Audit Committee – 25 September 2013

Post – Audit Statement of Accounts 2012/13

Summary of report

This report presents the audited Statement of Accounts along with a summary of these, the council's letter of representation, which the council is required to provide to Grant Thornton, and is signed by the Chief Financial Officer and Chief Executive.

Grant Thornton's report on the authority's accounts is also attached.

Recommendations

Audit Committee are requested to:

1. Receive the annual governance report from Grant Thornton on their audit of the 2012/13 statement of accounts and consider the key messages (Appendix 1) and note that there have been agreed amendments made to the accounts during the audit.
2. Note, consider and endorse the letter of representation attached (Appendix 2).
3. Note and approve the final post-audit statement of accounts for 2012/13 (Appendix 3).
4. Note the summary of accounts (Appendix 4).
5. Approve the Chair of the Committee to sign and date the accounts as required under the Accounts and Audit (England) Regulations 2011.
6. Authorise the Chief Financial Officer (CFO) to distribute copies of the audited statement of accounts to partners and stakeholders alongside the Annual Governance Statement 2012/13.

James Walsh
Chief Financial Officer

17 September 2013

Governance

Councils must produce annual accounts in line with the Accounts and Audit (England) Regulations 2011. In addition, the act requires that the Chief Financial Officer and Chief Executive make accurate representations to their auditor in respect of the fair presentation of the accounts. The Committee is asked to approve the letter of representation attached

(Appendix 2). The regulations require the statement of accounts to be considered and approved by the appropriate Committee of the council.

Resource and Legal Considerations

As at 31.03.2013 the post-audit statement of accounts shows general fund services, (including earmarked reserves) to have an overall surplus for the year of £2.453m. This results in net general reserves of £16.612m.

The audit process did not identify any material adjustments affecting the council's accounts; however the annual governance report from Grant Thornton (Appendix 1) reflects a number of misclassification and disclosure amendments. Although none of these have an effect on general fund reserves the post-audit of statement of accounts (Appendix 3) have been updated to correct these misclassifications and disclosures as follows:

- £234k of accrued interest was incorrectly disclosed within long term investments and has therefore been reclassified to short term investments. The explanatory foreword (page 13 of the post-audit statement of accounts), the balance sheet (page 23 of the post-audit statement of accounts) and note 18 - financial instruments (page 65 of the post-audit statement of accounts) have been adjusted to reflect this.
- A sample of assets held for sale identified two assets, totalling £1.925m, which did not meet the requirements of this classification, as they had not been actively marketed in year. These assets have therefore been reclassified as surplus assets. The balance sheet (page 23 of the post-audit statement of accounts), note 12 - property, plant and equipment (page 51 of the post-audit statement of accounts) and note 22 - assets held for sale (page 70 of the post-audit statement of accounts) have been adjusted to reflect this.
- The opening net book value in relation to operational land and surplus assets did not agree to the 2011/12 audited statement of accounts. This variance of £501k was due to the prior year comparatives being amended to reflect the true status of one asset which had both an operational and a surplus building on the site. Additional narrative has been added to note 12 – property, plant and equipment (page 54 of the post-audit statement of accounts) so that this position is clear to users of the accounts.
- It was identified that note 35 – agency services, incorrectly included payments made to HMRC on behalf of two schools, for £2.388m, which the schools had paid directly. Additionally it was also highlighted that this note did not include services provided to Woodland Academy of £963k which should have been disclosed. Note 35 – agency services (page 86 of the post-audit statement of accounts) has been adjusted to reflect these changes.
- Note 13 – accounting for local government schools, was found to be overstated by £3.141m as it incorrectly included assets which had transferred to an academy in year. This note (page 56 of the post-audit statement of accounts) and section 3 of the explanatory foreword (page 8 of the post-audit statement of accounts) have been updated to correct this.
- It was highlighted that note 45 – grant income, showed a variance of £283k between the figure stated relating to the Housing Benefit Subsidy Grant and the Housing Benefit Subsidy Claim Form that had been submitted by the authority. Note 45 – grant income (page 100 of the post-audit statement of accounts) has been adjusted to incorporate the correct figure.

- Lease arrangements shown in note 48 – leases, were found to contain a number of discrepancies. One lease, totalling £0.042k per year, which had been surrendered in 2011 had been included within the calculation of operating leases where the council is the lessee, therefore overstating the future lease costs. In addition the minimum lease payments shown in the table did not balance back to the figures contained within the net cost of services. Note 48 - leases (page 103 of the post-audit statement of accounts) has been updated to reflect both of these changes.
- The analysis of service income and expenditure for 2011/12 shown in note 33 – amounts reported for resource allocation decisions, included net recharge amounts instead of showing them as gross income and expenditure. This meant that both income and expenditure were understated by £27.814m. Note 33 – amounts reported for resource allocation decisions (page 81 and 84 of the post-audit statement of accounts) has been adjusted for this change.

All of the adjustments listed above have been highlighted in grey on the relevant page to ensure changes from the draft statement of accounts are clearly visible.

There were also a number of other minor changes and disclosures which have not been highlighted within the annual governance report from Grant Thornton, however these were all insignificant and had no impact on the level of reserves.

Performance management and risk management issues

The 2012/13 outturn provides a sound, stable financial foundation to affect service delivery and continue to drive service improvement. As part of the council's performance management system, managers are set many targets, one of which is to deliver their service targets within the cash limited budget. This has been demonstrated overall in 2012/13, although some services did overspend.

The governance report at Appendix 1 has identified minor improvements to the process of producing the annual statement of accounts. These have been agreed by officers and an action plan produced. It is anticipated that Grant Thornton will address the Committee on the key issues contained in their report.

Equality implications

Improving ease of understanding of the accounts is intended to make the annual statement of accounts more readily accessible to the general public. The accounts will be available on request in different formats, for example, hard copy, soft copy via the web site, Braille and in different languages.

Consultation

The report is prepared in consultation with various managers.

Background Papers

Various financial working papers, statutory and other guidance.

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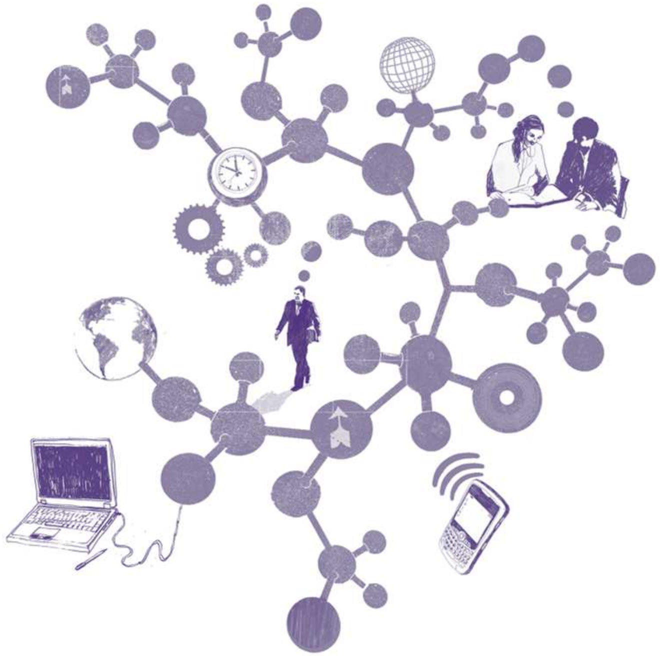
The Audit Findings
for Walsall Metropolitan Borough Council

Year ended 31 March 2013

September 2013



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Walsall Metropolitan Borough Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 12 June 2013, which was presented to the Audit Committee 24 June 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- receipt of information to support our testing of other revenues
- completion of our initial testing of the Housing Benefit Subsidy claim
- receipt of investment confirmation letter from Bank of Scotland
- sight of report from Bevan Brittan's independent investigation
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft financial statements recorded net expenditure of £90.587m; the audited financial statements also show net expenditure of £90.587m. We identified a number of reclassification errors and made a number of adjustments to improve the presentation of the financial statements.

