-	-	-	19,349	-	<b>133,166</b>
Director: Adults & Community	111,816	-	1,989	-	19,347	-	<b>133,152</b>
Chief Financial Officer	86,712	-	952	-	15,478	4,336	<b>107,478</b>
Chief Legal Officer	82,437	-	906	-	15,416	8,244	<b>107,002</b>
Assistant Chief Executive	84,915	-	906	-	14,436	-	<b>100,257</b>
Chief Executive (1)	6,095	-	91	-	1,180	756	<b>8,122</b>
<b>Total</b>	<b>911,586</b>	-	<b>11,939</b>	-	<b>165,736</b>	<b>54,158</b>	<b>1,143,420</b>

#### Year Ending 31 March 2011

Name / Post	Salary, Fees and Allowances	Bonuses	Expenses Allowances	Termination Benefits (3)	Employer's Pension Contribution	West Midlands Pension Fund Responsibilities (2)	TOTAL
	£	£	£	£	£	£	£
<u>Senior Employees with a salary of £150,000 or more.</u>							
Mr Simon Warren, Chief Executive	134,755	-	1,989	-	27,161	16,710	<b>180,615</b>
<u>Senior Employees with a salary of less than £150,000</u>							
Director: Children & Young People	111,439	-	1,823	94,469	18,790	-	<b>226,521</b>
Director: Regeneration & Environment	77,047	-	1,989	101,843	20,498	-	<b>201,377</b>
Director: Pensions	113,817	-	1,989	-	24,527	22,763	<b>163,096</b>
Director: Customer & Shared Services	96,055	-	-	42,839	20,146	-	<b>159,040</b>
Director: Adults & Community	113,817	-	1,989	-	20,498	-	<b>136,304</b>
Chief Legal Officer	89,077	-	963	-	16,050	8,244	<b>114,334</b>
Chief Financial Officer	86,712	-	1,053	-	16,115	4,336	<b>108,216</b>
Assistant Chief Executive	86,712	-	963	-	15,348	-	<b>103,023</b>
<b>Total</b>	<b>909,432</b>	-	<b>909,432</b>	<b>239,151</b>	<b>179,132</b>	<b>52,052</b>	<b>1,392,526</b>

#### Notes

(1) The post of Chief Executive was held by three individuals during this financial year, including, on an acting-up basis, the Director of Regeneration and Environment.

(2) These costs are funded by the West Midlands Pension Fund and not the council.

(3) "Termination Benefits" are amounts payable as a result of either the council's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the council. The amounts shown in the table above for termination benefits include a number of items that have been accrued in 2010/2011, but will not be paid until 2011/2012.

Other

The number of council employees (excluding those shown in the previous tables) whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 is shown in the table below. The total number of employees falling within the various bands is affected by termination/redundancy payments made to certain employees (in accordance with the council's and pension scheme policies) who left the council during the year. The numbers of such employees are disclosed in the table below.

**Year Ending 31 March 2010 (1)**

	Number of employees			Left during year		
	West	Other		West	Other	
	Midlands Pension Schools	Council Employees	Fund	Midlands Pension Schools	Council Employees	Fund
£145,000-£150,000	1	-	-	1	-	-
£140,000-£145,000	-	-	-	-	-	-
£135,000-£140,000	-	-	-	-	-	-
£130,000-£135,000	-	-	-	-	-	-
£125,000-£130,000	-	-	-	-	-	-
£120,000-£125,000	-	-	-	-	-	-
£115,000-£120,000	2	-	-	-	-	-
£110,000-£115,000	-	-	-	-	-	-
£105,000-£110,000	-	-	-	-	-	-
£100,000-£105,000	1	-	-	-	-	-
£95,000-£100,000	-	-	-	-	-	-
£90,000-£95,000	2	-	-	-	-	-
£85,000-£90,000	1	1	3	-	-	1
£80,000-£85,000	2	-	8	-	-	-
£75,000-£80,000	5	-	5	1	-	2
£70,000-£75,000	15	-	3	-	-	-
£65,000-£70,000	13	-	6	2	-	1
£60,000-£65,000	21	-	20	-	-	2
£55,000-£60,000	47	1	24	1	-	1
£50,000-£55,000	73	4	41	-	-	1

**Year Ending 31 March 2011**

	Number of employees			Left during year		
	West	Other		West	Other	
	Midlands Pension Schools	Council Employees (2)	Fund	Midlands Pension Schools	Council Employees (2)	Fund
£155,000-£160,000	-	-	1	-	-	1
£150,000-£155,000	-	-	-	-	-	-
£145,000-£150,000	-	-	1	-	-	1
£140,000-£145,000	-	-	-	-	-	-
£135,000-£140,000	-	-	-	-	-	-
£130,000-£135,000	1	-	-	-	-	-
£125,000-£130,000	-	-	1	-	-	1
£120,000-£125,000	-	-	1	-	-	1
£115,000-£120,000	-	-	2	-	-	2
£110,000-£115,000	-	-	-	-	-	-
£105,000-£110,000	1	-	1	-	-	1
£100,000-£105,000	-	-	-	-	-	-
£95,000-£100,000	1	-	-	-	-	-
£90,000-£95,000	3	-	-	2	-	-
£85,000-£90,000	2	1	-	-	-	-
£80,000-£85,000	2	-	7	-	-	-
£75,000-£80,000	9	-	4	-	-	3
£70,000-£75,000	9	-	8	-	-	2
£65,000-£70,000	16	-	6	-	-	1
£60,000-£65,000	30	-	15	2	-	2
£55,000-£60,000	53	2	21	1	-	2
£50,000-£55,000	54	3	60	3	-	1

Notes

(1) The Department for Communities and Local Government has issued a clarification that employer's pension contributions are to be excluded from the above analysis. The figures for 2009/2010 have been restated accordingly.

(2) Due to the council implementing a senior management restructure during the year, seven of its chief officers were made redundant. The resulting termination benefits are reflected in an increase in the number of employees in higher bands as shown above.

## 36 EXTERNAL AUDIT COSTS

The council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the council's external auditors:

	2009/2010 £000	2010/2011 £000
Fees payable to the Audit Commission in respect of statutory inspections:		
• Audit Inspection Fee	17	3
• rebates for arrangements relating to the abolition of the Audit Commission		(36)
Fees payable to PricewaterhouseCoopers LLP with regard to external audit services carried out by the appointed auditor for the year:		
• external audit services (Council)	396	465
• external audit services (Pension Fund)	60	62
Fees payable to PricewaterhouseCoopers LLP for the certification of grant claims and returns for the year	99	110
Fees payable in respect of tax advisory services provided by PricewaterhouseCoopers LLP during the year	4	0
Fees payable to PricewaterhouseCoopers LLP for additional work	15	151
<b>Total</b>	<b>591</b>	<b>755</b>

The rebates of £0.036M in 2010/2011 are intended to smooth any financial impact of the abolition of the Audit Commission on Local Authorities.

The additional fees to PriceWaterhouseCoopers LLP in 2010/11 for additional work relate to the following: £0.059M prior year overruns, £0.015M job evaluation exercise review, £0.031M internal audit effectiveness review, £0.046M estates review.

## 37 DEDICATED SCHOOLS GRANT

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education: the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a restricted range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Over and under-spends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2010/2011 are as follows

	Year Ending 31 March 2011		
	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2010/2011	(11,051)	(139,716)	(150,767)
Plus brought forward from 2009/2010	-	-	-
Less carry forward to 2011/2012 agreed in advance	-	-	-
<b>Agreed budgeted distribution</b>	<b>(11,051)</b>	<b>(139,716)</b>	<b>(150,767)</b>
Less			
Actual central expenditure	11,931	-	11,931
Less			
Actual ISB deployed to schools	-	139,716	139,716
Plus			
Local Authority contribution for 2010/2011	(880)	-	(880)
<b>Carry forward to 2011/2012</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 38 GRANT INCOME

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

	2009/2010 £000	2010/2011 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Standards Fund	(12,196)	(59,080)
Section 31 Transport Grant	(6,271)	(15,920)
New Deal for Communities	(5,200)	(4,567)
Disabled Facilities Grant	(960)	(1,082)
Other grants (each less than £1M)	(4,674)	(9,753)
Donations		-
<b>Total</b>	<b>(29,301)</b>	<b>(90,403)</b>
<b>Credited to Services</b>		
Dedicated Schools Grant	(149,595)	(150,767)
Mandatory Rent Allowance	(46,896)	(52,153)
Mandatory Rent Rebates Subsidy	(48,711)	(50,393)
Council Tax Benefit Grant	(27,651)	(27,997)
Standards Fund	(21,867)	(25,574)
6th form Funding - Learning and Skills Council	(13,618)	(13,163)
Childcare Partnerships	(9,222)	(10,820)
School Standards Grant	(8,356)	(8,164)
Housing Benefit Administration	(3,312)	(3,206)
Future Jobs Fund	(161)	(2,408)
New Deal for Communities	(2,596)	(1,669)
Supporting People	(7,998)	0
Other grants (each less than £1M) *	(3,346)	(7,638)
Donations		
<b>Total</b>	<b>(343,329)</b>	<b>(353,952)</b>

\* A Regional Capacity Building Grant of £14,018 has been received in 2010/11 from English Heritage towards the cost of developing the Black Country Historic Landscape Network. A further £3,973 is due in 2011/12 when the project is due to be completed.

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 will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	31 March 2011 £000
<b>Capital Grants Receipts in Advance</b>	
Section 106 Planning Receipts	(6,426)
Other Planning Receipts	(855)
S31 Transport Grant	(2,617)
Other grants (each less than £1M)	(1,575)
<b>Total</b>	<b>(11,473)</b>
<b>Donated Assets Account</b>	
Donations	-
<b>Total</b>	<b>-</b>

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. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

### Central Government

Central government has effective control over the general operations of the council - it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (eg council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resources allocation

### Members

Members of the council have direct control over the council's financial and operating policies. The total of Members' allowances paid in 2010/2011 is shown in Note 34. The Register of Members' Interests is open to public inspection at the Civic Centre during office hours.

In 2010/2011 the following entities in which Members had registered an interest received payments summarised below, where the total transactions during the year exceeded £0.1M.

	Year Ending 31 March 2011 Note £000
City of Wolverhampton College	10,683 (1)
The Haven	1,333
Groundwork Black Country	940
Our Lady and St Chad's Catholic Sports College	936
Smestow School, Specialist Sports College	832
The Kings School	723
Black Country Housing Group Limited	664
Wolverhampton Citizens Advice Bureau	643
Wolverhampton Network Consortium	585
Mencap	500
All Saints Action Network Limited	408
Age Concern	368
All Saints and Blakenhall Community Development	260
Wolverhampton Family Information Service	182
Community Transport	147
Royal Wolverhampton Hospitals NHS Trust	147
Wolverhampton City Credit Union Limited	131
Gazebo Theatre-in-Education Co. Limited	129
Heath Town Senior Citizens Welfare Project	126

Note (1) The majority of the transactions with the college were as a result of the abolition of the Learning and Skills Council which led to the establishment of the Young People's Learning Agency. This latter body asked the council to pay College's funding as a matter of convenience from April to August 2010 until they had setup new systems in September 2010. The arrangement has now ended.

### Officers

Based on the register of officers declaration of pecuniary interests there have been no material related party transactions in respect of 2010/2011.

### Other Public Bodies

Wolverhampton City Council has five pooled budget schemes with Wolverhampton Primary Care Trust (PCT): Child Placements with External Agencies, Home-based Intermediate Care Services, Learning Disability Service, the Integrated Community Equipment Service and Mental Health. Transactions and balances outstanding are detailed in Note 33.

There were transactions during the year with the following parties, details of which are disclosed elsewhere in the accounts:

<u>Party</u>	<u>Disclosed in</u>
West Midlands Fire Service	Supplementary Financial Statements - Collection Fund
West Midlands Pension Fund	Notes 46-47
West Midlands Passenger Transport Authority	Income and Expenditure Account
Wolverhampton City Primary Care Trust	Note 33 and Income and Expenditure Account

#### **Entities Controlled or Significantly Influenced by the council**

The council holds two investments in its portfolio in which it has an active shareholding interest. They are Birmingham Airport Holdings, and Wolverhampton Science Park Limited. The council does not hold a sufficiently large interest in either entity to be the controlling interest, and details held at Companies House confirm that the Science Park is in the group holding of the University of Wolverhampton whilst the airport holding company is itself a parent company. Details of the holdings and the transactions between the entities appear below.

		<b>For Financial Year Ending in</b>	
		<b>2009</b>	<b>2010</b>
		<b>£000</b>	<b>£000</b>
<b>Birmingham Airport Holdings LTD</b>			
The Council holds 4.7% of the total ordinary shares of the company, equating to 9.58% of the total 6.31% preference shares. No dividend was paid in year ending March 2010.	Turnover	107,661	104,127
	Net Assets	259,485	257,043
	Profit Before Taxation	15,709	4,330
	Profit After Taxation	9,889	592
<b>Wolverhampton Science Park Limited</b>			
The Council holds 19% of the total shares.	Turnover	2,192	1,995
	Net Assets	133	216
	Profit Before Taxation	(45)	83
	Profit After Taxation	(37)	67

The council has two subsidiaries.

Wolverhampton Homes is a wholly owned Arms Length Management Organisation which is incorporated as a private company and provides housing management and maintenance services under a management agreement to the council. The Grand Theatre is managed by the Wolverhampton Grand Theatre Limited, and the council continues to own the building and retains the right to appoint or remove the majority of the members of the board of directors.

As private companies, both entities prepare statements of accounts. The interest in the Grand Theatre is not judged to be sufficiently material to warrant the preparation of group accounts and the details of the transactions between the two entities are summarised below. The interest in Wolverhampton Homes is judged to be material and therefore at the end of these financial statements, the Wolverhampton Homes statements of accounts are combined with the council's to show the overall position of the group.

		<b>For Financial Year Ending in</b>	
		<b>2009</b>	<b>2010</b>
		<b>£000</b>	<b>£000</b>
<b>Wolverhampton Grand Theatre Limited</b>			
The council made an operating grant of £496,170 to the theatre in 2010/2011.	Turnover	4,984	4,904
	Net Assets	1,206	1,206
	Profit Before Taxation	140	-
	Profit After Taxation	78	-

The council also has an interest in the Lighthouse Media Centre although this interest is not of a nature to require full disclosure in this statement of accounts. The Light House is an independent company that develops and supports the growing creative industries in the city and region and receives a grant from the council towards delivering that aim. The nature of the lease agreement has been fully disclosed in Note 41.

Note 1 - Audited accounts for the entity's financial year ending in 2010 not available at the time of producing the council's accounts.