Further details are set out in section 2 of this report and Misclassifications & disclosure changes.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

However, there are a number of issues that the Council has faced over recent years which have given rise to concerns over the robustness of the Council's governance arrangements. Further detail on this, as well as our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Assistant Director of Finance (CFO) and Head of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Assistant Director of Finance (CFO) and the finance team.

In particular the Audit Committee's attention is drawn to the fact that we are considering issuing a formal s11(3) recommendation in our Annual Audit Letter, relating to the effectiveness of the Council's overall governance arrangements. This will require formal consideration by the Council and publication of its planned response.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 24 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 24 June 2013.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • perform attribute testing on material revenue streams	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review accounting estimates, judgements and decisions made by management • testing of journals entries using a risk based approach • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • performed tests of detail on operating expenses included in the financial statements including performance of attribute testing on a sample of transactions raised in the year	Our audit work has not identified any significant issues in relation to the risk identified. A disclosure adjustment has been made in respect of the prior year comparatives of Service Income and Expenditure reported to Management, and Reconciliation to Subjective Analysis , disclosed within Note 33. Further detail of the adjustments made is noted at reference 10 of Misclassifications & Disclosure changes.
Trade creditors	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • reviewed the calculation of significant accruals and other items • reviewed payments after the year end to identify any unrecorded liabilities	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Remuneration expenses not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • performed attribute testing on a sample of transactions in the year • agreed employee remuneration disclosures in the financial statements to supporting evidence.	Our audit work has not identified any significant issues in relation to the risk identified. A disclosure adjustment has been made in respect of Note 37 Remuneration banding, whereby a number of errors were noted in the classification of Teachers – Foundation VA schools. Numbers in several bandings were amended. This has no impact on the Council's net expenditure for the year.
Welfare expenditure	Welfare benefits improperly computed	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • Tested the final Housing Benefits claim using the HBCOUNT methodology with assurance taken from testing of initial cases by benefit category.	We are still in the process of completing our testing of initial cases but our audit work to date has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested a sample of additions and disposals by agreeing to supporting documentation • reviewed performance against the capital plan for the year and obtained explanations for significant variations • tested a sample of items charged as REFCUS expenditure in year (Revenue Expenditure Funded from Capital Under Statute)	We noted from our testing that two assets from a sample of 10 have been incorrectly classified as assets held for sale, as they had not been actively marketed during the year. An adjustment has been made to the financial statements in this regard of £1.925m. There is no impact on the Council's net expenditure position for the year as a result of this reclassification. We identified an intangible asset, with a net book value of £30k, which was mistakenly classified as plant, vehicle and equipment. While the error is not material, officers have elected to make the adjustment in the fixed asset register, such that it is correct going forward. 4 disclosures in relation to Property, Plant and Equipment, (including leases) have been amended. Further detail on these is found within the table at 'Misclassifications & disclosure changes'.
Investments (long & short term) – Financial Instruments	Fair value measurements not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • reviewed the valuation method applied to the Council's shareholding in Birmingham Airport	Grant Thornton valuation specialists have reviewed the methodology applied by Solihull Metropolitan Borough Council to the consortia's shareholding in Birmingham Airport. The valuation as at 31 March 2013 has led to an immaterial change in the carrying amount of the investment of £294k. Because the change in valuation is immaterial no adjustment has been made, which is considered reasonable. Had the adjustment been made it would not have impacted on the Council's income and expenditure position.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Fees, charges and rents are accounted for as income at the date the council provides the relevant goods of service • Interest receivable on investments is accounted for on the basis of the effective interest rate of the financial instrument rather than the cash flows fixed or determined by the contract • Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet. • Income is credited to the surplus or deficit on provision of services unless it represents capital receipts	We have considered the: • Appropriateness of the Council's policies under International Financial Reporting Standards, as adopted through the Code of Practice on Local Authority Accounting for 2012/13 • Adequacy of disclosure of accounting policy Our review has not highlighted any issues which we wish to bring to your attention.	● Green
Judgements and estimates	• Key estimates and judgements include: – useful life of capital equipment – pension fund valuations and settlements – revaluations – impairments – Provisions – Accounting for schools	We have considered the: • Appropriateness of the Council's policies under International Financial Reporting Standards, as adopted through the Code of Practice on Local Authority Accounting for 2012/13 • Extent of judgement involved • Potential financial statement impact of different assumptions • Adequacy of disclosure of accounting policy Our review has not highlighted any issues which we wish to bring to your attention.	● Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	● Green

Assessment
● - Red Marginal accounting policy which could potentially attract attention from regulators
● - Amber Accounting policy appropriate but scope for improved disclosure
● - Green Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management.

Impact of adjusted misstatements

There were no adjusted misstatement that had an impact on the total net expenditure of the Council. A number of adjustments to the draft financial statements have been identified during the audit process, in relation to Misclassification & Disclosures. These are discussed further on pages 16 to 18.

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	234	Investments	£234k of accrued interest has been reclassified from long term investments to short term investments. **No impact on the Council's net expenditure position.**
2	Misclassification	102	Property, Plant and Equipment	We identified an intangible asset which was mistakenly classified as plant, vehicle and equipment. Whilst the error is not material, officers have decided to make an adjustment to the asset register to ensure the Council's position is correct going forward. **No impact on the Council's net expenditure position.**
3	Misclassification	1,925	Assets held for sale	We identified two assets from a sample of ten tested which had not been actively marketed for sale during the year. Therefore they do not meet the requirements of Assets Held for Sale. These have been reclassified into Operational Land and Buildings and a recommendation made to improve the process by which assets held for sale are identified. **No impact on the Council's net expenditure position.**
4	Disclosure	-	Operational Assets Surplus Assets	The prior year opening net book value in relation to operational and surplus assets does not agree to the prior year audited accounts, as the prior year comparatives have been amended. Narrative following Note 12 has been expanded to add additional explanation of the prior year error. **No impact on the Council's net expenditure position.**

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
5	Disclosure	2,388	Payroll Services	Disclosures in respect of Pool Hayes Community School (£1,126k) and Mirus Academy (£1,262k) were shown in the financial statement presented to audit, in Note 35, Payments to HMRC. The two schools made direct payment to HMRC and therefore have been removed from the disclosure in the Council's accounts **No impact on the Council's net expenditure position.**
6	Disclosure	963	Payroll services	We noted that Payroll services are provided to Woodland Academy in 2012/13, but disclosure had been omitted from Note 35. Disclosure amended to: • Payment for employee £957k • Payment to HMRC £0 (paid by school) • Payroll charges £6k **No impact on the Council's net expenditure position.**
7	Disclosure	3,141	Community Schools	The net book value of Community Schools in Note 13 was disclosed as £181,728k, which is an overstatement of £3,141k. This has now been amended to £178,587k, and a recommendation has been raised in respect of year end procedures to ensure that all changes required to the accounts reflect Academy transfers in year, are identified. **No impact on the Council's net expenditure position.**