## 40 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed. The CFR is analysed in the second part of this note.

	<b>2009/10</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
<b>Opening Capital Financing Requirement</b>	<b>568,420</b>	<b>645,878</b>
<b>Capital investment</b>		
Property, Plant and Equipment	122,509	132,678
Investment Properties	0	0
Intangible Assets	407	11
Revenue Expenditure Funded from Capital under Statute	20,856	32,717
<b>Sources of finance</b>		
Government grants and other contributions	(39,612)	(67,185)
MRP/loans fund principal	(8,288)	(10,010)
Reserves	(15,127)	(10,467)
Capital receipts	(2,848)	(621)
Direct revenue contributions	(439)	(147)
<b>Closing Capital Financing Requirement</b>	<b>645,878</b>	<b>722,854</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (supported by government financial assistance)	79,614	50,215
Increase in underlying need to borrow (unsupported by government financial assistance)	6,104	36,634
Assets acquired under finance leases	14	123
Assets acquired under PFI/PPP contracts	14	14
MRP/loan fund principal	(8,288)	(10,010)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>77,458</b>	<b>76,976</b>

## 41 LEASES

### Council as Lessee

#### Finance Leases

The council has acquired a number of non current assets under finance leases, the assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2011	31 March 2010
	£000	£000
Other Land and Buildings	-	-
Vehicles, Plant, Furniture and Equipment	1,209	922
	<u>1,209</u>	<u>922</u>

The council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the council and finance costs that will be payable by the council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2011	31 March 2010
	£000	£000
<b>Finance lease liabilities (*)</b>		
- current	386	397
- non-current	379	673
Finance costs payable in future years	143	185
<b>Minimum lease payments</b>	<u>908</u>	<u>1,255</u>

\* net present value of minimum lease payments

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
	£000	£000	£000	£000
Not later than one year	453	497	386	397
Later than one year and not later than five years	455	758	379	673
Later than five years	-	-	-	-
	<u>908</u>	<u>1,255</u>	<u>765</u>	<u>1,070</u>

The council holds a contract with Carillion for Highways Maintenance and associated services. In the delivery of this contract there are effective finance leases for 6 vehicles. In total the impact of bringing these leases onto the balance sheet for 2010/11 would be £0.018M.

#### Operating Leases

The council uses a number of assets under operating leases, the future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2011	31 March 2010
	£000	£000
Not later than one year	502	502
Later than one year not later than five years	2,314	2,047
Later than five years	989	1,108
	<u>3,805</u>	<u>3,657</u>

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

	2010/2011	2009/2010
	£000	£000
Minimum lease payments	502	502
Contingent rents	-	-
Sublease payments receivable	(0)	(0)
	<u>502</u>	<u>502</u>

## Council as Lessor

### Finance Leases

The council has leased out property at the Chubb Building to the Lighthouse Cinema on a finance lease with a remaining term of 84 years.

The council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 March 2011 £000	31 March 2010 £000
<b>Finance lease assets (*)</b>		
- current	-	-
- non-current	379	-
Unearned finance income	-	-
Unguaranteed residual value of property	1,500	-
<b>Gross investment in the lease</b>	<b>1,879</b>	<b>-</b>
* net present value of minimum lease payments		

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
Not later than one year	-	-	-	-
Later than one year and not later than five years	1	1	1	1
Later than five years	1,878	1,878	378	378
	<b>1,879</b>	<b>1,879</b>	<b>379</b>	<b>379</b>

### Operating Leases

The council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres
- 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 2011 £000	31 March 2010 £000
Not later than one year	2,241	2,241
Later than one year and not later than five years	3,960	4,483
Later than five years	30,938	31,668
	<b>37,139</b>	<b>38,392</b>

### Leisure Facility

In 2006/2007 the council signed a thirty year contract for a new leisure facility. The scheme was for the design, build, funding and operation of a major new regional leisure facility. The facility includes a leisure pool with a river run, wave pool and flumes; a 25m 6 lane traditional pool; a studio pool; a 30 station fitness suite; a 300 station fitness suite; a dance/aerobics suite; children's play feature and a café.

The facility cost some £13.3M and opened on 12 December 2006. The facility is being operated by DC Leisure Management Ltd on behalf of the council.

The contract period is for 30 years, with an end date of 31 October 2036. The total amount payable by the council over the life of the contract is £52.5m. Over the remaining life of the project the commitments are:

### Analysis of Estimated Payments

	Payment for Services	Interest	Capital Expenditure /Principal Redemption	Total
	£000	£000	£000	£000
Payable in 2011/2012	305	950	186	1,441
Payable within two to five years	1,232	3,601	932	5,765
Payable within six to ten years	1,918	4,050	1,238	7,206
Payable within eleven to fifteen years	2,346	3,483	1,377	7,206
Payable within sixteen to twenty years	2,252	2,845	2,109	7,206
Payable within twenty-one to twenty-five years	1,745	1,470	3,991	7,206
Payable within twenty-six to thirty years	308	36	617	961
<b>Total</b>				<b>36,991</b>

The contract is accounted for as 'on-balance sheet'. The following balances existed in respect of the contract on the dates below:

	Balance at 31 March 2010	Depreciation	Capital Expenditure /Principal Redemption	Balance at 31 March 2011
	£000	£000	£000	£000
Property, Plant and Equipment	12,183	(451)	14	11,746
Long-term Liability	(9,518)	-	158	(9,360)
<b>Total</b>	<b>2,665</b>	<b>(451)</b>	<b>172</b>	<b>2,386</b>

### Waste Disposal Contract

In 1996 the council signed a contract for the construction and maintenance of a waste disposal facility. The facility cost £26.6M. The contract period during which the council has the right to use the facility is for 25 years from the date that the facility became operational (1988). At the end of the contract period the asset will revert to the ownership of the council but there is then a choice to retender, operate or operate with additional capital investment being targeted at the plant. During the contract period the council could terminate the contract if the clauses relating to termination in the contract are triggered.

The facility is managed by Wolverhampton Waste Services (WWS) Ltd. The main income stream for WWS is the 'gate fee' paid by the council, which is based on the total tonnage of weight delivered to the facility for disposal. In addition to this, WWS generate a significant proportion of their turnover from the sale of electricity generated at the facility.

The total amount payable by the council over the life of the contract is estimated to be £155.6m. Over the remaining life of the contract the estimated payments are:

## Analysis of Estimated Payments

	Payment for Services	Interest	Capital Expenditure /Principal Redemption	Total
	£000	£000	£000	£000
Payable in 2011/2012	5,516	875	819	7,210
Payable within two to five years	24,675	2,836	3,943	31,454
Payable within six to ten years	37,448	1,624	6,849	45,921
<b>Total</b>	<b>67,639</b>	<b>5,335</b>	<b>11,611</b>	<b>84,585</b>

The contract is accounted for as 'on-balance sheet'. The following balances existed in respect of the contract on the dates below:

	Balance at 31 March 2010	Depreciation/ Amortisation	Capital Expenditure /Principal Redemption	Balance at 31 March 2011
	£000	£000	£000	£000
Property, Plant and Equipment	12,735	(1,158)	-	11,577
Deferred Income	(3,820)	347	-	(3,473)
Long-term Liability	(12,372)	-	762	(11,610)
<b>Total</b>	<b>(3,457)</b>	<b>(811)</b>	<b>762</b>	<b>(3,506)</b>

### 43 IMPAIRMENT LOSS

During 2010/2011 the council impaired assets totalling £412.664M. This is made up of £404.541M exceptional and general impairments of housing dwellings, £0.286M relating to community assets and a further £7.837M relating to surplus assets.

### 44 CAPITALISATION OF BORROWING COSTS

The council has elected not to capitalise borrowing costs incurred during the construction stage of capital projects

### 45 TERMINATION BENEFITS

The council terminated the contracts of a number of employees in 2010/2011, incurring total liabilities of £5.508M, as analysed below. This included payments to three Directors totalling £0.239M, details of which are disclosed at Note 35.

	<b>£000</b>
Additional Employer's Pension Contributions	1,667
Redundancy Payments	3,709
Salary for period where no services were rendered by the employee	132
	<u>5,508</u>

### 46 PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2010/2011, the council paid £11.77M to teachers' pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2009/2010 were £12.1M and 14.1%. There were no contributions remaining payable at the year-end.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 47.

### **Participation in Pension Schemes**

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

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

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

- Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency (TPA). It provides teachers with defined benefits upon their retirement and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

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

### **Transactions Relating to Post-employment Benefits**

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

	Pension Scheme including Discretionary		Teachers' Discretionary Pension Scheme	
	2010/2011 £000	2009/2010 £000	2010/2011 £000	2009/2010 £000
<b>Comprehensive Income and Expenditure Statement</b>				
Cost of Services:				
- current service cost	(25,111)	(14,821)	-	-
- past service costs	60,734	(86)	3,084	(969)
- settlements and curtailments	(423)	(1,231)	(2,461)	-
Financing and Investment Income and Expenditure:				
- interest cost	(57,523)	(52,291)	(2,836)	(3,055)
- expected return on scheme assets	41,994	30,726	-	-
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>19,671</b>	<b>(37,703)</b>	<b>(2,213)</b>	<b>(4,024)</b>
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:				
- actuarial gains and losses	50,990	(128,660)	(1,023)	(8,224)
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>70,661</b>	<b>(166,363)</b>	<b>(3,236)</b>	<b>(12,248)</b>

<b>Movement in Reserves Statement</b>				
- reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	45,589	13,720	1,603	406
Actual amount charged against the General Fund Balance for pensions in the year:				
- employer's contributions payable to scheme	25,918	23,983	-	-
- retirement benefits payable to pensioners	-	-	3,816	3,618
<b>Total Movement in Reserves</b>	<b>71,507</b>	<b>37,703</b>	<b>5,419</b>	<b>4,024</b>

## Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits Arrangements LGPS		Unfunded Liabilities: Discretionary Benefits Arrangements Teachers'	
	2010/2011 £000	2009/2010 £000	2010/2011 £000	2009/2010 £000	2010/2011 £000	2009/2010 £000
<b>Opening balance at 1 April</b>	<b>(991,602)</b>	<b>(714,181)</b>	<b>(35,150)</b>	<b>(29,554)</b>	<b>(53,473)</b>	<b>(44,843)</b>
Current service cost	(25,111)	(14,821)	-	-	(2,836)	(3,055)
Interest cost	(55,618)	(50,274)	(1,905)	(2,017)	-	-
Contributions - participants	(8,628)	(8,245)	-	-	-	-
Actuarial gains and losses	40,817	(238,034)	2,135	(5,865)	(1,023)	(8,224)
Benefits paid	30,593	35,270	2,251	2,286	3,816	3,618
Past service costs	59,028	(86)	1,706	-	3,084	(969)
Entity combinations	-	-	-	-	-	-
Curtailments	(423)	(1,231)	-	-	(2,461)	-
Settlements	-	-	-	-	-	-
<b>Closing balance at 31 March</b>	<b>(950,944)</b>	<b>(991,602)</b>	<b>(30,963)</b>	<b>(35,150)</b>	<b>(52,893)</b>	<b>(53,473)</b>

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme	
	2010/2011 £000	2009/2010 £000
<b>Opening balance at 1 April</b>	<b>615,222</b>	<b>474,585</b>
Expected rate of return	41,994	30,726
Actuarial gains and losses	8,038	115,239
Employer contributions	25,918	23,983
Contributions by scheme participants	8,628	8,245
Benefits paid	(32,844)	(37,556)
Entity combinations	-	-
<b>Closing balance at 31 March</b>	<b>666,956</b>	<b>615,222</b>

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

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £39.6M (2009/2010: (£146.0M)).

## Scheme History

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
	£000	£000	£000	£000	£000
<b>Present value of liabilities:</b>					
Local Government Pension Scheme	(784,322)	(879,077)	(743,735)	(1,026,752)	(981,907)
Discretionary Benefits	(47,861)	(51,756)	(44,843)	(53,473)	(52,893)
<b>Sub total</b>	<b>(832,183)</b>	<b>(930,833)</b>	<b>(788,578)</b>	<b>(1,080,225)</b>	<b>(1,034,800)</b>
<b>Fair Value of Assets in the Local Government Pension Scheme</b>	<b>588,317</b>	<b>589,265</b>	<b>474,585</b>	<b>615,222</b>	<b>666,956</b>
<b>Surplus/(deficit) in the scheme:</b>					
Local Government Pension Scheme	(196,005)	(289,812)	(269,150)	(411,530)	(314,951)
Discretionary Benefits	(47,861)	(51,756)	(44,843)	(53,473)	(52,893)
<b>Total</b>	<b>(243,866)</b>	<b>(341,568)</b>	<b>(313,993)</b>	<b>(465,003)</b>	<b>(367,844)</b>

The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £367.8M has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a positive overall balance of £705.2M. However, statutory arrangements for funding the deficit mean that the financial position of the council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £25.7M. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £11.8M.

## Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Teachers Discretionary Scheme	
	2010/2011 £000	2009/2010 £000	2010/2011 £000	2009/2010 £000
<b>Long-term expected rate of return on assets in the scheme:</b>				
Equity investments	7.50%	7.50%	n/a	n/a
Government Bonds	4.40%	4.50%	n/a	n/a
Other Bonds	5.10%	5.20%	n/a	n/a
Property	6.50%	6.50%	n/a	n/a
Cash/current assets	0.50%	0.50%	n/a	n/a
Other	7.50%	7.50%	n/a	n/a
Mortality assumptions:				
<b>Longevity at 65 for current pensioners:</b>				
- Men	21.60	21.20	21.60	21.20
- Women	24.20	24.10	24.20	24.10
<b>Longevity at 65 for future pensioners:</b>				
- Men	23.00	22.20	n/a	n/a
- Women	25.80	25.00	n/a	n/a
Rate of inflation	3.40%	3.30%	3.30%	3.20%
Rate of increase in salaries	4.65%	5.05%	-	-
Rate of increase in pensions	2.90%	3.30%	2.80%	3.20%
Rate for discounting scheme liabilities	5.50%	5.60%	5.40%	5.50%
Take-up of option to convert annual pension into retirement lump sum	50.00%	50.00%	n/a	n/a

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2011	31 March 2010
	%	%
Equity Investments	59	54
Government Bonds	8	8
Other Bonds	6	6
Property	9	7
Cash/Current Assets	2	1
Other	16	24
	<b>100</b>	<b>100</b>

## History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/2011 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
	%	%	%	%	%
Local Government Pension Scheme (including Discretionary):					
Differences between the expected and actual return on assets	0.90	(8.10)	(33.50)	(18.70)	(1.20)
Experience gains and losses on liabilities	-	0.30	-	-	(2.90)
Teachers Discretionary Pension Scheme:					
Experience gains and losses on liabilities	-	4.2	-	-	(2.40)

The council is the administering authority for the West Midlands and Integrated Transport Authority Pension Funds and charged £13.4M in 2010/2011 (£13.1M in 2009/2010) in administration and investment expenses. The transactions relating to those expenses and the recharge to the Pension Fund are included within the totals for Non Distributed Costs.

## 48 CONTINGENT LIABILITIES

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At 31 March 2011, the council had the following contingent liabilities:

A waste disposal contract which was let on 8 February 1996. Under the contract, the waste disposal contractor has constructed a waste energy plant at an estimated cost of £28.3M and the plant became operational in February 1998. If the contract is terminated by the council for any reason, the council becomes liable to pay to the contractor a sum, (the termination sum), equal to 90% of £28.3M, written down to zero on a straight line depreciation basis over 25 years commencing from the date the plant became operational. The unexpired value of the termination sum at 31 March 2011 is £12.13M (31 March 2010 - £13.15M).

A future payment to be paid under the council's well-being powers, that has arisen as a result of investigations into contamination of the site previously occupied by Courtaulds upon which there now stands a mix of private and social housing.

A contingent liability exists for the costs of Equal Pay compensation. The council has established a provision for £21.0M (31 March 2010 - £14.9M). The potential costs of any further cases not addressed by these cannot be reliably quantified at this stage.

There are a number of instances where the Council has acquired title to assets of land and buildings due to the use of compulsory purchase orders or an interest in land and buildings subject to blight notices. In these situations there has been no transfer of economic benefits due to difficulties in either establishing the original owner or in reaching an agreement to the level of compensation to be transferred. The existence of a recognisable liability can only be confirmed at the point that the owner comes forward to claim reimbursement or the formal acknowledgment of blight has been established. The total value of these cases is estimated at £0.783M.