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
8	Disclosure	87	Academies	Following conversion of 8 academy schools the equipment associated with these schools had not been removed from the asset register. They were therefore incorrectly included within Note 12. Whilst the error is not material, officers have decided to make an adjustment to the asset register to ensure the Council's position is correct going forward. **No impact on the Council's net expenditure position.**
9	Disclosure	283	Grants	Note 45 has been amended in respect of the Housing Benefits Administration Subsidy Grant form from £2,848k to £3,131k, in order that it correctly reflects the Subsidy Claim Form. **No impact on the Council's net expenditure position.**
10	Disclosure	41.5	Leases	From testing we identified one lease which been surrendered in 2011 but was included within the calculation of operating leases (council as lessee). Operating Leases 'not later than 1 year' of £912k needs has been reduced by £41.5k to £870.50k and 'Later than 1 year and not later then 5 years' from £1,454k to £1,329k. In addition, the Minimum lease payment of £744k needs to be updated. We have raised a recommendation in this regard to ensure that all changes in respect of leases are communicated to the finance team such that the calculations for the financial statements can be updated accordingly **No impact on the Council's net expenditure position.**

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
11	Disclosure	27,814	Segmental Reporting	The prior year comparatives in Note 33, have been changed in respect of: • Fees, charges and other services income in Children's Services adjusted by £3.702m • Support services recharges in Resources Services adjusted by £24.112m in order that the current year disclosures can be compared on a like for like basis. **No impact on the Council's net expenditure position.**

Unadjusted misstatements

There were no unadjusted misstatements identified in the course of our audit of the Council's financial statements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	● Amber	• As part of our testing of finance leases we identified one lease, which had been surrendered in June 2011, which was still being included in the calculations for the operating leases note. This has no impact on the Council's net expenditure, as it is a disclosure error. However, there is a risk if such events are not communicated to the finance team, that accounting entries in respect of leases are incorrect.	• We recommend that a specific procedure be included in the year end closedown process to confirm that all leases that the Council is accounting for in its financial statements, are in existence.
2.	● Amber	• As part of our sample testing of accumulated absences, we identified four non-school absence accruals which did not reflect the actual holiday balances held by the members of staff. Because of the size of the accrual, we are happy that there is no material misstatement, but given that the errors in the accruals arose in four different directorates there is a risk that there are data quality weaknesses in the collection of data for this accounting entry.	• We recommend that further work is done with the line managers who provide the data used in the accrual calculations, as part of the year end closedown process, to ensure they fully understand the process and can provide the correct information.

Assessment

● - Red Significant deficiency – risk of significant misstatement

● - Amber Deficiency – risk of inconsequential misstatement

Internal controls

	Assessment	Issue and risk	Recommendations
3.	● Amber	• We noted from our testing that two assets from a sample of 10 have been incorrectly classified as assets held for sale, as they had not been actively marketed during the year. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, states that in general, the following conditions must be met for an asset to be classified as held for sale (paragraph 8): – management is committed to a plan to sell – the asset is available for immediate sale – an active programme to locate a buyer is initiated# – the sale is highly probable, within 12 months of classification as held for sale – the asset is being actively marketed for sale at a sales price reasonable to its fair value – actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.	• We recommend that the Council reviews the process to determine the classification of assets held for sale to ensure that IFRS 5 is followed.
4	● Amber	• We identified that the value of Community Schools in Note 13 had been overstated as the value had not been amended to take account of in year Academy transfers. While this did not have an impact on the Council's net expenditure position, there is a risk that important accounting entries are missed, if checks are not in place.	• We recommend that a specific procedure be included in the year end closedown process to confirm that all accounting entries made in relation to Academy transfers have been made.

Assessment

● - Red Significant deficiency – risk of significant misstatement

● - Amber Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any matters relating to fraud. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A modified letter of representation has been requested from the Council. • In particular, representations will be requested from management in respect of: – the assumptions used in making accounting estimates for equal pay and – to confirm that the Heritage Assets purchased with funds from Arts Fund International, which are jointly owned with Birmingham City Council are currently being held by Birmingham City Council.
4.	**Disclosures**	• Our review found no material omissions in the financial statements. Those disclosures which have been adjusted are listed within that table at 'Misclassifications & disclosure changes'.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

We concluded that the Council has proper arrangements in place for each of the three characteristics. However, note that at the time of writing our opinion is subject to ratification from Grant Thornton's VFM consultation panel.

The detailed findings of our review are reported separately to the Council in our report on the Council's arrangements for securing financial resilience.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have completed a detailed risk assessment of whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We concluded that the Council has proper arrangements in place for each of these characteristics. However, note that at the time of writing our opinion is subject to ratification from Grant Thornton's VFM consultation panel.

Value for Money

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

However, note that at the time of writing our opinion is subject to ratification from Grant Thornton's VFM consultation panel.

Governance

The Council discloses under Section 5, Significant Governance Issues, of its Annual Governance Statement, that a number of significant governance issues have occurred during 2011/12 and 2012/13:

- Audit investigation into irregularities concerning recruitment and selection; procurement; and pay and grading practices within human resources.
- Allegations (including whistleblowing) were received from different sources in respect of procurement practices, the management of appointeeships and systems to implement personalisation within social care and inclusion. Work undertaken in respect of this is now subject to an external review by Bevan Brittan, which at the time of writing, is yet to report on its findings.
- OFSTED undertook an inspection of Safeguarding and Looked after Children Services in June 2012 and concluded that safeguarding services and aspects of safeguarding outcomes for children and young people were inadequate.

In view of these issues, the Council has established a corporate governance group to carry out a full review of corporate governance over the forthcoming twelve months.

We are required to report to you when we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

These issues have been identified and are being addressed by the Council and do not therefore warrant qualification of the VfM conclusion, under the Commission's two specified criteria. However, we consider that the importance of establishing a greater corporate 'compliance culture' for the Council's internal controls and governance arrangements is of sufficient priority for us to be considering such a recommendation in this year's Annual Audit Letter. This report, therefore alerts the Audit Committee to this possibility.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Potential destabilisation of workforce The Council's Head of Human Resources left the Council on 30 April 2012. This was considered as part of the 2011/12 VFM assessment but ultimately determined that impact, if any, would be on 2012/13, as it could destabilise the service at a time when strong personnel management is needed.	From work carried out in respect of Financial Governance, Financial Planning, Financial Control, Prioritising Resources and Improving efficiency and productivity there is no evidence that the departure of the Head of Human resources led to a destabilisation of the workforce. The Council continues to perform well against budget, and deliver the planned savings programme. Furthermore the sickness absence levels for the Council continue to decrease and are now 8.95 per FTE, from 9.13 in 2011/12.	We consider that the assurances gained from our review satisfy us that the risk has been adequately mitigated.
Economic climate **T**he coalition government debt reductions include reducing the grants available to local authorities. The Council experienced a settlement reduction of £10.7m (7.6%) in 2012/13 compared with a fall of £15.9m in 2011/12, a total drop in funding of £26.6m in 2 years. It was determined during our 2011/12 review that the Council has a plan in place to deal with the potential impact of business rates and the development of a local council tax benefits policy, but that as the impact would be in the future it would be considered as part of the 2012/13 review.	From work carried out above in respect of securing financial resilience and challenging economy, efficiency and effectiveness there is no evidence that the challenges of the economic climate have not been taken into account. The level of funding from many sources is out of the Council's control: Council tax freezes will continue in 2013/14 and changes to NNDR income distribution are likely to result in reduced income. The impact of this is noted within the financial statements at "Events after the reporting date". The Council understands the consequences of these changes and has used this to prepare the 2013/14 budget. It has assessed the potential loss to be in the region of £4.5m (page 14 of financial statements). Given this potential loss, the Council recognises that the volatility in business rates will need monitoring throughout the year to ensure that collection rates are sufficient.	We consider that the assurances gained from our review satisfy us that the risk has been adequately mitigated.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Integrated Children's Services The Council is focussed on getting the best outcomes for young people in Walsall, particularly those who are vulnerable or underachieving. This has been put at risk by the recent OFSTED Inspection of Safeguarding and Looked after Children's' services which graded them as 4 (inadequate).	Following the initial inspection conclusion from Ofsted, the Council implemented an action plan and the inspectors have since returned to the Council to follow up on their findings. They reported in June 2013 that the overall effectiveness of the arrangements to protect children in Walsall is judged to be adequate. Furthermore they note that the "DfE improvement plan is being implemented and is resulting in better and more consistent arrangements for the protection of children."	Where there is a potential impact on the VfM Conclusion following an inspection by a regulator, such as Ofsted, the Audit Commission guidance states that auditors can draw assurance in relation to their responsibilities from other inspectorates and review agencies. Equally where they report that arrangements are inadequate, we are therefore required to consider the impact on our Value for Money conclusion. We note that the inspection was carried out in June 2012 and therefore relates to the period to which our opinion relates. The whole service was subject to review but the inadequate arrangements applied to safeguarding only; services to looked after children were found to be adequate overall with good features. The follow up inspection carried out in June 2013 concluded that while there is a need to ensure improvements are embedded, the improvement plan has been actioned sufficiently, such that the arrangements are now adequate.
Social Services Allegations (including whisteblowing) were received from different sources in respect of procurement practices, the management of appointeeships and systems to implement personalisation within social care and inclusion	The conclusions of the independent investigation are still outstanding as at the time of writing.	The conclusions of the independent investigation are still outstanding as at the time of writing and therefore a minor residual risk remains, pending the outcome of their investigations.

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	189,000	189,000
Grant certification	30,150	30,150
Total audit fees	**219,150**	**219,150**

Our grant certification work is on-going, but we have no reason to believe the fees charged will be different to those outlined in the table above.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	We recommend that further work is done with the line managers who provide the data used in the absence accrual calculations, as part of the year end closedown process, to ensure they fully understand the process and can provide the correct information.	Medium	A training programme will be put in place to ensure that all parties involved in the collation of this information understand the process and provide the Council's financial reporting team with the correct information.	**Implementation Date:** 31 January 2014 in line with the start of data collation **Responsibility:** Lead Accountant, Financial Reporting (RW)
2	We recommend that a specific procedure be included in the year end closedown process to confirm that all leases that the Council is accounting for in its financial statements, are in existence.	Medium	The Council will review its closedown procedures for leasing in light of the issues raised in this year's audit and will ensure that this issue is picked up as part of this review.	**Implementation Date:** 31 December 2013 in line with other capital updates **Responsibility:** Senior Accountancy Officer, Financial Reporting (RP)
3	We recommend that the Council reviews the process to determine the classification of assets held for sale to ensure that IFRS 5 is followed.	Medium	Discussions will be taking place between the Council's financial reporting team and asset management team to ensure that both parties understand fully the requirements for classifying an asset as held for sale. Consideration will be given to the introduction of a checklist confirming that the asset meets all the required criteria as laid out by IFRS 5.	**Implementation Date:** 28 February 2014 **Responsibility:** Senior Accountancy Officer, Financial Reporting (RP) and Team Leader, Asset Management (JH)

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	We recommend that a specific procedure be included in the year end closedown process to confirm that all accounting entries made in relation to Academy transfers have been made.	Medium	As part of the fixed asset closedown procedures an additional checklist will be included to ensure that where there is an academy transfer that all assets (PPE and intangible) are picked up and derecognised as appropriate from the Council's asset portfolio.	**Implementation Date:** Quarterly from October 2013 **Responsibility:** Senior Accountancy Officer, Financial Reporting (RP)

Appendix B: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We undertook a risk based audit where we focussed audit effort on those areas where we identified a risk of material misstatement in the accounts. Definitions of the level of risk and associated work are given below:

Material misstatement risk

Significant (red) – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement.

Other (amber) – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risk arising from , for example, system changes and issue identified from previous years audits.

None (green) – Our risk assessment did not identify a risk of misstatement

Audit Findings

Yes (red) – issues identified.

None (green) – no significant findings to report from our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 24 June 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	**Yes** – see Misclassification & disclosure changes, refs 10 and 11
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	**Yes** – see Misclassification & disclosure changes, refs 5 and 6

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
NNDR Distribution	NNDR	None		No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	**Yes** – see Misclassification & disclosure changes, ref 1
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	**Yes** – see Misclassification & disclosure changes, ref 9

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	None		No	Yes – see Misclassification & Disclosure changes, refs 4, 7 and 8.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	Yes – see Misclassification & Disclosure changes, ref 2

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Investments (long & short term) – Financial Instruments (including Birmingham Airport Holdings Limited)	Investments	Other	Fair value measurements not correct	No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	Yes – see Misclassification & Disclosure changes, ref 3
Inventories	Inventories	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None
St Thomas More School PFI (off-balance sheet)	Debt	None		No	None
Street lighting PFI	Debt	None		No	None

GrantThornton

Walsall Council

Your Ref:	
Our Ref:	JW
Date:	16 September 2013
Please Ask For:	James Walsh
Direct Line:	(01922) 652102

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

Dear Sirs

Walsall Metropolitan Borough Council

Financial Statements for the year ended31 March 2013

This representation letter is provided in connection with the audit of the financial statements of Walsall Metropolitan Borough Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

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

Financial Statements

i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.

viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.

ix The financial statements are free of material misstatements, including omissions.

x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

xii Adequate provisions have been made to account for expected liabilities in relation to the settlement and/or payment of equal pay claims. The provision has been estimated based on our best professional judgement and after obtaining legal advice and opinion. Our legal advisors confirm our estimates are appropriate and reasonable.

Information Provided

xiii We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xiv We have communicated to you all deficiencies in internal control of which management is aware.

xv All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvi We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xvii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xviii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council’s financial statements communicated by employees, former employees, regulators or others.

xix In particular we have made enquiries of the external firm of solicitors we have engaged, who are undertaking the long-running investigation and have disclosed to you all information in relation to allegations of fraud and corruption, or suspected fraud and corruption pertaining to their work, affecting the Council’s financial statements.

xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxii We confirm that we jointly hold heritage assets, purchased with Art Funding International funds, with Birmingham City Council and these assets are currently held by Birmingham City Council and are being shown at

Birmingham Museum and Art Gallery. The total value of these assets is £804,397.

Annual Governance Statement

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

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 25 September 2013.

Signed on behalf of the Board

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Walsall Council

Financial Report for 2012/13

Containing the council's Statement of Accounts and Annual Governance Statement

Contents

Section A – Statement of Accounts

Explanatory foreword

1. Introduction

These accounts set out the financial results of Walsall Council's activities for the year ending 31 March 2013. The council manages its affairs to ensure the economic, efficient and effective use of resources and to safeguard its assets. This is vital if the council is to continue to play a leading role in the life of Walsall's residents and provide high quality services for their benefit. The task is shared by all members and officers under the leadership of the Coalition Executive and Corporate Management Team. The Chief Financial Officer has a particular role in ensuring financial stewardship.