The council granted planning permission to Victoria Halls Ltd for the development and construction of student halls of residence against the advice of the Health and Safety Executive. This resulted in a legal challenge from the HSE during 2009. This has been concluded for the built elements of the development ( Blocks A, B and C) and their planning status is now secure . The Council is required to reconsider its original planning decision in respect to the as yet unbuilt Block D. This will be undertaken following the consideration of an appeal to the Supreme Court by the HSE on a point of law the outcome of which may in part impact to some degree on the matters the Council should properly consider when reconsidering the original planning decision in respect to Block D . The outcome of reconsidering the Block D decision will determine if the Council incurs any liabilities, legal or other costs.

Under recent guidance issued by Department for Environment Food and Rural Affairs in respect of the Environmental Information Regulations 2004, it has been suggested that local authorities do not have the power to charge fees for 'personal' local land register searches, and that they may be liable to repay fees they have received since 2005. For the council, this would equate to £164,000. However, the legal position is currently unclear, meaning that the existence of a liability cannot be confirmed until the relevant legal issues are resolved.

During 2010/2011, the council undertook a voluntary redundancy exercise. There were a number of applications for voluntary redundancy in progress, but which had not received sufficient approvals as at the Balance Sheet date to make it reasonably certain that a redundancy would ultimately result. It is not possible to place a reliable estimate on the number of such applications that will ultimately result in redundancy, and therefore the value of any resulting liability.

## 49 CONTINGENT ASSETS

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The council has no contingent assets.

The council seeks to actively identify and manage risks arising from its dealings in financial instruments. In accordance with the CIPFA Treasury Management Code and the Prudential Code, full council approves the following on an annual basis:

- Treasury Management Strategy
- Annual Investment Strategy
- Prudential Indicators

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

#### Credit and Counterparty Risk Management

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

The council's maximum exposure to credit risk at 31 March 2011 was £92.349M (31 March 2010 £57.294M). This relates entirely to Loans and Receivables. The council does not hold any collateral in respect of these amounts.

#### Collateral and Other Credit Enhancements Obtained

The council did not obtain any collateral or other credit enhancements during 2010/2011 or 2009/2010.

#### Liquidity Risk Management

The council ensures it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of its business/service objectives. The council actively manages its cash balances on a daily basis, and forecasts cash requirements several months in advance. In its investment activities the council places strong emphasis on liquidity (second only to security, as discussed under credit risk).

#### Analysis of Financial Liabilities by Maturity Date

	<b>£000</b>
Payable in 2011/2012	80,130
Payable within two to five years	83,950
Payable within six to ten years	30,000
Payable within eleven to fifteen years	26,000
Payable within sixteen to twenty years	26,000
Payable within twenty-one to twenty-five years	-
Payable within twenty-six to thirty years	35,000
Payable within thirty-one to thirty-five years	50,000
Payable within thirty-six to forty years	31,000
Payable within forty-one to forty-five years	110,000
Payable within forty-six to fifty years	30,000
Payable within fifty-one to fifty-five years	22,300
Payable within fifty-six to sixty years	81,500
	<b>605,880</b>

#### Interest Rate Risk Management

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

If interest rates had been 1% higher during 2010/2011, the council's interest payable would have increased by £5.3M, and its interest receivable would have increased by £0.3M, resulting in an increase in net expenditure of £5.0M. Had interest rates been 1% lower, equivalent decreases would have occurred, leading to a decrease in net expenditure of £5.0M.

#### Exchange Rate Risk Management

The council manages its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

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

#### Inflation Risk Management

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

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

#### Price Risk

The council does not generally invest in equity shares but does have shareholdings to the value of £16.847M in Birmingham International Airport. The council is consequently exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the council is not in a position to limit its exposure to price movements by diversifying its portfolio. The shares are all classified as 'unquoted equity investment at cost', meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure.

#### Refinancing Risk Management

The council ensures that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It actively manages its relationships with its counterparties in these transactions in such a manner as to secure this objective, and avoids over-reliance on any one source of funding if this might jeopardise achievement of the above.

#### Legal and Regulatory Risk Management

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

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

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

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

## 51 ISSUE AUTHORISATION

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The Statement of Accounts was authorised for issue on 21 October 2011 by the Assistant Director - Corporate Services (Section 151 Officer).

## STATEMENT OF ACCOUNTING POLICIES

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### 1. General Principles

The Statement of Accounts summarises the council's transactions for the 2010/2011 financial year and its position at 31 March 2011. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

### 2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than necessarily the cash flows fixed or determined by the contract.
- Where income and expenditure has 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.

### 3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value of which Wolverhampton had none at 31 March 2011.

### 4. Exceptional Items

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

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

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

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

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

## **6. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding property, plant and equipment during the year:

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

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

## **7. Employee Benefits**

### **Benefits Payable During Employment**

Short-term employment 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, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements, leave entitlement under the flexi-time system, and any other form of 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 Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement in the Accumulating Compensating Absences Account so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

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

### **Post-Employment Benefits**

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

- The Teacher's Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The Local Government Pensions Scheme, administered by West Midlands Pension Fund.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

### **The Local Government Pension Scheme**

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

- The liabilities of the West Midlands Pension Fund attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (2009/2010 5.6%) based on the redemption yields on AA-rated corporate bonds with a term corresponding to the term of the liabilities.
- The assets of West Midlands Pension Fund attributable to the council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.

- The change in the net pensions liability is analysed into seven components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provisions of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - gains or losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
  - 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 – debited to the Pensions Reserve and recognised as Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement.
  - contributions paid to the West Midlands Pension Fund – cash paid as employer’s contributions to the pension funding settlement of liabilities; not accounted for as an expense.

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

### **Discretionary Benefits**

The council 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 the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **8. 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.

## 9. Financial Instruments

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

For most of the borrowing that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

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

### Financial Assets

Financial assets are classified into two types:

- loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets - assets that have a quoted market price and/or do not have fixed or determinable payments.

### Loans and Receivables

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

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Available-for-Sale Assets**

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

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

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

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

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

### **10. Foreign Currency Translation**

Where the council entered into a transaction denominated in a foreign currency, the transaction was converted into sterling at the exchange rate applicable on the date the transaction was effective. No amounts in foreign currency were outstanding at the year end.

## 11. Government Grants and Contributions

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

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

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

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

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

### **Area Based Grant**

Area Based Grant (ABG) was a general grant allocated by central government directly to local authorities as additional revenue funding. ABG was non-ring-fenced and was credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement

## **12. Intangible Assets**

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

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.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

## **13. Interests in Companies and Other Entities**

The council is the sole owner of a company where its interest has the nature of a subsidiary (Wolverhampton Homes), which requires it to prepare group accounts. The council has an interest in the Wolverhampton Grand Theatre Ltd but not one which is sufficiently material to warrant the preparation of group accounts.

## **14. Inventories and Long Term Contracts**

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

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

## **15. Investment Property**

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

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

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

## **16. Jointly Controlled Operations and Jointly Controlled Assets**

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

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

## **17. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

### **The Council as Lessee**

#### Finance leases

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

Lease payments are apportioned between:

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

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

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

#### Operating leases

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

### **The Council as Lessor**

#### Finance Leases

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

Lease rental receivable is apportioned between:

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

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

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

### Operating Leases

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

## **18. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010/11* (BVACOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the council's status as a multi-functional, democratic organisation.
- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

## **19. Property, Plant and Equipment**

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

### **Recognition**

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

### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The council does not capitalise borrowing costs incurred whilst assets are under construction.

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

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

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

- infrastructure, community assets and assets under construction - depreciated historical cost
- dwellings - fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), the depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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

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

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

### **Impairment**

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

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

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

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

## **Depreciation**

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

Depreciation is calculated on the following bases:

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

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **Disposals and 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 Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses 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.

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

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

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

## 20. Private Finance Initiative (PFI) and Similar Contracts

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

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

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

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

## 21. Provisions, Contingent Liabilities and Contingent Assets

### Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

### **Provisions for Back Pay Arising from Unequal Pay Claims**

The council has made provision for the costs of Equal Pay compensation. It has funded this provision from capitalisation approvals granted by the Government, which allow it to treat the expenditure as if it were capital for statutory purposes, and amortise it over 20 years.

### **Landfill Allowance Schemes**

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

### **Contingent Liabilities**

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

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

### **Contingent Assets**

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

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

## **22. Reserves**

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision for Services in the Comprehensive Income and Expenditure Statement. The revenue is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

## **23. Revenue Expenditure Funded from Capital under Statute**

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

## **24. Value Added Tax**

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

## **25. Pension Fund Accounts**

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

Copies of the fund's Accounts and Annual Report are available on request from the Assistant Director - Corporate Services (Section 151 Officer), Civic Centre, Wolverhampton, WV1 1RL.

# HOUSING REVENUE ACCOUNT FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2011

## INCOME AND EXPENDITURE ACCOUNT

The Housing Revenue Account (HRA) deals with expenditure and income relating to the provision and maintenance of council houses and flats.

Year Ending 31 March 2010	Notes	Year Ending 31 March 2011
£ 000		£ 000
(72,344) Gross Rents - Dwellings		(74,190)
(1,469) Gross Rents - Non Dwellings		(1,455)
(3,795) Charges to Tenants for Services and Facilities		(4,175)
(56) Contributions Received		(58)
<b>(77,664) Total Income</b>		<b>(79,878)</b>
25,681 Repairs and Maintenance		25,616
17,865 Supervision and Management		17,491
225 Rents, Rates and Taxes		139
3,541 Negative HRA Subsidy Payable	H1	5,700
458 Increase in Allowance for Bad Debts		201
15,447 Depreciation of Property, Plant and Equipment	H2	15,899
1,220 Impairment of Property, Plant and Equipment	H3	412,290
3 Revenue Expenditure Funded from Capital under Statute		13
55 Debt Management Costs		44
<b>64,495 Total Expenditure</b>		<b>477,393</b>
<b>(13,169) Net Cost of HRA Services as included in whole authority Comprehensive Income and Expenditure Statement</b>		<b>397,515</b>
177 HRA Share of Corporate and Democratic Core		182
<b>(12,992) Net Cost of HRA Services</b>		<b>397,697</b>
(1,482) (Gain) or Loss on Sale of Property, Plant and Equipment		(1,977)
- (Gain) on the Fair Value of Investment Assets		(959)
11,788 Interest Payable		13,274
8 Premiums and Discounts		-
(72) Interest and Investment Income		(37)
<b>(2,750) (Surplus) or Deficit for the year</b>		<b>407,998</b>



**NOTES TO THE HOUSING REVENUE ACCOUNT****H1 HOUSING REVENUE ACCOUNT SUBSIDY**

<b>Year Ending 31 March 2010</b>		<b>Year Ending 31 March 2011</b>
<b>£ 000</b>		<b>£ 000</b>
	Subsidy claimed in respect of:	
39,184	- Management and Maintenance	40,349
14,581	- Major Repairs Allowance	14,782
12,779	- Charges for Capital	13,978
<b>66,544</b>		<b>69,109</b>
	Less:	
(10)	- Mortgage Interest	(8)
(70,075)	- Guideline Rent Income	(75,187)
<b>(70,085)</b>		<b>(75,195)</b>
<b>(3,541)</b>	<b>Total Subsidy (Payable) for the Year</b>	<b>(6,086)</b>
	- Adjustment re Prior Year Subsidy	386
<b>(3,541)</b>	<b>Total Subsidy Recognised this Year</b>	<b>(5,700)</b>

**H2 DEPRECIATION**

<b>Year Ending 31 March 2010</b>		<b>Year Ending 31 March 2011</b>
<b>£ 000</b>		<b>£ 000</b>
	Operational Assets	
14,581	- Dwellings	14,782
75	- Garages	74
377	- Area Offices	382
19	- New Start Day Centre	85
201	- Equipment	276
194	- Other	300
<b>15,447</b>	<b>Total Depreciation Charge for the Year</b>	<b>15,899</b>

**H3 IMPAIRMENTS**

<b>Year Ending 31 March 2010</b>		<b>Year Ending 31 March 2011</b>
<b>£ 000</b>		<b>£ 000</b>
	Operational Assets	
1,220	- Dwellings	404,540
-	- Garages	-
-	- Area Offices	7,750
-	- Land	-
<b>1,220</b>	<b>Total Impairment Charge for the Year</b>	<b>412,290</b>

Included in the impairment figure for dwellings is an amount of £404.443M resulting from a decrease in the Existing Use Value (Social Housing) factor from 49% to 34%. In addition, the impairment charges for dwellings, garages and shops are in respect of assets either demolished or earmarked for demolition during the year. The value of the impairment is equal to the net book value of the assets at 31 March 2010. Non-enhancing capital expenditure represents expenditure on council assets financed from capital resources in excess of any resulting increase in the asset's value.

#### H4 ANALYSIS OF THE MOVEMENT ON THE HRA STATEMENT

Year Ending 31 March 2010	Note	Year Ending 31 March 2011
£ 000		£ 000
(352) Net additional amount required to be credited to the HRA Balance		409,517
Comprising:		
<u>Amounts included in the Income and Expenditure Account but not in the HRA Balance</u>		
(866) - Excess of HRA depreciation charge over MRA	H11	(1,117)
(1,220) - Impairment of Property, Plant and Equipment	H3	(412,290)
- - Amortisation of Deferred Government Grants		2
1,499 - Net Gain or (Loss) on Sale of Property, Plant and Equipment		1,977
- - Capital Receipts from Sale of De Minimis Assets		-
(3) - Net Revenue Expenditure Funded from Capital under Statute		(13)
191 - Adjustment for Premiums and Discounts		(7)
- - Employee Leave Accrual		6
- - Net Gain or (Loss) on the Fair Value of Investment Assets		959
<b>(399)</b>		<b>(410,483)</b>
<u>Amounts not in the Income and Expenditure Account but included in the HRA Balance</u>		
311 - HRA Share of Contribution to Pension Reserve	H5	308
440 - Amount Set Aside for the Repayment of Debt		445
- - Transfer to Earmarked Reserves re Revenue Grant Unapplied		213
<b>751</b>		<b>966</b>
<b>352 Total Movement in HRA Balance</b>		<b>(409,517)</b>

#### H5 CONTRIBUTION TO THE PENSION RESERVE

Retirement benefits are offered to employees by the council as part of the terms and conditions of employment. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments. This commitment needs to be disclosed at the time that employees earn their future entitlement. The pension reserve reflects the projected shortfall in the amount which may need to be provided in the future to current employees of the Housing Revenue Account. Further details on this may be found at note 47 to the Core Financial Statements.