This statement of accounts is prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting based on International Financial Reporting Standards (IFRS) (the Code) which requires that the accounts present a true and fair view of the financial position of the council. Suitable accounting policies have been employed and applied consistently. Where necessary, judgements and estimates have been made which comply with the Code. The council keeps proper and up to date accounting records, maintains effective internal control and risk management systems and takes reasonable steps for the prevention and detection of fraud and other irregularities.

This section aims to explain the main information in the statement of accounts and give an overview of the council's financial performance.

2. Reporting requirements for the 2012/13 accounts

The reporting requirements for the 2012/13 accounts remain broadly the same as those for the 2011/12 accounts with the exception of some amendments to the Dedicated Schools Grant (DSG) disclosure. This added in additional detail on how the initial budgeted distribution in the year is presented. Further information on this change can be found in note 44, page 99.

3. Explanation of the statements

The comprehensive income and expenditure statement (CIES) on page 22 shows the costs of providing services in accordance with generally accepted accounting practices.

During 2012/13 the council received £726.573 million in income. After including non cash items such as depreciation, impairments and statutory pension adjustments it cost £749.319 million to provide the services of the council.

The net cost of services within the CIES shows that gross expenditure has reduced from £670.217 million in 2011/12 to £629.917 million in 2012/13. Gross income has also reduced from £443.075 million in 2011/12 to £423.536 million in 2012/13. The reduction in both income and expenditure reflects the reduction in government funding, the transfer of some schools to academies and reduction in other income areas such as car parking.

Expenditure on education and children's services has reduced by approximately £46 million attributable to the transfer of schools from the local authority to academies, and associated reduced costs. Housing services expenditure has increased by approximately £7 million due to an increase in housing benefit expenditure. Non-distributed costs, items which cannot be allocated directly to services, have reduced by approximately £5m due to a reduction in past service costs calculated by Mercer Ltd the actuary for the West Midlands Metropolitan Authorities Pension Fund. Approximately £34 million of the £46 million other operating expenditure reflects the loss of schools buildings previously held on our balance sheet. The loss was incurred due to their becoming academies and the disposal of other buildings.

The actuarial loss on the pension fund of approximately £81 million is significantly higher than last year's £51 million loss. The actuarial valuation reflects changing market conditions. The council's contribution to the pension fund remained within our budget and the current funding policy for the West Midlands Metropolitan Authorities Pension Fund assumes that the liabilities will be met over the next 20 years.

Overall the CIES shows a deficit of £90.587 million for the year. This deficit does not represent a real loss for the council but rather a position dictated by accounting regulations. These regulations also enable the council to remove costs which are not actual cash payments such as depreciation, otherwise council tax levels would need to be raised to cover such accounting costs. These adjustments can be seen in note 7.

In order to calculate the movement in general reserves, the deficit for the year, adjustments between accounting basis and funding basis under regulations (note 7) and the transfer to and from earmarked reserves are added to last year's closing balance on general reserves. As at 31 March 2013 general reserves are £16.612 million, £14.159 million in 2011/12. Of these reserves £0.349 million is to be used in 2013/14 to assist in financing council expenditure. This planned use leaves £16.263 million available to the council. These movements can be seen within the movement in reserves statement on page 20.

Overall the council is in a sound financial position. The council has had to operate within an unstable and volatile national and local economy. Despite pressures such as the economic downturn, a reduction in public sector funding, and significant cost pressures such as an ageing population, increasing numbers of adults with complex needs, increasing numbers of looked after children coming into care, and an ageing infrastructure, services have been provided within budget. This financial performance was achieved without the need to increase council tax or supplement ongoing expenditure with one off reserves.

As at 31 March 2013 Walsall Council's balance sheet (page 23) shows a negative net worth of £162.438 million. This is largely due to the net pension liability of £480.797 million. This liability is to be paid over many years and would not be due for payment immediately as the balance sheet suggests. In addition it is planned for the pension liability to decrease and achieve a breakeven position in 20 years, and contribution rates have been set for the next year on this premise. In addition to this there has been a net gain of approximately £20 million due to revaluation of the council's non-current assets. Taking these into account the underlying balance sheet is sound.

The council's liquidity ratio, that is a measure by how much the council can cover its current liabilities by its current assets, is 2.70 the same as 2011/12. The council can cover its long-term borrowing by its long-term assets by 1.84, down from 1.89 in 2011/12. These ratios indicate that whilst the balance sheet is negative the council is more than able to meet both its short term liabilities and its borrowing requirements. These accounts are accordingly prepared on a going concern basis.

Balance sheet performance for the year appears to have declined. This can be seen in a decrease of £90.587 million in total net assets from -£71.851 million to -£162.438 million. However the majority of this decline is due to an increase in the net pension liability of £83.551 million. Excluding the total net pension liability of £480.797 million the council shows a net asset balance of £318.359 million. This combined with the above ratios for liquidity and assets over liabilities demonstrates a sound financial position.

4. An overview of the council's financial performance in 2012/13

Council expenditure is divided into two broad categories: revenue and capital. Revenue expenditure relates to day to day spending on items such as salaries and wages, purchase of minor equipment, services and materials, and the heating and lighting of premises. Capital expenditure relates to the purchase of major items such as land and buildings, and the construction of essential infrastructure such as roads.

Capital expenditure

The council spent £53.172 million on capital expenditure in 2012/13. This expenditure was funded by grants and contributions of £32.577 million, borrowing of £15.814 million and other council resources of £4.781 million.

The major areas of capital expenditure were £13.174 million on land and buildings and £24.993 million on revenue expenditure funded from capital under statute. This expenditure arises when capital expenditure is incurred on assets not owned by the council and which therefore cannot be added to the council's asset register and balance sheet. An example is grants made to owner occupiers of private houses to carry out improvements to improve energy efficiency and capital expenditure to voluntary aided schools in the borough. This expenditure is charged to revenue with a corresponding release from the capital adjustment account to ensure there is no impact on council tax.