## H6 HOUSING STOCK

The number of dwellings held or leased by the council on the below dates (excluding properties earmarked for demolition or sale) were as follows:

31 March 2009	31 March 2010		31 March 2011
5,077	5,071	Low Rise Flats	5,066
3,029	3,027	Medium Rise Flats	3,027
2,123	2,120	High Rise Flats	2,119
13,352	13,307	Houses and Bungalows	13,258
<b>23,581</b>	<b>23,525</b>	<b>Total Dwellings Owned by the Council</b>	<b>23,470</b>
14	14	Homeless Dwellings (Leased)	14
<b>23,595</b>	<b>23,539</b>	<b>Total Housing Stock</b>	<b>23,484</b>

## H7 HOUSING REVENUE ACCOUNT PROPERTY, PLANT AND EQUIPMENT

The total Balance Sheet values of the land, houses and other property within the Housing Revenue Account on the below dates were as follows:

31 March 2010		31 March 2011
<b>£ 000</b>		<b>£ 000</b>
<b>(Restated)</b>		
	<u>Operational Assets</u>	
1,092	- Software	947
1,011,121	- Dwellings	648,223
1,986	- Garages	1,912
10,148	- Area Offices	2,021
411	- Day Centres	1,220
914	- Equipment	650
434	- Other	2,863
<b>1,026,106</b>	<b>Total Operational Assets</b>	<b>657,836</b>
	<u>Non-operational Assets</u>	
3,313	- Shops	4,188
1,275	- Land	1,416
2,609	- Other	3,641
<b>7,197</b>	<b>Total Non-operational Assets</b>	<b>9,245</b>
<b>1,033,303</b>	<b>Total Property, Plant and Equipment</b>	<b>667,081</b>

## H8 THE VACANT POSSESSION VALUE OF DWELLINGS

The vacant possession value of the current stock of dwellings at 1 April 2010 values amounted to £1,906.5M. The value of dwellings shown on the Balance Sheet is the existing use value (social housing), which is 34% of the vacant possession value (this ratio is set by the government). The difference between the two values demonstrates the economic cost to government of providing council housing at less than open market rents.

**Capital Expenditure**

Capital expenditure on land, houses and other property within the Council's HRA during 2010/2011 totalled £58.1M and was resourced as follows:

Year Ending 31 March 2010		Year Ending 31 March 2011
£ 000		£ 000
	Sources of Funding	
64,759	- Borrowing	46,057
1,277	- Usable Capital Receipts	32
14,482	- Major Repairs Reserve	10,265
448	- Government and EU Grants	440
950	- Other Grants and Contributions	1,300
<b>81,916</b>	<b>Total Capital Expenditure</b>	<b>58,094</b>

**Capital Receipts**

Capital receipts generated during 2010/2011 from the disposal of HRA assets totalled £3.4M as detailed below:

Year Ending 31 March 2010		Year Ending 31 March 2011
£ 000		£ 000
1,503	Sale of Council Houses (Right-to-Buy)	2,836
1,068	Sale of Other Land and Buildings	573
27	Mortgages Principal Repayments	32
133	Repaid Discounts	(3)
<b>2,731</b>	<b>Total Capital Receipts</b>	<b>3,438</b>

Year Ending 31 March 2010		Year Ending 31 March 2011
£ 000		£ 000
1,246	Paid over to Government	2,142
1,485	Available to Finance Capital Expenditure	1,296
<b>2,731</b>	<b>Total Capital Receipts</b>	<b>3,438</b>

## H10 RENT ARREARS

During 2010/2011, total rent arrears fell by £326,000 (-17.6%). Within total rent arrears, current tenants' arrears as a proportion of net rental income decreased from 5.5% to 4.6%. The comparative total figures are:

31 March 2009	31 March 2010		31 March 2011
£ 000	£ 000		£ 000
1,556	1,325	Current Tenants	1,130
454	525	Former Tenants	394
<b>2,010</b>	<b>1,850</b>	Total Arrears	<b>1,524</b>

An allowance is maintained for these debts. The movement in the year is detailed below:

Year Ending 31 March 2009	Year Ending 31 March 2010		Year Ending 31 March 2011
£ 000	£ 000		£ 000
1,006	1,312	Allowance for Bad and Doubtful Debts Brought Forward	1,312
(372)	(422)	Amounts Written Off during the Year	(333)
678	447	Increase in Allowance Charged to the HRA during the Year	195
<b>1,312</b>	<b>1,337</b>	Allowance for Bad and Doubtful Debts Carried Forward	<b>1,174</b>

## H11 MAJOR REPAIRS RESERVE

This is a discretionary reserve to which the council's Major Repairs Allowance (MRA) may be transferred, and that is used to finance major repairs to HRA property. The MRA is determined by the government as part of the HRA subsidy determination. Where total HRA depreciation charges are greater than the MRA it is a requirement that an amount equal to the difference is transferred to the HRA from the Major Repairs Reserve.

Year Ending 31 March 2010		Year Ending 31 March 2011
£ 000		£ 000
	- Balance Brought Forward	(98)
(14,580)	Transfer of MRA from the Capital Adjustment Account	(14,781)
14,482	Capital Expenditure on Land and Property in the HRA	10,265
<b>(98)</b>	<b>Balance Carried Forward</b>	<b>(4,614)</b>

## COLLECTION FUND

### INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDING 31 MARCH 2011

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the council, on an accruals basis, in relation to Council Tax and Non Domestic Rates, and illustrates the way in which these have been distributed to other preceptors and the council.

Year Ending 31 March 2010 (Restated) £000	Note	Year Ending 31 March 2011 £000
<b>(886)</b>		<b>(886)</b>
<b>Income</b>		
(77,138)	C1	(77,801)
(27,276)		(27,237)
(71,381)		(67,044)
<b>(175,795)</b>		<b>(172,082)</b>
<b>Expenditure</b>		
Precepts and Demands		
93,087		93,453
6,927		7,058
3,316		3,395
<b>103,330</b>		<b>103,906</b>
Non Domestic Rates		
68,944	C2	65,685
367		355
70		103
<b>69,381</b>		<b>66,143</b>
Distribution of Council Tax Surplus/(Payment of Deficit)		
244	C3	467
18		31
9		20
<b>271</b>		<b>519</b>
Allowance for Bad and Doubtful Debts		
813	C4	613
2,000	C4	901
<b>2,813</b>		<b>1,514</b>
<b>175,795</b>		<b>172,082</b>
<b>0</b>	C3	<b>-</b>
<b>(886)</b>		<b>(886)</b>

## NOTES TO COLLECTION FUND ACCOUNTS

### C1 INCOME FROM COUNCIL TAX - THE COUNCIL TAX BASE

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

Band	Total no of Chargeable Dwellings after Effect of Discount	Ratio	Band D Equivalent Dwellings	Council tax (Single Person Household)	Council tax (Multiple Occupancy)
A Disabled	82	5/9	46	610	813
A	46,871	6/9	31,248	732	976
B	20,053	7/9	15,597	854	1,139
C	14,167	8/9	12,593	976	1,301
D	5,663	9/9	5,663	1,098	1,464
E	2,666	11/9	3,258	1,342	1,789
F	1,526	13/9	2,204	1,586	2,115
G	801	15/9	1,334	1,830	2,440
H	82	18/9	164	2,196	2,928
	<b>91,911</b>		<b>72,106</b>		

<u>Add</u> additional Band D Equivalent Dwellings from removing 50% Council Tax Discount for owners of long term void homes	0
<u>Less</u> allowance for collection difficulties	(1,132)

### C2 NATIONAL NON DOMESTIC RATES

National Non Domestic Rates (NNDR) is organised on a national basis. The council collects non domestic rates for its area which are based on the rateable values (as determined by the District Valuer) multiplied by the uniform rate multiplier set by the government. The total amount, subject to the effects of transitory arrangements, is paid to a central pool (the NNDR Pool) managed by Central Government, which in turn redistributes the sums paid into the pool back to each local authority's General fund, on a the basis of a fixed amount per head of population.

	2009/2010 £000	2010/2011 £000
Non Domestic Rateable value		
£191.7M at 31.03.2011 (£173.3M at 31.03.2010)	84,050	79,364
Multiplied by uniform rate for year		
41.4p (2009/2010 48.5p)		
Transitional Surcharges and Adjustments (less Allowances)	(15,106)	(13,679)
Contribution to NNDR Pool	<b>68,944</b>	<b>65,685</b>

### **C3 DISTRIBUTION OF COLLECTION FUND SURPLUSES/DEFICITS**

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The Council is required to make an estimate of the surplus or deficit for the council tax transactions for the year. In estimating this surplus or deficit for a year, account is to be taken of any difference between the amount estimated for the previous year, and the actual Collection Fund surplus or deficit shown in the amounts for that year. Such surpluses or deficits do not remain in the Collection Fund, but are distributed in the year following the financial year to which they relate, between the council and other precepting authorities, (the West Midlands Police Authority and the West Midlands Fire and Civil Defence Authority) in proportion to the value of their respective demand and precepts.

### **C4 ALLOWANCE FOR BAD AND DOUBTFUL DEBTS**

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The Council does not make an allowance for National Non Domestic Rates following changes to accounting practice introduced in the SORP 2009.

	<b>Debts Written Off</b>		<b>Charge in Year</b>		<b>Allowance at Year End</b>	
	<b>2009/2010</b>	<b>2010/2011</b>	<b>2009/2010</b>	<b>2010/2011</b>	<b>2009/2010</b>	<b>2010/2011</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Council Tax	375	312	813	613	3,020	3,320

## GROUP ACCOUNTS FOR THE YEAR ENDING 2010/2011

### GROUP MOVEMENT IN RESERVES STATEMENT

This Statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus or (deficit) on the provision of services' line shows the true economic cost of providing the council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charges to the General Fund Balance and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The 'Net increase /Decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Total Single Entity Usable Reserves £000	Total Single Entity Unusable Reserves £000	Total Single Entity Reserves £000	Council Share Reserves (Group a/cs) £000	Total Reserves (Incl Groups) £000
<b>Balance at 1 April 2009</b>	<b>80,148</b>	<b>958,377</b>	<b>1,038,525</b>	<b>(6,484)</b>	<b>1,032,041</b>
<b>Movement in reserves during 2009/2010</b>					
Surplus or (deficit) on provision of services (accounting basis)	(28,062)	-	(28,062)	(1,131)	(29,193)
Other Comprehensive Income and Expenditure	-	(96,280)	(96,280)	(16,478)	(112,758)
<b>Total Comprehensive Income and Expenditure</b>	<b>(28,062)</b>	<b>(96,280)</b>	<b>(124,342)</b>	<b>(17,609)</b>	<b>(141,951)</b>
Adjustments between accounting basis & funding basis under regulations	48,169	(48,169)	-	0	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>20,107</b>	<b>(144,449)</b>	<b>(124,342)</b>	<b>(17,609)</b>	<b>(141,951)</b>
Transfers to/from Earmarked Reserves	-	-	-	-	-
<b>Increase/Decrease (movement) in Year</b>	<b>20,106</b>	<b>(144,449)</b>	<b>(124,342)</b>	<b>(17,609)</b>	<b>(141,951)</b>
<b>Balance at 31 March 2010 carried forward</b>	<b>100,254</b>	<b>813,928</b>	<b>914,182</b>	<b>(24,093)</b>	<b>-</b>
<b>Movement in reserves during 2010/2011</b>					
Surplus or (deficit) on provision of services (accounting basis)	(311,143)	-	(311,143)	6,644	(304,499)
Other Comprehensive Income and Expenditure	-	50,652	50,652	5,878	56,530
<b>Total Comprehensive Income and Expenditure</b>	<b>(311,356)</b>	<b>50,652</b>	<b>(260,491)</b>	<b>12,522</b>	<b>(247,969)</b>
Adjustments between accounting basis & funding basis under regulations	362,500	(362,518)	-	0	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>51,358</b>	<b>(311,866)</b>	<b>(260,508)</b>	<b>12,522</b>	<b>(247,986)</b>
Transfers to/from Earmarked Reserves	-	-	-	-	-
<b>Increase/Decrease (movement) in Year</b>	<b>51,358</b>	<b>(311,866)</b>	<b>(260,508)</b>	<b>12,522</b>	<b>(247,986)</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>151,612</b>	<b>502,062</b>	<b>653,674</b>	<b>(11,571)</b>	<b>642,103</b>

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This account shows income and expenditure on all of the services for which the Council is ultimately responsible, whether provided by the Council itself or by Wolverhampton Homes.

31 March 2010			31 March 2011		
Gross	Gross	Net	Gross	Gross	Net
Expenditure	Income	Expenditure	Expenditure	Income	Expenditure
£000s	£000s	£000s	£000s	£000s	£000s
121,466	(49,406)	72,060	128,095	(53,346)	74,749
7,128	(1,554)	5,573	14,453	(2,351)	12,102
324,260	(259,460)	64,799	341,924	(267,197)	74,727
10,660	(1)	10,659	4,676	-	4,676
97,007	(23,764)	73,243	77,698	(25,055)	52,643
26,102.4	(3,550.9)	22,551.5	41,227	(3,788)	37,439
72,660	(88,853)	(16,193)	89,521	(89,363)	158
158,643	(149,240)	9,403	162,175	(156,812)	5,363
		Exceptional Items (Notes 5 and G4)		-	-
5,417		5,417	6,036	-	6,036
1,040		1,040	-	-	-
		Housing Revaluation	404,443	-	404,443
		Pensions Indexation	(69,696)	-	(69,696)
<b>824,384</b>	<b>(575,830)</b>	<b>248,553</b>	<b>1,200,552</b>	<b>(597,913)</b>	<b>602,639</b>
		<b>Cost of Services</b>			
		13,938			12,397
		51,773			45,049
		(285,154)			(355,574)
		<b>29,110</b>			<b>304,511</b>
		<b>(Surplus) or Deficit on Provision of Services</b>			
		83			6
		<b>29,193</b>			<b>304,517</b>
		<b>Group Surplus or Deficit</b>			
		(30,212)			(684)
		(10,392)			0
		153,362			(55,845)
		<b>112,758</b>			<b>(56,529)</b>
		<b>Other Comprehensive Income and Expenditure</b>			
		<b>141,951</b>			<b>247,988</b>
		<b>Total Comprehensive Income and Expenditure</b>			

## RECONCILIATION OF SINGLE ENTITY SURPLUS OR DEFICIT TO THE GROUP SURPLUS OR DEFICIT

This statement reconciles the surplus or deficit on the council's Income and Expenditure Account to the surplus or deficit on the Group Comprehensive Income and Expenditure Statement.

Year Ending 31 March 2010	Year Ending 31 March 2011
£000	£000
124,664	260,510
Deficit (Surplus) for the year on the council's single entity Income and Expenditure Account	
<b>Add:</b>	
Surplus arising from other entities included in the group accounts analysed into the amounts attributable to:	
17,287	(12,522)
Subsidiaries	
- Associates	-
- Joint Ventures	-
<b>17,287</b>	<b>(12,522)</b>
<b>141,951</b>	<b>247,988</b>

## GROUP BALANCE SHEET

This account summarises the Group's financial position at the year end, indicated by the value of its assets less its liabilities and the level of balances and reserves at its disposal.

1 April 2009	31 March 2010		Notes	1 March 2011
£000	£000			£000
1,876,899	1,941,655	Property, Plant & Equipment		1,595,878
1,600	7,381	Investment Property		17,712
-	1,115	Intangible Assets		920
6,461	16,853	Long Term Investments		16,853
206	139	Long Term Debtors		103
<b>1,885,166</b>	<b>1,967,143</b>	<b>Long Term Assets</b>		<b>1,631,466</b>
53,786	5,337	Short Term Investments		27,790
435	393	Inventories	G5	610
49,098	51,439	Short Term Debtors	G6	64,038
7,687	9,119	Cash and Cash Equivalents	G7	8,484
<b>111,006</b>	<b>66,288</b>	<b>Current Assets</b>		<b>100,922</b>
(99)	(37,359)	Short Term Borrowing		(16,207)
(76,106)	(70,721)	Short Term Creditors	G8	(78,359)
(12,388)	(17,808)	Provisions		(26,298)
<b>(88,593)</b>	<b>(125,888)</b>	<b>Current Liabilities</b>		<b>(120,864)</b>
(495,303)	(470,850)	<b>Long Term Creditors</b>		
(370,149)	(536,343)	Long Term Borrowing		(530,413)
(10,084)	(10,259)	Other Long Term Liabilities		(427,535)
<b>(875,536)</b>	<b>(1,017,452)</b>	Capital Grants Receipts in Advance		(11,473)
<b>1,032,043</b>	<b>890,091</b>	<b>Long Term Liabilities</b>		<b>(969,421)</b>
		<b>Net Assets</b>		<b>642,103</b>
(29,312)	(31,920)	<b>Usable Reserves</b>		
(520)	(557)	- General Fund		(39,540)
(36,887)	(50,155)	- Reserves of Subsidiaries	G9	(3,230)
(1,140)	(3,537)	- Earmarked reserves		(63,484)
0	(98)	- Housing Revenue Account		(5,057)
(868)	(567)	- Major Repairs Reserve		(4,614)
(11,941)	(13,977)	- Capital Receipts Reserve		(1,755)
<b>(80,668)</b>	<b>(100,811)</b>	- Capital Grants Unapplied		(37,162)
<b>(951,375)</b>	<b>(789,280)</b>	<b>Unusable Reserves</b>	G10	(487,261)
<b>(951,375)</b>	<b>(789,280)</b>			<b>(487,261)</b>
<b>(1,032,043)</b>	<b>(890,091)</b>	<b>Total Reserves of the Group</b>		<b>(642,103)</b>

## GROUP CASH FLOW STATEMENT

This statement summarises the inflows and outflows of cash relating to both revenue and capital transactions with other organisations and individuals.

Year Ending 31 March 2010		Year Ending 31 March 2011 £000
£000		
29,193	Net (surplus) or deficit on the provision of services	304,517
(125,550)	Adjust net surplus or deficit on the provision of services for non cash movements	(413,369)
50,117	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	44,346
<b>(46,240)</b>	<b>Net cash flows from Operating Activities (G11)</b>	<b>(64,506)</b>
<b>46,454</b>	<b>Investing Activities (G12)</b>	<b>98,415</b>
<b>(1,646)</b>	<b>Financing Activities (G13)</b>	<b>(33,274)</b>
<b>(1,432)</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>635</b>
(7,687)	Cash and cash equivalents at the beginning of the reporting period	(9,119)
<b>(9,119)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>(8,484)</b>

**G1 INTRODUCTION TO THE GROUP ACCOUNTS**

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The Code of Practice requires that where an authority has material interests in one or more subsidiary or associated companies, it should prepare group financial statements. The aim of consolidation is to give an overall picture of the council's financial activities and the resources employed in carrying out those activities. In 2010/11, the only organisation whose relationship with the council brought it within the scope of Group Accounts was Wolverhampton Homes. Wolverhampton Homes is controlled at arm's length by the council, and so is considered a subsidiary for the purposes of consolidation. No organisations have left or joined the Group in 2010/2011.

**G2 BASIS OF CONSOLIDATION**

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The Group financial statements have been prepared using the Acquisition Accounting method and consolidated on a line by line basis. There were no accounting policies which differed within the Group.

Notes relating to the Group accounts have only been prepared where the information therein is materially different from the corresponding note to the council's accounts. References to notes are therefore to the notes to the Core Financial Statements, except where indicated by the prefix "G".

**G3 DETAILS OF SUBSIDIARY COMPANY - WOLVERHAMPTON HOMES**

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**Nature of Business**

On 1st October 2005, the council established the Arms Length Management Organisation (ALMO) to manage its stock of council houses.

**Relationship with the Council**

The ALMO has no share capital and is wholly controlled by the council. Under the Code of Practice, the ALMO is classed as a subsidiary of the council, and their financial activities have been consolidated into the group financial statements on a 100% basis.

**Financial Performance**

In 2010/2011 the company made a net profit on ordinary activities before taxation of £6.644M (2009/10: loss of £0.809M). Following alignment of accounting policies, the Company's adjusted accounts showed a net profit of £12.522M (2009/10: loss of £17.287M). Net assets on 31st March 2011 (after adjustments for accounting policies) were £11.571M credit (2009/2010: £24.093M credit).

**Transactions and Services with Wolverhampton Homes**

The principal income of Wolverhampton Homes is from the council, in the form of a management fee which amounted to £37.2M for the period to 31st March 2011 (2009/10: £37.2M). The council leases various premises to Wolverhampton Homes and also provides a number of support services to them, for which charges are made separately from the management fee.

## Accounts

The Financial Statements of Wolverhampton Homes can be obtained from:

Mr P. Toni - Finance Director

Registered Office: Wolverhampton Homes, Hickman Avenue, Chillington Fields,  
Wolverhampton, WV1 2BY

### **G4 EXCEPTIONAL ITEMS OF INCOME AND EXPENSE**

In 2009/2010 Wolverhampton Homes paid exceptional costs of £1.040M relating to redundancy and pension costs associated with the restructuring of the company.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2010 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing Wolverhampton Homes' liabilities in the West Midlands Pension Fund and the Teachers Discretionary Pension Fund by £5.697M in 2010/2011 and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact on the General Fund or Housing Revenue Account.

### **G5 GROUP INVENTORIES**

	Consumable Stores		Maintenance Materials		Total	
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
	£000	£000	£000	£000	£000	£000
<b>Balance brought forward</b>	<b>292</b>	<b>334</b>	<b>101</b>	<b>101</b>	<b>393</b>	<b>435</b>
Purchases	457	522	278	1	735	523
Recognised as expense in year	(457)	(564)	(61)	(1)	(518)	(565)
Written off balances	-	-	-	-	-	-
Reversals of write-offs in prior years	-	-	-	-	-	-
<b>Balance carried forward</b>	<b>292</b>	<b>292</b>	<b>318</b>	<b>101</b>	<b>610</b>	<b>393</b>

### **G6 DEBTORS**

<b>Balance at 31 March 2009 £000</b>	<b>Balance at 31 March 2010 £000</b>		<b>Balance at 31 March 2011 £000</b>
13,085	14,164	Central Government Bodies	15,570
-	857	Other Local Authorities	769
-	-	- NHS Bodies	-
-	-	- Public Corporations and trading funds	-
36,013	36,418	Bodies external to government	47,699
	37,533	Other entities and	46,563
<b>49,098</b>	<b>51,439</b>	<b>Total Debtors</b>	<b>64,038</b>

**G7 CASH AND CASH EQUIVALENTS**

<b>Balance at 31 March 2009 £000</b>	<b>Balance at 31 March 2010 £000</b>		<b>Balance at 31 March 2011 £000</b>
194	194	Cash held by the Group	191
7,493	8,925	Bank current accounts	8,293
<u>7,687</u>	<u>9,119</u>	<b>Total Cash and Cash Equivalents</b>	<u>8,484</u>

**G8 CREDITORS**

<b>Balance at 31 March 2009 £000</b>	<b>Balance at 31 March 2010 £000</b>		<b>Balance at 31 March 2011 £000</b>
(5,020)	(2,389)	Central Government Bodies	(4,232)
-	-	- Other Local Authorities	-
-	-	- NHS Bodies	(3,335)
-	-	- Public Corporations and trading funds	-
(71,086)	(68,332)	Bodies external to government	(70,792)
<u>(76,106)</u>	<u>(70,721)</u>	<b>Total Creditors</b>	<u>(78,359)</u>

**G9 RESERVES OF SUBSIDIARIES**

The adjusted profit and loss reserve of Wolverhampton Homes has been added to the Group reserves on consolidation as a specific usable reserve.

<b>Balance at 31 March 2009 £000</b>	<b>Balance at 31 March 2010 £000</b>		<b>Balance at 31 March 2011 £000</b>
(520)	(557)	Reserves of Subsidiaries	(3,230)
<u>(520)</u>	<u>(557)</u>	<b>Reserves of Subsidiaries</b>	<u>(3,230)</u>

The underlying assets and liabilities for retirement benefits attributable to the Group are:

	Local Government Pension Scheme		Discretionary Pension Scheme	
	Balance at 31 March 2010 £000	Balance at 31 March 2011 £000	Balance at 31 March 2010 £000	Balance at 31 March 2011 £000
<b>Estimated Liabilities in Scheme</b>				
Wolverhampton City Council	(1,026,752)	(981,907)	(53,473)	(52,893)
Wolverhampton Homes	(88,492)	(92,426)	-	-
<b>Estimated Assets in Scheme</b>				
Wolverhampton City Council	615,222	666,956	-	-
Wolverhampton Homes	64,186	77,992	-	-
<b>Net Liability</b>	<b>(435,836)</b>	<b>(329,385)</b>	<b>(53,473)</b>	<b>(52,893)</b>

The liabilities show the underlying commitments that the group has in the long-run to pay retirement benefits. The total liability of £329.835M has a substantial impact on the net worth of the group as recorded in the balance sheet. Statutory arrangements for funding the deficit within the local authority, as set out below, mean that the financial position of the council remains healthy, however these arrangements do not exist for private companies and the net worth of Wolverhampton Homes has decreased by £9.872M as a result of this change.

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary pensions when the pensions are actually paid.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both scheme liabilities have been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries, estimates for the Local Government Fund being based on the latest full valuation of the scheme as at 31 March 2007.

The main assumptions used in the actuary's calculations are the same as for the City Council and are detailed in notes 46 and 47 to the core financial statements.

**G11 CASH FLOW STATEMENT - OPERATING ACTIVITIES**

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The cash flows for operating activities include the following items:

2009/2010 £000	2010/2011 £000
(1,313) Interest received	(766)
26,289 Interest paid	28,520
(93) Dividends received	(47)
<b>24,883</b>	<b>27,707</b>

**G12 CASH FLOW STATEMENT - INVESTING ACTIVITIES**

---

2009/2010 £000	2010/2011 £000
122,904 Purchase of property, plant and equipment, investment property and intangible assets	132,690
(48,449) Net purchase of short-term and long-term investments	22,453
3,091 Other payments for investing activities	32,717
(3,793) Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(3,952)
(27,299) Other receipts from investing activities	(85,493)
<b>46,454</b> Net cash flows from investing activities	<b>98,415</b>

**G13 CASH FLOW STATEMENT - FINANCING ACTIVITIES**

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2009/2010 £000	2010/2011 £000
(17,224) Cash receipts of short- and long-term borrowing	(60,000)
0 Other receipts from financing activities	0
243 Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,350
9,509 Repayments of short and long-term borrowing	26,500
5,826 Other payments for financing activities	(1,124)
<b>(1,646)</b> Net cash flows from financing activities	<b>(33,274)</b>

**G14 FINANCE AND INVESTMENT INCOME AND EXPENDITURE**

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2009/2010 £000	2010/2011 £000
25,752 Interest payable and similar charges	29,195
24,620 Pensions interest cost and expected return on pensions assets	18,365
(5) Interest receivable and similar income	(766)
1,499 changes in their fair value	(1,698)
(93) Other investment income	(47)
<b>51,773</b> Total	<b>45,049</b>

WEST MIDLANDS PENSION FUND STATEMENTS FOR THE YEAR ENDING 31 MARCH 2011

**FUND ACCOUNT**

	Notes	2009/10 £000	2010/11 £000
<b>Contributions &amp; Benefits</b>			
Contributions Receivable	P7	436,206	434,996
Transfers In	P8	29,251	20,950
Other Income	P9	17,041	44,451
Total contributions and other income		482,498	500,397
Benefits Payable	P10	363,763	395,994
Payments to and on account of leavers	P11	36,374	21,751
Other Payments		257	192
Administration Expenses	P12	5,227	5,518
Total benefits and other expenditure		405,621	423,455
Net additions from dealings with members		76,877	76,942
<b>Returns on Investments</b>			
Investment Income	P13	122,847	129,755
Change in market value of investments		1,797,740	464,875
Investment Management Expenses	P12	(7,301)	(7,337)
Net return on investments		1,913,286	587,293
Net increase in the Fund during the year		1,990,163	664,235
Net Assets of the Fund at the beginning of the year		6,017,712	8,007,875
Net Assets of the Fund at the end of the year		8,007,875	8,672,110

The notes which follow (P1-P21) form part of these financial statements

## NET ASSETS STATEMENT

	Notes	Balance at 31 March	
		2010	2011
		£000	£000
<b>Investment Assets (at Market Value)</b>	<b>P14</b>		
Fixed Interest Securities		178,360	152,799
UK Equities		1,114,223	975,369
Overseas Equities		1,913,439	1,901,451
Pooled Investment Vehicles		4,178,795	4,871,019
Property		433,060	571,100
Foreign Currency Holdings		62,664	28,269
Cash Deposits		115,229	99,272
Other Investments assets		0	5
Outstanding dividend entitlement and recoverable with-holding tax		8,386	12,302
<b>Investment Assets</b>		<b>8,004,156</b>	<b>8,611,586</b>
<b>Investment Liabilities (at Market Value)</b>	<b>P14</b>		
Other Investments liabilities		(31,417)	0
<b>Investment Liabilities</b>		<b>(31,417)</b>	<b>0</b>
<b>Net Investment Assets</b>		<b>7,972,739</b>	<b>8,611,586</b>
<b>Current Assets</b>	<b>P17</b>	48,400	70,088
<b>Current Liabilities</b>	<b>P18</b>	(13,264)	(9,564)
<b>Net Assets of the Fund at the end of the year</b>		<b>8,007,875</b>	<b>8,672,110</b>

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

The notes which follow (P1-P21) form part of these financial statements

### P1 GENERAL

---

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

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

The Fund is administered under the rules of the Local Government Pension Scheme as set out in the Local Government Pension Scheme Regulations. Membership of the Fund is available for all local government employees including non-teaching staff of schools and further and higher education corporations in the West Midlands Region, together with employees of admitted bodies. Employees' contributions are payable at a percentage of pensionable pay (between 5.5% and 7.5%, based on gross pay), while employers' contributions are payable at the rate specified for each employing authority by the Fund's Actuary.

The Fund's Statement of Investment Principles (SIP) can be found in the Annual Report and on the fund's website: [www.westmids-pensions.org.uk](http://www.westmids-pensions.org.uk).

### P2 BASIS OF PREPARATION

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The financial statements have been prepared in line with International Financial Reporting Standards (IFRS), the requirements of the Local Government Pension Scheme Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations. They follow the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice).

### P3 STATEMENT OF ACCOUNTING POLICIES

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#### (a) Inclusion of income and expenditure

##### (i) Fund Account

In the fund account income and expenditure are accounted for in the year in which they arise by the creation of debtors and creditors at the year end where necessary. However, provision has not been made where the amount payable or receivable in relation to transfers was not agreed at the year end. (See note 8).

##### (ii) Contribution Income

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

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

### **(iii) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who had either joined or left the Scheme as at 31 March 2011, calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 11). They are not accounted for on an accruals basis.

### **(iv) Benefits Payable**

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2011 relating to the financial year 2010/2011.

### **(v) Foreign Currency Transactions**

Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2011.

### **(vi) Investment Income**

Dividends, interest and property management income and expenditure have been accrued for in the accounts where amounts were known to be due at the end of the accounting period. This includes income from Pooled Investment Vehicles. All unquoted portfolio distributions tend to arise from sales of investments and are therefore treated as capital transactions.

### **(b) Valuation of Investments**

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

#### **(i) Quoted Securities**

Securities have been valued at the bid-market price ruling on 31 March 2011 where a quotation was available on a recognised stock exchange or unlisted securities market.