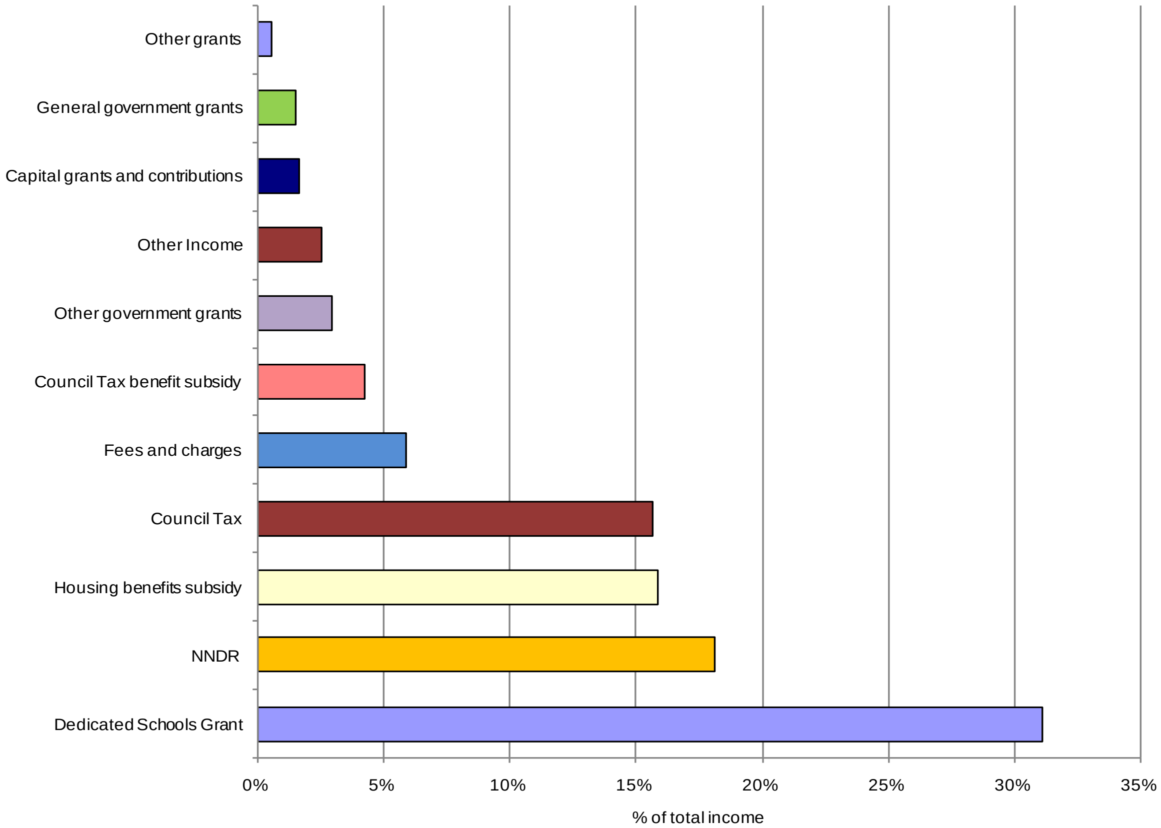
The council has two Private Finance Initiatives (PFI) schemes, one for the build and operation of St Thomas More School and another for the replacement and operation of the councils street lighting. The council has financial commitments (see note 49 on page 106) as a result of these schemes which are financed through PFI credits from central Government and a council contribution.

Revenue expenditure

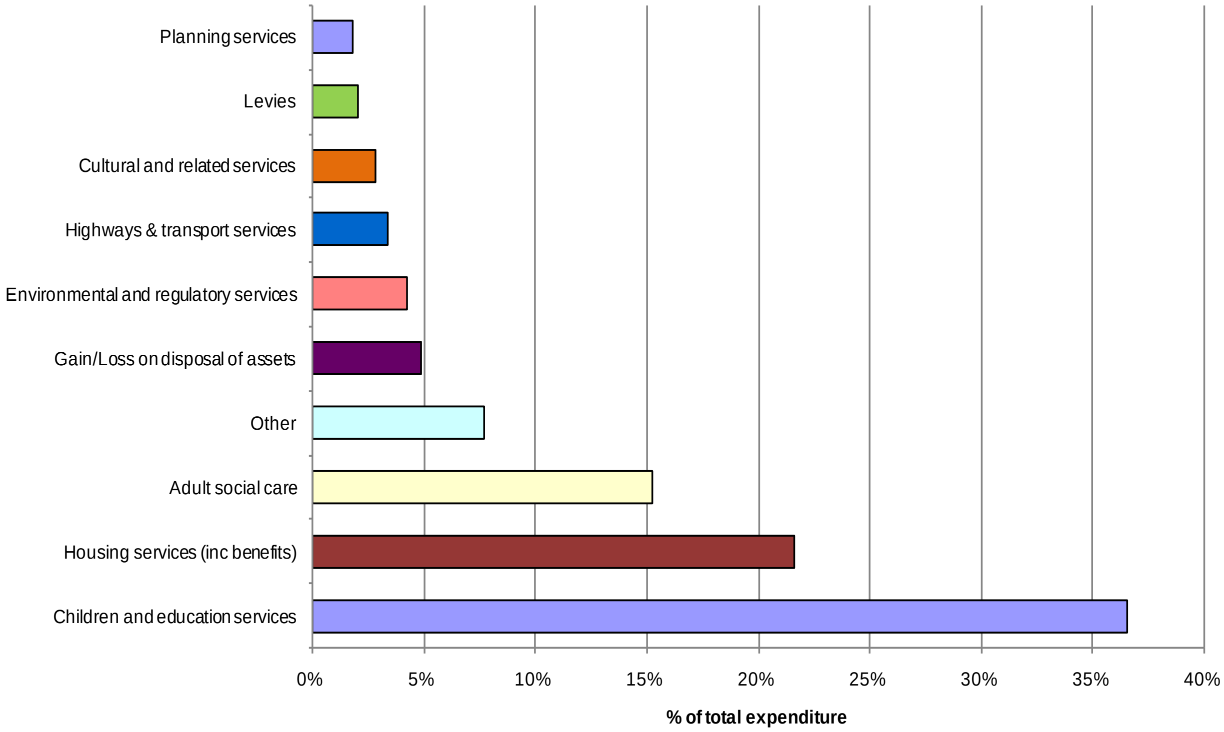
There has been good performance in the area of revenue expenditure particularly in a climate of reduced funding. In October 2010 the comprehensive spending review was announced for 2011/12 to 2014/15. This detailed a reduction in overall local government funding of 29% over the four-year period. This reduction was frontloaded and resulted in a significant real terms decrease in funding for 2012/13 of 7.6% (£10.7 million). During 2012/13 grants from government have fallen by approximately £25 million. A list of the grant changes can be found on page 100.

The total net expenditure for services prior to statutory adjustments is shown within the CIES on page 22. This shows that there was a deficit of £22.746 million for 2012/13. After statutory adjustments, such as the removal of depreciation, impairments and entries in relation to pension costs are applied the council shows an overall surplus for the general fund of £2.453 million for the year. After taking into account the in-year planned use of general reserves of £1.642 million, and additional transfers of just over £2.601 million, arising from unspent earmarked reserves allocations and other balance sheet adjustments, the net position for the council is an underspend of £1.494 million.

The following graph shows the differing sources of income received by the council within the CIES on page 22.



The following graph shows how the council's total expenditure within the CIES (page 22) is split between services.



Other in the above graph includes areas of spend such as central services to the public (£11.098 million), interest payable (£15.010 million), expenditure on trading undertakings (£12.792 million) and a net pension charge (£8.575 million).

Material and unusual changes to non-current assets

During 2012/13 the following schools transferred to academy status resulting in derecognition of land and buildings totalling £34.468 million.

- Bentley Drive Primary School £3.240 million
- Harden Primary School £2.516 million
- Croft Community Primary School £2.118 million
- Mossley Primary School £1.357 million
- Woodlands Primary School £4.255 million
- Alumwell Business and Enterprise College £15.185 million
- North Walsall Primary School £2.833 million
- Rough Hay Primary School £2.964 million

Pensions

Walsall Council participates in the West Midlands Metropolitan Authorities Pension Fund which is administered by Wolverhampton City Council.

As at 31 March 2013 there is an actuary calculated shortfall for Walsall Council of £480.797 million (£397.246 million at 31 March 2012) (see note 41, page 92 and note 42, page 93) between the forecast cost of future pensions and the value of the assets currently held within the pension fund. The actuary calculated shortfall is a very volatile valuation, caused by fluctuations in the financial markets. This can be seen by the movement in this figure over the last three years as shown in the following table.

	£ million
Calculated shortfall as at 31 March 2011	349.454
Calculated shortfall as at 31 March 2012	397.246
Calculated shortfall as at 31 March 2013	480.797

The forecast pension payments represented by the calculated shortfall will be paid out over a period of many years during which time the assets will continue to generate returns towards funding them. In addition future changes in the equity market will adjust the value of the fund assets.