#### **(ii) Unquoted Securities**

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

#### **(iii) Pooled Investment Vehicles**

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

#### (iv) Freehold and Leasehold Properties

These have been valued at their open market value. Property is valued by the Fund's Valuers on an annual basis. The market values included in these accounts are contained in a valuation report by DTZ Debenham Tie Leung, Chartered Surveyors as at 31 March 2011. Agricultural properties were valued by F P D Savills Limited, Agricultural Valuers at the same date. A full valuation takes place prior to the full actuarial valuation of the Fund which takes place every three years with desktop valuations carried out in the intervening years. The valuation undertaken at 31 March 2011 was therefore a desktop valuation.

#### (v) Foreign Currencies

Investments held in foreign currencies have been valued as set out in paragraphs (b) (i) to (b) (ii) above and translated at exchange rates ruling at 31 March 2011.

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

#### (c) Monitoring and Benchmarking of Investment Management Expenses

Investment management expenses are monitored whether in-house or externally managed. In addition the return on investments is assessed independently by external specialists against the Fund's benchmarks and the industry generally. All income and expenditure is accounted for on an accruals basis.

### **P4 MEMBERSHIP**

---

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

	31 March 2010	<b>31 March 2011</b>
Active Members	104,612	<b>102,011</b>
Pensioner Members	66,871	<b>70,521</b>
Deferred Members	77,786	<b>81,161</b>

A detailed list of Member bodies is available at note 21.

### **P5 ACTUARIAL VALUATION OF THE FUND**

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A full actuarial valuation of the Fund was made as at 31 March 2010 by the Fund's Actuary, P Middleman of Mercer Human Resource Consulting Limited. The Actuary has determined the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £8,008 million represented 75% of the Funding Target of £10,622 million at the valuation date. The valuation also showed that a common rate of contribution of 11.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.2% of pensionable pay for 25 years. This would imply an average employer contribution rate of 18.1% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. These contributions were determined having regard to the individual circumstances of each employer and included specific allowances (zero for some employers) for early retirement costs. Additional payments will be made by employers where the non-ill health early retirement costs exceed the allowances certified.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process. For certain employers, in accordance with the FSS, an increased allowance has been made for assumed investment returns on existing assets and future contributions, for the duration of the employer's deficit recovery period.

As a result of the valuation, a revised Rates and Adjustments certificate was prepared for the three years commencing 1 April 2011. The rates payable by the Unitary Authorities were certified as follows:

**Future Service Rate (% of pay) plus lump sum (£)**

	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
Birmingham City Council	12.1% plus £26,500,000	12.1% plus £27,800,000	12.1% plus £29,100,000
Coventry City Council	12.1% plus £6,300,000	12.1% plus £6,600,000	12.1% plus £6,900,000
Dudley MBC	11.8% plus £5,500,000	11.8% plus £5,700,000	11.8% plus £6,000,000
Sandwell MBC	11.7% plus £7,500,000	11.7% plus £7,900,000	11.7% plus 8,300,000
Solihull MBC	11.7% plus £4,100,000	11.7% plus £4,300,000	11.7% plus £4,500,000
Walsall MBC	11.7% plus £7,700,000	11.7% plus £8,000,000	11.7% plus £8,400,000
Wolverhampton City Council	12.2% plus £7,100,000	12.2% plus £7,400,000	12.2% plus £7,800,000

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

	<b>For past service liabilities</b>	<b>For future service liabilities</b>
Rate of return on investments:		
- Pre retirement	6.5% per annum	6.75% per annum
- Post retirement	5.5% per annum	6.75% per annum
Rate of pay increases:	4.75% per annum	4.75% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The Administering Authority determined that certain employers with a lesser financial covenant (based on criteria set by the Administering Authority) would have their contribution requirement assessed with reference to more cautious actuarial assumptions based on gilt yields. Further details surrounding this approach can be found in the FSS and the Administering Authority's separate document on admitted bodies.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

## **Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26**

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, the Council's actuary has used the same actuarial assumptions as those used for funding purposes, other than the discount rate where a rate of 5.6% p.a. both before and after retirement has been used, rather than the rates as outlined above. The Council's actuary has also used a valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £11,387 million.

The Council's actuary has also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £9,975 million.

## P6 TAXATION

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### (i) Value Added Tax

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

### (ii) Taxation of Overseas Investment Income

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

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

## P7 CONTRIBUTIONS RECEIVABLE

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Contributions receivable are analysed below:-

	2009/10 £000	2010/11 £000
<b>From Employers</b>		
Basic Contributions	281,600	<b>293,197</b>
Deficit Funding	6,925	<b>6,800</b>
Augmented Membership	881	<b>466</b>
Additional Cost of Early Retirement	27,149	<b>14,718</b>
	<u>316,555</u>	<u><b>315,181</b></u>
<b>From Employees</b>		
Basic Contributions	118,134	<b>118,414</b>
Additional Contributions	1,517	<b>1,401</b>
Sub-total	<u>119,651</u>	<u><b>119,815</b></u>
<b>Total Contributions</b>	<u>436,206</u>	<u><b>434,996</b></u>

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

Several organisations made small augmented membership payments as one offs to remove liability relating to individual employees who had left their employment.

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

	2009/10 £000	2010/11 £000
Administering Authority	32,159	<b>31,263</b>
Scheme Employers	380,167	<b>376,341</b>
Admitted Employers	23,880	<b>27,392</b>
	<u>436,206</u>	<u><b>434,996</b></u>

**P8 TRANSFERS IN**

	2009/10 £000	2010/11 £000
Individual transfers in from other schemes	29,251	20,950

**P9 OTHER INCOME**

	2009/10 £000	2010/11 £000
<b>Benefits Recharged to Employers</b>		
Compensatory Added Years	10,216	10,192
Pensions Increases	6,825	6,582
Magistrates Courts Committee	0	27,677
	<u>17,041</u>	<u>44,451</u>

Note:- Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it has now been calculated by Mercer Ltd that the Fund is due to receive a total of £27,677,168. This is to be paid in 10 equal and annual instalments commencing on 15 April 2011 and finishing on 15 April 2020 together with interest payments resulting in annual income of £3,261,152 .

**P10 BENEFITS PAYABLE**

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

	2009/10 £000	2010/11 £000
<b>Pensions</b>		
Retirement Pensions	253,334	269,447
Widows' Pensions	23,188	23,320
Children's' Pensions	898	865
Widowers' Pensions	2,090	2,353
Ex-Spouse	33	77
Equivalent Pension Benefits	74	91
Civil Partnership	0	5
Co-habiting Partners	0	3
	<u>279,617</u>	<u>296,161</u>
<b>Lump Sum Benefits</b>		
Retiring Allowances	75,264	89,808
Death Grants	8,882	10,025
	<u>84,146</u>	<u>99,833</u>
<b>Total Benefits Payable</b>	<u>363,763</u>	<u>395,994</u>

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

	2009/10 £000	2010/11 £000
Administering Authority	34,138	32,608
Scheme Employers	309,709	337,081
Admitted Employers	19,916	26,305
	<u>363,763</u>	<u>395,994</u>

## **P11 PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

	2009/10 £000	2010/11 £000
Individual transfers out to other schemes	36,341	21,701
Refunds of Contributions	50	42
State Scheme Premiums	(17)	8
	<u>36,374</u>	<u>21,751</u>

## **P12 INVESTMENT AND ADMINISTRATION EXPENSES**

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

<b><u>Administration</u></b>	2009/10 £000	2010/11 £000
Pensions Administration	4,809	5,142
Actuarial fees	266	296
Audit fees	123	59
Legal and other professional fees	29	21
	<u>5,227</u>	<u>5,518</u>

  

<b><u>Investments</u></b>	2009/10 £000	2010/11 £000
External management of investments	4,866	4,729
In-house management of investments	1,998	2,191
Performance Measurement Service	25	31
Property and legal fees	37	39
Safe Custody Expenses	375	347
	<u>7,301</u>	<u>7,337</u>

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

## P13 INVESTMENT INCOME

Investment income is analysed below:-

	2009/10 £000	2010/11 £000
<b>Dividends and Interest</b>		
<b>Fixed interest Securities</b>		
UK Private Sector – Quoted	10,332	<b>9,664</b>
<b>Equities</b>		
UK	42,061	<b>33,213</b>
Overseas	43,727	<b>44,496</b>
<b>Pooled Investment Vehicles</b>		
UK	1,704	<b>9,825</b>
Overseas Equities	531	<b>1,972</b>
<b>Interest on Cash Deposits</b>	585	<b>749</b>
<b>Stocklending</b>	1,404	<b>1,766</b>
<b>UK Tax, Irrecoverable</b>	(29)	<b>(68)</b>
<b>Overseas Taxation</b>	(2,075)	<b>(2,194)</b>
	<hr/>	<hr/>
TOTAL DIVIDENDS AND INTEREST	98,240	<b>99,423</b>
	<hr/>	<hr/>
Property Management Income	31,659	<b>37,823</b>
Property Management Expenses	(7,052)	<b>(7,491)</b>
	<hr/>	<hr/>
	24,607	<b>30,332</b>
	<hr/>	<hr/>
TOTAL INVESTMENT INCOME	122,847	<b>129,755</b>

### Stocklending

The stock lending programme provides for direct equity investments to be lent. At the year end the value of quoted equities on loan was £60.9m (2010: £952.1m) in exchange for which the custodian held collateral worth £63.9m (2009: £1,061m). Collateral consists of acceptable securities and government debt.

## P14 NET INVESTMENT ASSETS

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

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

	31 March 2010 £000	31 March 2011 £000
<b>Fixed Interest Securities</b>		
UK Companies – Segregated (external)	178,360	<b>152,799</b>
	<u>178,360</u>	<u><b>152,799</b></u>
<b>UK Equities</b>		
Quoted	1,113,455	<b>975,369</b>
Quoted – Segregated (external)	768	<b>0</b>
	<u>1,114,223</u>	<u><b>975,369</b></u>
<b>Overseas Equities</b>		
Quoted	1,475,988	<b>1,583,899</b>
Quoted – Segregated (external)	437,451	<b>317,552</b>
	<u>1,913,439</u>	<u><b>1,901,451</b></u>
<b>Pooled Investment Vehicles Managed Funds</b>		
UK Quoted, Fixed Interest	239,541	<b>207,091</b>
Other Fixed Interest	100,190	<b>187,524</b>
UK Quoted, Index Linked	550,791	<b>735,084</b>
Overseas Equities	939,944	<b>913,541</b>
UK Unquoted Equities	331,169	<b>341,666</b>
Overseas Unquoted Equities	1,068,670	<b>1,347,075</b>
UK Absolute Returns	528,504	<b>593,760</b>
Foreign Absolute Returns	71,816	<b>68,495</b>
UK Property	14,145	<b>21,065</b>
Foreign Property	80,705	<b>147,248</b>
<b>Unit Trusts</b>		
UK Quoted Equities	24,670	<b>25,223</b>
Overseas Equities	218,870	<b>274,256</b>
Overseas Property	9,780	<b>8,991</b>
	<u>4,178,795</u>	<u><b>4,871,019</b></u>
<b>Property</b>		
UK Freehold	402,510	<b>545,100</b>
UK Leasehold*	30,550	<b>26,000</b>
	<u>433,060</u>	<u><b>571,100</b></u>

	2010 £000	2011 £000
<b>Foreign Currency Holdings</b>		
United States Dollars	35,589	13,024
Euro	2,519	8,000
Canadian Dollars	5,744	706
Danish Kroner	903	690
Hong Kong Dollars	6,057	590
Swedish Kroner	133	378
Swiss Francs	1,684	571
Japanese Yen	2,334	1,031
Norwegian Kroner	392	751
Malaysian Ringits	1,938	0
Singapore Dollars	1,586	474
Australian Dollars	2,538	1,097
New Zealand Dollars	17	17
Hungarian Florints	783	388
Polish Zloty	447	415
Israeli Shekels	0	137
	<u>62,664</u>	<u>28,269</u>
<b>Cash Deposits</b>		
UK	115,229	99,272
<b>Other Investments</b>		
Broker Balances	(31,417)	5
<b>Outstanding Dividend Entitlement and Recoverable With-holding Tax</b>	8,386	12,302
<b>TOTAL NET INVESTMENT ASSETS</b>	<u>7,972,739</u>	<u>8,611,586</u>

\* All leasehold properties are held on long leases

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

	31 March 2010		31 March 2011	
	£000	%	£000	%
In-house	3,178,759	39.9	3,243,015	37.7
Managers: UK Quoted	25,438	0.3	49,115	0.6
Managers: US Quoted	88,622	1.1	99,481	1.2
Managers: European Quoted	185,594	2.3	206,120	2.4
Managers: Japanese Quoted	186,690	2.3	34,530	0.4
Managers: Pacific Basin	60,419	0.8	98,974	1.2
Managers: Emerging Markets	542,619	6.8	608,446	7.1
Managers: Global Equities	532,321	6.7	457,797	5.3
Managers: Fixed Interest	1,068,882	13.4	1,282,498	14.9
Managers: Indirect Property	94,851	1.2	168,312	2.0
Managers: Emerging Market Debt	262,637	3.3	262,316	3.1
Managers: Commodities	227,459	2.9	248,867	2.9
Managers: Infrastructure Funds	185,869	2.3	251,471	2.9
Managers: Absolute Return	600,320	7.5	662,255	7.7
Managers: Private Equity	723,873	9.1	926,087	10.8
	<u>7,964,353</u>	100.0	<u>8,599,284</u>	100.0
Outstanding Dividend Entitlement and Recoverable With-holding Tax	8,386		12,302	
<b>TOTAL INVESTMENT ASSETS</b>	<u>7,972,739</u>		<u>8,611,586</u>	

## P15 INVESTMENT - MARKET VALUE MOVEMENTS ANALYSIS

The change in the value of investments during 2010/11 is set out below:-

	Value at 31 March 2010	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2011
	£000	£000	£000	£000	£000
Fixed Interest Securities	178,360		(30,000)	4,439	<b>152,799</b>
UK Equities	1,114,223	72,012	(195,665)	(15,201)	<b>975,369</b>
Overseas Equities	1,913,439	211,773	(277,202)	53,441	<b>1,901,451</b>
Pooled Investment Vehicles	4,178,795	1,262,224	(716,905)	146,905	<b>4,871,019</b>
Property	433,060	67,339	(25,316)	96,017	<b>571,100</b>
	<u>7,817,877</u>	<u>1,613,348</u>	<u>(1,245,088)</u>	<u>285,601</u>	<u><b>8,471,738</b></u>
Broker Balances	(31,417)				<b>5</b>
Outstanding dividend entitlement and recoverable With-holding tax	8,386				<b>12,302</b>
Foreign Currency	62,664				<b>28,269</b>
Cash Deposits	115,229				<b>99,272</b>
Total Investments	<u>7,972,739</u>				<u><b>8,611,586</b></u>

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

There were 41 late payments amounting to £1.255m of contributions during the year which constituted employer related investments until the amounts were received. Other than this there were no employer related investments.

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year including profits and losses realised on sales of investments during the year and unrealised. The change in market of investments shown in the fund account includes an additional £179,274k which represents profit on sale of the Fund's assets.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £0.449m (2009-2010: £1.617m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread of investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

	31 March	
	2010	2011
	£	£
Equities - UK Quoted	658,941	<b>219,229</b>
- Overseas Quoted	957,974	<b>229,651</b>
	<u>1,616,915</u>	<u><b>448,880</b></u>

The volatility of investment markets is an ever-present and longstanding feature of pension fund management and valuations may vary, either up or down, throughout each day when exchanges are open.

## P16 INVESTMENT COMMITMENTS

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

	31 March	
	2010	2011
	£000	£000
Non-Equities	1,215,661	<b>1,360,514</b>
Property	281,338	<b>256,256</b>
	<u>1,496,999</u>	<u><b>1,616,770</b></u>

## P17 CURRENT ASSETS

	31 March	
	2010	2011
	£000	£000
<b>DEBTORS AND PREPAYMENTS</b>		
Contributions Receivable		
- Employers	34,405	<b>24,820</b>
- Employees	9,580	<b>9,264</b>
Wolverhampton City Council	-	
Other Debtors	4,197	<b>35,662</b>
	<u>48,182</u>	<u><b>69,746</b></u>
Cash	218	<b>342</b>
	<u>48,400</u>	<u><b>70,088</b></u>

Note:- Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it has now been calculated by Mercer Ltd that the Fund is due to receive a total of £27,677,168. This is to be paid in 10 equal and annual instalments commencing on 15 April 2011 and finishing on 15 April 2020 together with interest payments resulting in annual income of £3,261,152. The balance due is included in Other Debtors.

## P18 CURRENT LIABILITIES

	31 March	
	2010	2011
	£000	£000
<b>CREDITORS AND RECEIPTS IN ADVANCE</b>		
Pensions and Lump Sum Benefits	(3,755)	<b>(6,981)</b>
Other Creditors	(9,509)	<b>(2,246)</b>
Trustee Account	-	<b>(337)</b>
	<u>(13,264)</u>	<u><b>(9,564)</b></u>

Note:-Following an ongoing dispute by the beneficiaries of a pensioner who died in 2008 and on advice from the Chief Legal Officer, the sum due to the beneficiaries of £337,349 has been paid into a trustees of the deceased account. Once the dispute is resolved the money due to the beneficiaries will be paid from this account .

## P19 ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Pension Fund provides for Additional Voluntary Contributions (AVC) for scheme members. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year. These investments are held outside of the Fund. The aggregate amounts of AVC investments are as follows:-

	31 March	
	2010	2011
	£000	£000
Equitable Life Assurance Society	4,119	<b>3,855</b>
Prudential	24,509	<b>28,144</b>
	<u>28,628</u>	<u><b>31,999</b></u>

Additional voluntary contributions are not included in the Pension Fund accounts in accordance with regulation 5(2)(C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

## P20 POST YEAR END TRANSACTIONS

There were no major events following the end of the financial year that would affect the validity of the figures shown in the Accounts Statement.

## P21 THE NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk Management

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

- Credit Risk - the possibility that the other parties might fail to pay amounts due to the Authority.
- Liquidity Risk - the possibility that the Authority might not have funds available to meet its commitments to make payments.

Market Risk - the possibility that financial loss might arise as a result of stock market movements.

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

### **Investment Risk**

In order to achieve its statutory obligations to pay pensions the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by matching assets to liabilities through the triennial actuarial valuation followed by an appropriate asset allocation. During the year, the Fund targeted an 85% exposure to 'growth' assets, such as equities, property and other alternatives with equity like returns but with less volatility and lower correlation to quoted equities. The remaining 15% being allocated to 'matching' assets, such as UK bonds or gilts which provide the best match for liabilities, i.e. payments of benefits to members in future years.

Risks in growth assets include market risk (the greatest risk), issuer risk and volatility, which are partly mitigated by diversification across asset classes, global markets and investments funds. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of 'growth' assets would increase the costs of funding. 'Matching' assets backed by the UK Government are considered low risk. However, corporate bonds carry some additional issuer risk. Emerging Market Debt, although within fixed interest, is not viewed as a 'matching' asset.

### **Counterparty Risk**

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

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

### **Credit Risk**

The Fund's deposits with financial institutions as at 31st March 2011 totalled £98.6m in respect of temporary loans and treasury management instruments. The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the Compliance Manual. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by Fund officers using specialist rating and market research data, which is reviewed on a regular basis.

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

### **Liquidity Risk**

The Fund has a comprehensive daily cash flow management procedure which seeks to ensure that cash is available as needed. Due to the cash flow management procedures and the liquidity of certain asset types held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities. The Fund actually uses this liquidity risk to its benefit, taking advantage of the illiquidity premium found in investments such as private equity.

### **Foreign Exchange Risk**

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

### **Securities Lending**

As at 31 March 2011, £60.9m of stock was on loan to an agreed list of approved borrowers through the Fund's Custodian in its capacity as agent lender. The loans were covered by non-cash collateral in the form of equities, Gilts, DBV's and G10 sovereign debt, totalling £63.9m, giving a margin of 5%.

Collateral is marked to market, adjusted daily and held by a tri-party agent on behalf of the Fund. Income from stock lending amounted to £1.8m during the year and is detailed in note 13 to the accounts. The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation, however there is an obligation to return collateral to the borrowers, therefore its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

### **Reputational Risk**

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

**P22 PARTICIPATING EMPLOYERS OF THE FUND AT 31 MARCH 2011**

<b>Scheduled Bodies</b>	
<p><b>District Councils</b>                      Birmingham City Council                      Coventry City Council                      Dudley Metropolitan Borough Council                      Sandwell Metropolitan Borough Council                      Solihull Metropolitan Borough Council                      Walsall Metropolitan Borough Council                      Wolverhampton City Council</p>	<p><b>Major Employers</b>                      Centro                      Staffordshire &amp; West Midlands Probation Trust                      West Midlands Fire &amp; Civil Defence Authority                      West Midlands Police Authority</p>
<p><b>Universities (former Polytechnics)</b>                      Birmingham City University                      Coventry University                      University of Wolverhampton (The)</p>	<p><b>Other Bodies</b>                      Arden Academy Trust                      ARK Schools (formerly ARK Academies)                      Balsall Parish Council                      Bickenhill Parish Council                      Castle Bromwich Parish Council                      Chelmsley Wood Parish Council                      City of Wolverhampton Academy Trust                      E-ACT Heartlands Academy                      E-ACT North Birmingham Academy                      E-ACT Shenley Academy                      Fordbridge Parish Council                      Grace Academy                      Harborne Academy                      Heartlands Academy                      Hockley Heath Parish Council (<i>terminated 31 March 2009</i>)                      John Henry Newman Catholic College Trust                      King Edward VI Sheldon Heath Academy Trust                      Kingshurst Parish Council                      Meriden Parish Council                      Ninestiles Academy Trust                      North Birmingham Academy                      Ormiston Sandwell Community Academy                      Park Hall Academy                      Park Hall Infants Academy</p>
<p><b>Colleges of Further Education and Higher</b>                      University College Birmingham                      Bourneville College of Further Education                      Cadbury Sixth Form College                      City College, Birmingham                      City College, Coventry                      Dudley College of Technology                      Halesowen College                      Henley College                      Hereward College                      Joseph Chamberlain College                      Josiah Mason College                      King Edward VI College                      Sandwell College                      Solihull College                      Solihull Sixth Form College                      South Birmingham College                      Stourbridge College                      Sutton College                      Walsall College                      Wolverhampton College</p>	<p>Q3 Academy                      RSA Academy                      Sandwell Academy                      Sandwell Homes                      Sandwell Leisure Trust                      Sheffield Community Academy                      Shenley Academy                      Sidney Stringer Academy Trust                      Smiths Wood Parish Council                      Solihull Community Housing                      St Patricks Church of England Primary Academy                      Tudor Grange Academy Solihull Trust                      Valuation Tribunal Service (formerly Birmingham Valuation Tribunal)                      Walsall City Academy Trust Limited                      West Midlands Regional Fire Control Centre (<i>terminated 28 February 2011</i>)                      Wolverhampton Homes</p>
<p><b>Schools</b>                      King Edward VI Aston School                      King Edward VI Camp Hill School for Boys                      King Edward VI Camp Hill School for Girls                      King Edward VI Five Ways School                      King Edward VI Handsworth School</p>	<p>Q3 Academy                      RSA Academy                      Sandwell Academy                      Sandwell Homes                      Sandwell Leisure Trust                      Sheffield Community Academy                      Shenley Academy                      Sidney Stringer Academy Trust                      Smiths Wood Parish Council                      Solihull Community Housing                      St Patricks Church of England Primary Academy                      Tudor Grange Academy Solihull Trust                      Valuation Tribunal Service (formerly Birmingham Valuation Tribunal)                      Walsall City Academy Trust Limited                      West Midlands Regional Fire Control Centre (<i>terminated 28 February 2011</i>)                      Wolverhampton Homes</p>

**ADMITTED BODIES**

<p><b>With Active Members</b></p> <p>ACUA Limited          Adoption Support          Age Concern Birmingham          Age Concern Wolverhampton          Aston University          BID          Beechdale Community Housing Association Limited          Black Country Connexions (<i>terminated 31 May 2010</i>)          Black Country Consortium Ltd          Black Country Museum Trust Limited (The)          Bloomsbury Local Management Organisation          BME United Ltd          Brownhills Community Association Limited          Bushbury Hill Estate Managements Board Limited          BXL          Chuckery Tenant Management Organisation Limited          Coventry and Solihull Waste Disposal Company          Coventry Heritage &amp; Arts Trust          Coventry Law Centre          Coventry Sports Trust Limited          CSW Partnership Limited          CV One Limited          Delves East Estate Management Limited          Dovecotes TMO          Edith Cadbury Nursery School          Family Care Trust          Heart of England Care          Home Start – Northfield          Home Start – Stockland Green/Erdington          Home Start – Walsall          Intelligent Career Development Limited (<i>terminated 7 February 2011</i>)          Leamore Residents Association Limited          Leisure and Community Partnership Ltd          Lieutenancy Services (West Midlands) Limited          Life Education Centres – West Midlands          Light House Media Centre          Manor Farm Community Association          Marketing Birmingham Limited          Midland Heart Ltd          Milbury Community Services Limited          Millennium Point Trust          Museum of British Road Transport (Coventry) Ltd          Murray Hall Community Trust          New Park Village Tenant Management Co-operative          Northern Housing Consortium Limited          Optima Community Association          Palfrey Community Association          Pendrells Trust (The)          Pool Hayes Community Association          Regent Office Care (City College)          Riverside Housing Association Ltd (formerly Riverside Group Limited)          Sandwell Arts Trust          Sandwell Leisure Trust (The)          Sandbank Tenant Management Organisation Limited          Sandwell Community Caring Trust          Serco Limited (Stoke) (<i>terminated 15 April 2011</i>)          Sickle Cell and Thalassaemia Support Project          Solihull Care Limited          Solihull Care Trust          Springfield/Horseshoe Housing Management Co-operative Ltd          St Columba Day Care Centre          Steps to Work (Walsall) Limited          Sunderland ARC Limited (<i>terminated 31 March 2011</i>)</p>	<p>Titan Partnership          University of Warwick          Walsall Housing Group          Walsall Regeneration Company (<i>terminated 30 September 2010</i>)          Watmos Community Homes          West Midlands Councils (formerly West Midlands Leaders Board)          West Midlands Transport Information Services Limited          Whitefriars Housing Group          Wildside Activity Centre          Wolverhampton Development Corporation (<i>terminated 30 September 2010</i>)          Wolverhampton Family Information Service Ltd          Wolverhampton Grammar School          Wolverhampton Network Consortium          Wolverhampton Voluntary Sector Council</p> <p><b>Without Active Members</b></p> <p>All Saints Haque Centre          Aquarius Action Projects          Asian Welfare Centre          Asian Women's Adhikar Association (AWAAZ)          Belgrade Theatre Trust Limited          Bilston and Ettingshall SureStart          Birmingham and Solihull Connexions Services          Birmingham and Solihull Learning Exchange          Birmingham Heartlands Development Corporation          Black Business in Birmingham          Black Country Museum Development Trust (The)          Cannon Hill Trust (now Midlands Arts Council)          Cerebral Palsy Midlands          Community Justice National Training Organisation          Coventry Voluntary Service Council          Druids Heath TMO          Dudley Zoo Development Trust          East Birmingham Family Service Unit          Heath Town Estate Management Board (<i>terminated 4 August 2008</i>)          Job Change Limited          Metropolitan Authorities Recruitment Agency (METRA)          Moseley and District Churches Housing Association Limited          National Urban Forestry Unit          National Windows (Homes Improvements) Limited          Newman College (<i>terminated 31 March 2008</i>)          Relate          Sandwell Regeneration Co. (<i>terminated 31 March 2010</i>)          Select Windows (Homes Improvements) Limited          Smethwick Asra          Solihull Community Caring Trust          South Birmingham Family Services Unit          St Basil's Centre          Target Excel plc (Walsall MBC)          The Chris Laws Day Care Centre for Older People (<i>terminated 30 November 2010</i>)          TSB Bank plc (formerly Birmingham Municipal Bank)          University of Birmingham (Westhill)          Walsall Enterprise Agency Limited          Wednesbury Action Zone          West Bromwich Afro-Caribbean Resource Centre (<i>terminated 31 October 2008</i>)          West Midlands (West) Valuation Tribunal          West Midlands Examination Board          West Midlands Local Authorities Employers' Organisation          Wolverhampton Community Safety Partnership (<i>terminated 30 April 2009</i>)          Wolverhampton Race Equality Council</p>
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**TRANSFEREE ADMISSION BODIES (BEST VALUE)**