The West Midlands Metropolitan Authorities Pension Fund underwent its triennial revaluation in 2010/11 based on conditions at 31 March 2010. This was carried out by the scheme's actuary, Mercer Limited. This revaluation reviewed the current condition of the fund and its ability to meet current and future pension obligations. The revaluation determined the contribution rates for the following 3 years based on a requirement to bring the fund to a breakeven position over the next 20 years.

Significant changes in accounting policies

There have been no significant changes to accounting policies during the year.

Major changes in statutory functions and planned developments

The Academies Act 2010 will impact on the number of schools that the local authority will be providing. At 1 April 2013 there were 23 academies in Walsall (including one 4-19) and a

University Technical College. Already a further 5 schools are in the process of potentially becoming an academy in 2013/14.

Local support for council tax (council tax benefit) will be fully integrated into the council tax system, and the scheme will be part of the council tax setting process. From 2013/14 Walsall will no longer reclaim all expenditure on council tax benefits from central Government but will receive a fixed grant which will be reduced nationally by around 12%. Walsall will therefore be required to meet a future deficit of approximately £3 million to £3.3 million. This new treatment will reduce the council tax base used to calculate the council tax for the borough. A knock on effect of this is the council not being able to generate the same level of additional funding through council tax increases compared to previous years. Council approved the local scheme for Walsall on 7 January 2013, impacting on the approved budget for 2013/14.

Walsall Council, West Midlands Police and West Midlands Fire will now share the risk of any increase in costs due to new clients and the effects of increases in council tax as the grant will remain fixed in future years.

A business rates retention scheme will be introduced from April 2013. Currently all business rates income collected locally is given back to central Government and re-distributed based on the authorities calculated need via various formulae set by Government. Under the new scheme 49% of the local business rates will be retained locally and then Walsall will receive a "top up" grant from central government for any shortfall in funding against our needs basis. This will now see the authority bearing the risk of any reduction in income levels up to as much as 7.5% (approximately £2.472 million) before any additional funding will be received from central government.

The Comprehensive Spending Review and subsequent local government settlement of autumn/winter 2010 has seen a considerable reduction in local government funding from central Government. This reduction will continue in 2014/15 with many experts both within and outside of Government suggesting that the reduction in public expenditure will continue for a decade. Many activities are in progress and are looking to meet the challenges over the next 4 financial years. Examples include reducing the number of buildings where council staff are based and saving money through more modern working approaches. The Spending Round announcement on 26 June 2013 set out the government's spending plans for 2015/16. At the time of writing a further 10% reduction is expected and planned for in 2015/16.

The 'Healthy Lives, Healthy People' white paper published on 30 November 2010 set out that responsibility for public health would transfer from Primary Care Trusts (PCTs) to Local Authorities and a new Public Health England agency. This change takes effect from 1 April 2013.

As at 1 April 2013 all services previously delivered through an outsourced education contract with Serco were terminated and are now being delivered by Walsall Council.

The regeneration agenda, in reflecting the council's emphasis on economic growth and job creation includes a number of priority workstreams. From a development and investment perspective those priorities are concentrated on Walsall town centre and the Darlaston area of the Black Country Enterprise Zone, working with a number of partner agencies.

The town centre includes three key locations where investment is being directed:

- St Matthews Quarter where new retail development is being promoted in two separate schemes;
- Gigaport which will be the focus of new business development;
- Waterfront where the emphasis will be on leisure and service development.

The council has played an important role in supporting this investment both directly and in an enabling capacity as a major landowner. The council is preparing a new plan for the town centre which will reaffirm these priorities and identify a pipeline of new development opportunities.

The Enterprise Zone represents a major opportunity to deliver significant new employment development in a regionally strategic location. The aspiration is to create upwards of 2,000 new jobs on a series of sites that will benefit from a suite of incentives aimed at attracting development. Amongst those, the ability of the Local Enterprise Partnership to re-invest business rate income secured from the Zone to support the council investment in the key Phoenix 10 development is an innovative business model. This will assist the delivery of the project which in turn will encourage the development of the remaining sites.

The Black Country City deal, one of 20 second wave deals is intended to provide a means of negotiation between Central Government and City regions, which will, once finalised devolve a set of freedoms and flexibilities enabling the respective cities to:

- Take charge and responsibility for decisions which affect their area,
- Do what they think is best to help business grow,
- Create Economic growth, and
- Decide how public money should be spent.

As part of the wider Localism Agenda the City Deal negotiations in the Black Country focus on three key themes - Land and Infrastructure, Skills and Economic/Business support as a means to improve the Black Country's position as a High Value Manufacturing destination.

The goal therefore of the Black Country's City Deal is to capitalise on the opportunity presented by the recent and forecast growth in High Value Manufacturing (HVM) in the Black Country – particularly in the automotive and aerospace industries – to secure growth in the UK economy.

The Black Country City Deal will negotiate with Government to establish the means to:

- Invest in the assembly and remediation of the most suitable sites in order to meet proven current demand for sites and premises from HVM businesses;
- Improve our low skill base and address the challenge of an ageing workforce in order to meet the skill needs of new and expanding HVM businesses.

Treasury management

Walsall Council has a successful treasury management strategy that has continued to maximise investment income and minimise interest payments without undue or inappropriate exposure to financial risk.

The council places great importance on the management of the security of all investments. This risk is minimised through the annual investment strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The annual investment strategy also considers maximum amounts and time limits in respect of each financial institution. This is approved by full Council.

The council ended 2012/13 with short term investments of £120.702 million (£120.602 million 2011/12). This is required to cash flow those capital projects currently underway where completion is due beyond 31 March 2013.

The target investment rate receivable by the council for 2012/13 was 1.3% however as at 31 March 2013 the actual rate was 2.1%. When compared to current market conditions this rate shows the council continues to maximise investment income. In cash terms this means the council received

£3.977 million (£3.348 million in 2011/12) of investment income. This is in addition to £0.758 million (£0.585 million in 2011/12) of dividend income from shares held in Birmingham Airport.

At 31 March 2013 the council's external long term borrowing was £266.145 million (£267.139 million as at 31 March 2012). The interest costs associated with this debt represent just 4.5% of the net budget requirement for the year, at an average interest rate of 4.53% (4.53% in 2011/12) compared against the target interest rate for the year of 4.52%.

Provisions, contingencies and material write offs

Walsall Council has previously made a provision for costs associated with equal pay claims and its associated costs. The review of that provision has seen a charge to net costs of services of £0.787 million in 2012/13 (£3.103 million credit during 2011/12). The provision for 2012/13 is £6.271 million (£7.519 million 2011/12). This provision is in line with International Accounting Standard 37 - Provisions, contingent liabilities and contingent assets.

The council has set aside a £13.663 million provision for the impairment of bad and doubtful debts. Of this £6.949 million is in respect of outstanding council tax debtors, £2.694 million is for sundry debtors and the remaining £4.020 million is for housing benefit overpayment and social care debtors.

The council has made other provisions within the year. Further details can be found within note 24.

Contingent assets and contingent liabilities are covered in further detail within note 51, page 109 and note 52, page 110.

Events after the reporting date

The following disclosure is in accordance with IAS 10 – events after the reporting period and is disclosed as a non-adjusting event.

The following schools are anticipated to become academy schools within 2013/14 whereby the carrying value of the schools will be de-recognised from the council balance sheet.