<p>Agilsys Limited          Agilsys Limited (OCOS/WODO/Tipton)          Agilsys Limited (Smethwick)          Alliance in Partnership - Camp Hill          Amey Highways Limited          Amey LG Ltd          APCOA Parking (UK) Limited          APCOA Parking (UK) Limited - Solihull          Axis Security Ltd (formerly Temple Security Limited)          Balfour Beatty Workplace Limited          Balfour Beatty Workplace Limited (Birmingham)          Balfour Beatty Workplace Limited (Coventry)          BAM Construct UK Limited          Bespoke Cleaning Services Limited          Bovis Lend Lease Management Services          British Telecom plc          Enterprise Plc          Enterprise (AOL) Limited (Shrewsbury)          Enterprise (AOL) Limited (Shropshire)          Enterprise (AOL) Limited (Telford and Wrekin)          Enterprise Managed Services          Galliford (UK) Limited          GF Tomlinson (Birmingham) Limited          Housing 21          Icare GB Limited          Inspace          Integral UK Limited          Interserve Project Services Limited          Interserve Project Services Limited (Rowley Regis Campus)          Interserve Project Services Limited (Smethwick Campus)          KGB Cleaning and Support Services Limited          Leisure Living Limited          Liberata UK Limited          Mears Group plc          Mitie Cleaning (Midlands) Limited – Birmingham City Council          Mitie Cleaning (Midlands) Limited - Wednesfield          Mitie PFI Limited          Mitie Property Services (UK) Limited (<i>terminated 4 April 2010</i>)          NSL Limited          Pell Frischmann          Redcliffe Catering Limited (Bordesley Green Girls School)          Regent Office Care Limited          Regent Office Care Limited (City College) (<i>terminated 16 April 2010</i>)          Regent Office Care Limited (COWAT)          Regent Office Care Limited (Hereward College)          Regent Office Care Limited (Whitefriars)          Research Machines Plc          Serco Limited (Sandwell)          Serco Limited (Stoke) (<i>terminated 15 April 2011</i>)          Serco Limited (Walsall)          Service Birmingham Ltd          Superclean Services (<i>terminated 31 May 2010</i>)          Tarmac Limited          Taylor Shaw Limited (COWAT)          Taylor Shaw Limited (St Albans)          Thomas Vale Construction plc          Vertex Data Science Limited (<i>terminated 28 February 2010</i>)          Wates Construction Limited (Birmingham)          Willmot Dixon Partnership Ltd (North Contract)          Willmot Dixon Partnership Ltd (South Contract)</p>	<p><b>Without Active Members</b>          Accord Operations (Birmingham)          Alliance in Partnership - Aston          AWG Facilities Services Limited          Birmingham Accord Limited          Burrowes Street Tenant Management Organisations Limited          Central Parking Systems          Forest Community Association          JDM Accord Limited (Shrewsbury &amp; Atcham)          JDM Accord Limited (Shropshire)          JDM Accord Limited (Tamworth)          JDM Accord Limited (Telford &amp; Wrekin)          Kite Food Services Limited          Methodist Homes for the Aged (<i>terminated 31 March 2010</i>)          Mitie Managed Services (S&amp;SW) Limited (<i>terminated 31 December 2009</i>)          Mitie Managed Services (S&amp;SW) Limited - Coventry (<i>terminated 31 December 2009</i>)          Mitie Cleaning (Midlands) Limited - Wednesfield          MLA West Midlands (<i>terminated 31 March 2009</i>)          Morrison Facilities Services Limited          Redcliffe Catering Limited (Aston School)          MLA West Midlands (<i>terminated 31 March 2009</i>)          Morrison Facilities Services Limited          Redcliffe Catering Limited (Aston School)          Redcliffe Catering Limited (Camp Hill School)          Research Machines plc          Revenue Management Services          Service Team Limited          South Warwickshire Tourism Limited          Strand Ltd (<i>terminated 31 July 2009</i>)          Target Excel Plc (Magistrates Courts)          Target Excel Plc (Solihull MBC)          Technology Innovation Centre (<i>terminated 31 March 2009</i>)          Veolia Environmental Serviced Cleanaway (UK) Limited          West Midlands E-Learning Company</p> <p><b>Other Major Employers who have Participated in the Fund</b>          Birmingham International Airport Plc          Department of Transport          Department of Health and Social Security          Severn Trent Water Authority          West Midlands Magistrates Courts Committee</p>
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### **Accruals (Accrual Accounting)**

Refers to the fundamental accounting principle that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

⇒ Debtors, Creditors

### **Actuarial / Actuary**

The science and profession of using mathematical techniques to model and quantify the financial effects of uncertain future events. For the council, this is relevant in the context of accounting for the Pension Fund, where future transactions of the fund will occur so far into the future that they cannot yet be known with certainty.

### **Arm's Length Management Organisation**

An organisation which is, according to legislation, controlled by (i.e. a subsidiary of) a parent organisation, but whose management structures mean that that control is loose and rarely manifests it directly on day-to-day operations of the subsidiary.

### **Amortisation**

The way in which an asset or liability is accounted for over more than one period (other than property, plant and equipment, for which depreciation applies).

⇒ Depreciation

### **Capital Adjustment Account**

From 2007/2008 onwards, an account whose purpose is to serve as a balancing mechanism between the different rates at which assets are depreciated in line with the SORP, and are financed under the capital controls regime. It is shown in the Balance Sheet as a reserve, although it does not represent funds available for future expenditure.

⇒ Capital Financing Requirement

### **Capital Expenditure**

Expenditure on the acquisition of property, plant and equipment, or expenditure which adds to, and not merely maintains, the value of an existing asset.

⇒ Deferred Charge, Property, Plant and Equipment

### **Capital Financing Requirement**

An amount calculated as Long Term Assets less the balances on the Capital Adjustment Account.

⇒ Minimum Revenue Provision

### **Capital Receipt**

Money received from the disposal of land and other assets, and from the repayment of grants and loans made by the council.

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is a UK accountancy body, specialising in the finances of the public sector. CIPFA is responsible for determining the accounting rules and procedures that apply to local authorities.

⇒ Statement of Recommended Practice, Code of Practice

### **Code of Practice on Local Authority Accounting**

The set of accounting principles and practices developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.

⇒ International Financial Reporting Standards, Chartered Institute of Public Finance and Accountancy (CIPFA)

### **Collection Fund**

A fund administered by the council recording receipts from Council Tax and payments to the General Fund and other public authorities. It also records receipts of National Non Domestic Rates collected on behalf of Central Government.

### **Community Assets**

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

### **Consistency**

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

### **Contingent Asset**

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the council's control.

### **Contingent Liability**

A contingent liability is either:-

- a) A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or
- b) A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

### **Corporate and Democratic Core**

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The costs of these activities are over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

### **Creditors**

An amount owed by the council for work done, goods received or services rendered, but for which payment has not been made at the end of the year.

⇒ Accruals, Debtors

### **Debtors**

Sums of money owed to the council but not received at the end of the year.

⇒ Accruals, Creditors

### **Defined Benefit Scheme**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

### **Defined Contribution Scheme**

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

### **De Minimis**

The minimum value below which expenditure and income in respect of assets is not capitalised, but is charged or credited to revenue in full in the period it was incurred or earned.

⇒ Capital Expenditure

**Depreciation**

The measure of the wearing out, consumption or other reduction in the useful economic life of property, plant and equipment.

⇒ [Impairment](#)

**Disclosure**

Additional information required by the Code of Practice if a set of conditions are met. If the council judges that the conditions have not been met in its case, they will make no disclosure.

⇒ [Code of Practice](#)

**Discount**

A reduction given by a lender in the amount to be repaid on early redemption of a loan. This is generally where the terms of the loan (relative to current market conditions) are favourable to the borrower.

⇒ [Premium](#)

**Dividend**

A payment made by a company out of profits to its shareholders.

**Earmarked Reserve**

A sum set aside for a specific purpose.

⇒ [Usable and Unusable Reserves](#)

**Emoluments**

Payments received in cash and benefits for employment.

**Estimation Techniques**

The methods adopted by an organisation to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes to reserves. Examples include methods of depreciation and the calculation of the allowance for bad debts.

**Events after the Balance Sheet Date**

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.

**Exceptional Items**

Material Items which derive from events or transactions that fall within the ordinary activities of the council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

**Existing Use Value (Social Housing)**

The value of a dwelling, given that, were it to be sold, the new purchaser must rent out the property, and set rents at social housing (i.e. below open market) levels.

⇒ [Vacant Possession Value](#)

**Fair Value**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**Fees and Charges**

Income arising from the provision of services, for example the use of leisure facilities.

**Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of property, plant and equipment to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

⇒ [Operating Lease](#)

## **General Fund**

The fund to which the cost of all services of the council (except for Housing Revenue Account services) is charged. The net cost of the General Fund is met by Council Tax, Governments Grants and NNDR.

## **Generally Accepted Accounting Practice (GAAP)**

The principles used when preparing financial statements prior to January 2010.

⇒ [International Financial Reporting Standards](#)

## **Going Concern**

The concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

## **Government Grants**

Assistance by government and inter-governmental agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority, in return for past or future compliance with certain conditions relating to the activities of the council.

## **Heritage Assets**

Assets that the council intends to hold for the purpose of informing or educating the public about their heritage, and which are not held for their investment value. Examples include collections of antiques in museums.

## **Housing Revenue Account (HRA)**

A ring-fenced account detailing the expenditure and income arising from the provision of council housing, as required by the Local Government and Housing Act 1989.

## **HRA Subsidy**

A funding stream, particular to the HRA, by which government and local authorities with assumed surpluses on their HRA subsidise those local authorities with assumed deficits on their HRA, in accordance with a formula set by government. Those authorities with assumed surpluses are required to pay monies over to the government for redistribution: this is known as "Negative Subsidy".

⇒ [Housing Revenue Account](#)

## **Impairment**

A diminution in value of a property, plant and equipment resulting from amongst other things, obsolescence or physical damage. To comply with accounting standards the Council undertakes annual reviews of its assets to identify any assets which have been impaired.

⇒ [Property, Plant and Equipment](#)

## **Income and Expenditure Account / Statement**

This describes the expenditure made in a single year by an entity, in accordance with the accounting standards that apply at that time to that body in order to generate a view of its year end position in relation to its profit or usable reserves. The following terms are synonymous: "The Income and Expenditure Account", "Comprehensive Income and Expenditure Statement", "Income and Expenditure Statement".

## **Infrastructure Assets**

These are inalienable assets, expenditure on which is recoverable only by continued use of the asset created.

Examples of such assets are highways and footpaths.

## **International Accounting Standards (IAS)**

These standards were issued by the International Accounting Standards Committee (IASC) - founded in 1973 as a private enterprise initiated by national accounting companies. This committee issued International Accounting Standards for private companies to follow. These standards have now largely been replaced by International Financial Reporting Standards.

⇒ [International Financial Reporting Standards](#)

## **International Financial Reporting Standards (IFRS)**

These standards are issued by the International Accounting Standards Board (IASB), established on 1 April 2001 with EU support to be the successor to the IASC. The IASB adopted the International Accounting Standards and then began issuing its own International Financial Reporting Standards. These became mandatory for all private companies quoted on the Stock Exchange in 2004.

### **Investments**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

### **Investment Properties**

Interest in land and/or buildings:

- (i) in respect of which construction work and development have been completed.
- (ii) is held for its investment potential, any rental income being negotiated at arms length.

### **Liabilities**

Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

⇒ **Accruals, Creditors**

### **Materiality**

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

### **Minimum Revenue Provision (MRP)**

A minimum amount, set by law, which the council must charge to the revenue account, for debt redemption or for the discharge of other credit liabilities.

⇒ **Capital Financing Requirement**

### **National Non-Domestic Rates (NNDR)**

Rates which are levied on business properties. The council collects these rates and pays them into a national pool, which is then re-distributed on the basis of population.

### **Net Book Value**

The amount at which property plant and equipment are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

⇒ **Property Plant and Equipment**

### **Net Current Replacement Cost**

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### **Net Debt**

The council's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference is made to net funds rather than net debt.

### **Net Realisable Value**

The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

### **Net Worth**

A monetary value, defined as the value of the council's assets less the value of its liabilities. This is the "bottom line" of the Balance Sheet.

### **Obsolescence**

The term used to describe an asset which no longer has any value to an organisation due to changes in the organisation's operating environment or the emergence of overwhelmingly superior alternatives to that asset.

⇒ **Impairment**

## **Operational & Non-Operational Assets**

Operational Assets are those that are used directly in providing council services. Non-operational assets are assets held for any other purpose, for example for investment or where they are no longer used and have been earmarked for disposal.

⇒ [Property Plant and Equipment](#)

## **Operating Leases**

Leases other than a finance lease.

⇒ [Finance Leases](#)

## **Post Balance Sheet Events**

Those events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the statement of accounts is signed by the responsible officer.

## **Precept**

The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the city council on their behalf. A body which can set a precept is called a preceptor.

## **Premium**

An amount charged by a lender (over and above the outstanding principal) on early redemption of a loan. This is generally where the terms of the loan (relative to current market conditions) are favourable to the lender.

⇒ [Discount](#)

## **Prior Year Adjustments**

Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

## **Private Finance Initiative (PFI)**

A government initiative which enables authorities to carry out capital projects through partnership with the private sector.

## **Property, Plant and Equipment**

Tangible assets that yield benefits to the council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

⇒ [Capital Expenditure](#)

## **Provisions**

Contributions to provisions are amounts charged to the revenue account during the year for costs with uncertain timing where a reliable estimate of the cost involved can be made.

## **Prudence**

This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.

## **Related Party**

There is a detailed definition of related parties in FRS8. For the council's purposes, related parties are deemed to include:

- (i) the elected members of the council and their partners.
- (ii) the chief officers of the council.
- (iii) the companies in which the council has an interest.
- (iv) central government and preceptors of Wolverhampton's Collection Fund.
- (v) other entities which the council has the ability to control or influence.

## **Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either

- (i) an employer's decision to terminate and employee's employment before the normal retirement date or
- (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not

**Revenue Expenditure**

Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

**Revenue Support Grant (RSG)**

Grant from central government towards the cost of providing General Fund services.

**Statement of Recommended Practice (SORP)**

The set of accounting principles and practices which, prior to 2010, specified the standards to which a local authority's accounts were prepared. Now replaced by the Code of Practice on Local Authority Accounting.

⇒ [Code of Practice on Local Authority Accounting](#)

**Statement of Standard Accounting Practice (SSAP)**

A document issued by the Accounting Standards Board, setting out approved accounting treatments.

⇒ [Financial Reporting Standards, Generally Accepted Accounting Practice](#)

**Tangible Assets**

Tangible assets that yield benefits to the local authority and the services it provide for a period of more than one year.

**Usable Reserves**

Reserves that can be applied to fund expenditure or reduce local taxation, all other reserves retained on the balance sheet cannot.

**Useful life**

The period over which the local authority will derive benefits from the use of an asset.

**Vacant Possession Value**

The market value of a property, were it to be sold with no unusual restrictions on the occupation of the property, or the level of any rents or charges made for its use.

⇒ [Existing Use Value \(Social Housing\)](#)

**Work In Progress**

Expenditure in respect of assets that are not yet ready to be put into use or sold (as appropriate).

**Opinion on the Financial Statements**

We have audited the financial statements of Wolverhampton City Council and its Group for the year ended 31st March 2011 which comprise the Council and Group Comprehensive Income and Expenditure Statement, the Council and Group Movement in Reserves Statement, the Council and Group Balance Sheet as at the end of the period, the Council and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom supported by the Best Value Accounting Code of Practice 2010/11.

**Respective responsibilities of the Assistant Director - Corporate Services (Section 151 Officer) and auditors**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the Assistant Director - Corporate Services (Section 151 Officer) is responsible for the preparation of the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice 2010/11 and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for Wolverhampton City Council's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Council and Group's affairs as at 31 March 2011 and of the Council and Group's income and expenditure and cash flows for the year then ended; and
- have been prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice 2010/11.

**Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

***Richard Bacon***

Richard Bacon (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Appointed auditors  
19 Cornwall Street  
Birmingham  
B3 2DT

Date: 21 October 2011

## **Opinion on the pension fund accounts**

We have audited the pension fund accounting statements for the year ended 31st March 2011 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Respective responsibilities of the Assistant Director - Corporate Services (Section 151 Officer) and auditors**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the Assistant Director - Corporate Services (Section 151 Officer) is responsible for the preparation of the pension fund accounting statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for Wolverhampton City Council's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Scope of the audit of the pension fund accounts**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the pension fund; and
- the overall presentation of the financial statements.

### **Opinion on the pension fund accounting statements**

In our opinion the pension fund's accounting statements:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, of the financial transactions of the Pension Fund during the year ended 31st March 2011 and the amount and disposition of the fund's assets and liabilities as at 31st March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## ***Richard Bacon***

Richard Bacon (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Appointed auditors  
19 Cornwall Street  
Birmingham  
B3 2DT

Date: 21 October 2011

### **Council's responsibilities**

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

### **Auditor's responsibilities**

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

### **Basis of conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for securing financial resilience; and challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Wolverhampton City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

We certify that we have completed the audit of the Authority and Group accounts of Wolverhampton City Council and the West Midlands Pension Fund financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

## ***Richard Bacon***

Richard Bacon (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Appointed auditors  
19 Cornwall Street  
Birmingham  
B3 2DT

Date: 21 October 2011

### **Notes:**

(a) The maintenance and integrity of the Wolverhampton City Council website is the responsibility of the council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.