• Birchills CE Primary	£2.989 million
• Sunshine Infant and Nursery School	£1.106 million
• Edgar Stammers Primary School	£2.931 million
• Phoenix Emotional and Behavioural Difficulties (EBD) School	£2.653 million

Cooper and Jordan CE VA Primary will become an academy school in 2013/14. This school is a voluntary aided (VA) school and is therefore already held at nil value on the balance sheet. Brownhills School will also become an academy school in 2013/14. This school is a foundation trust school and is therefore already held at nil value.

In addition to the value of the assets being written out of the accounts the Dedicated Schools Grant (DSG) will be paid directly to the school rather than into the council in future years.

From 1 April 2013 the regime around the income that local authorities collect from National Non Domestic (Business) Rates (NNDR) changes from one where the council collects purely on behalf of central Government to one where this income is shared between central Government, the council and major precepting bodies (West Midlands Fire Authority in Walsall's case). This change affects the retention of that income collected and also carries a risk to the council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment.

Risks of non-collection include rates billed from 1 April, but also those not yet collected from prior years and also appeals that were not resolved before that date.

In relation to Walsall's NNDR there is a general risk of non-collection and also the potential losses on appeal was estimated at £9.203 million for prior year appeals as at 31 March 2013. Walsall's share of these potential losses is 49%, with the balance being Government 50%, West Midlands Fire Authority 1%. This amounts to a potential loss to Walsall of around £4.509 million. These are potential losses at the point of change and if these losses are exceeded then the council will further bear its share of that excess. The council has not provided for any costs associated with NNDR appeals as the changes are not retrospective and therefore are not required to be provided for. Additionally the costs can be met over a period of five years.

Economic climate and its impact on Walsall Council

The current economic climate is one of very low growth and reduced public funding. This is due to the recent banking crisis and the subsequent government intervention. A result of this has been reduced government funding to all parts of the public sector including Walsall Council. This reduced funding has represented a challenge to the council as we attempt to ensure service provision that tax payers require, but at a lower cost.

To meet this challenge the council has put into place the 'Working Smarter' programme. This programme has the objective of improving the customer experience, taking out waste, and putting control into the hands of the people delivering the service. Service redesign is founded upon customer demand.

The forthcoming year will again be one of increased financial constraints as a result of reduced funding. The council is working hard in terms of improving efficiency and working practices to ensure there is service provision maintained during these hard times.

The Welfare Reform Act 2012 has introduced a wide range of reforms to the benefits and tax credits system. This is administered across government departments, agencies and local authorities.

Many benefits are being changed, or withdrawn and replaced by new systems. There are also complicated transitional arrangements as the reforms are phased in over the next few years, and uncertainty remains in some areas.

Council tax benefits have been replaced with council tax discounts. The council receives a grant to meet these costs however this is likely to be fixed. This impacts on the councils ability to raise income through council tax and places more financial risk on the council due to a worsening economy.

Statement of responsibilities

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. In this authority, that officer is the Chief Financial Officer
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the statement of accounts

The Chief Financial Officer's responsibilities

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

In preparing this statement of accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code

The Chief Financial Officer has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification by the Chief Financial Officer

I, the Chief Financial Officer of Walsall Metropolitan Borough Council, certify that this statement of accounts gives a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 2013.

James T. Walsh B.Hum (Hons) ACMA CGMA
Chief Financial Officer
28 June 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WALSALL METROPOLITAN BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Walsall Metropolitan Borough Council for the year ended 31 March 2013under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Walsall Metropolitan Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that 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.

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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; 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 financial position of Walsall Metropolitan Borough Council as at 31 March 2013and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority 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 Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority 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 Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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 Authority 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 November 2012, we are satisfied that, in all significant respects, Walsall Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Walsall Metropolitan Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

J D Roberts
Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Colmore Plaza
Colmore Circus
Birmingham B4 6AT

25 September 2013

Core financial statements

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 (page 22). These are different from the statutory amounts required to be charged to the general fund balance for council tax setting purposes. The net increase/decrease before transfers to earmarked reserves line shows the statutory general fund balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

2012/13 actuals

	General fund balance £m	Earmarked general fund balances £m	Capital grants unapplied account £m	Capital receipts reserve £m	Total usable reserves £m	Total unusable reserves £m	Total reserves of the authority £m
Balance at 31/03/12 carried forward	**(14.159)**	**(97.989)**	**(32.194)**	**(5.961)**	**(150.303)**	**222.154**	**71.851**
(Surplus) or deficit on provision of services (accounting basis)	22.746	0.000	0.000	0.000	**22.746**	0.000	**22.746**
Other comprehensive income and expenditure	0.000	0.000	0.000	0.000	**0.000**	67.841	**67.841**
Total comprehensive income and expenditure	**22.746**	**0.000**	**0.000**	**0.000**	**22.746**	**67.841**	**90.587**
Adjustments between accounting basis & funding basis under regulations (Note 7)	(42.220)	0.000	5.611	(1.124)	**(37.733)**	37.733	**0.000**
Net (increase) / decrease before transfers to earmarked reserves	**(19.474)**	**0.000**	**5.611**	**(1.124)**	**(14.987)**	**105.574**	**90.587**
Transfers to/from earmarked reserves (Note 8)	17.021	(17.021)	0.000	0.000	**(0.000)**	0.000	**(0.000)**
(Increase) / decrease in year	**(2.453)**	**(17.021)**	**5.611**	**(1.124)**	**(14.987)**	**105.574**	**90.587**
Balance at 31/03/13 carried forward	**(16.612)**	**(115.010)**	**(26.583)**	**(7.085)**	**(165.290)**	**327.728**	**162.438**

2011/12 comparatives

	General fund balance £m	Earmarked general fund balances £m	Capital grants unapplied account £m	Capital receipts reserve £m	Total usable reserves £m	Total unusable reserves £m	Total reserves of the authority £m
Balance at 31/03/11 carried forward	**(13.748)**	**(80.387)**	**(29.727)**	**(5.199)**	**(129.061)**	**150.984**	**21.923**
(Surplus) or deficit on provision of services (accounting basis)	31.242	0.000	0.000	0.000	**31.242**	0.000	**31.242**
Other comprehensive income and expenditure	0.000	0.000	0.000	0.000	**0.000**	18.686	**18.686**
Total comprehensive income and expenditure	**31.242**	**0.000**	**0.000**	**0.000**	**31.242**	**18.686**	**49.928**
Adjustments between accounting basis & funding basis under regulations (Note 7)	(49.255)	0.000	(2.467)	(0.762)	**(52.484)**	52.484	**0.000**
Net (increase) / decrease before transfers to earmarked reserves	**(18.013)**	**0.000**	**(2.467)**	**(0.762)**	**(21.242)**	**71.170**	**49.928**
Transfers to/from earmarked reserves (Note 8)	17.602	(17.602)	0.000	0.000	**0.000**	0.000	**0.000**
(Increase) / decrease in year	**(0.411)**	**(17.602)**	**(2.467)**	**(0.762)**	**(21.242)**	**71.170**	**49.928**
Balance at 31/03/12 carried forward	**(14.159)**	**(97.989)**	**(32.194)**	**(5.961)**	**(150.303)**	**222.154**	**71.851**

Comprehensive income and expenditure account

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. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the movement in reserves statement (page 20).

2011/12				2012/13		
Gross expenditure £m	Gross income £m	Net expenditure £m		Gross expenditure £m	Gross income £m	Net expenditure £m
110.957	(39.575)	71.382	Adult social care	109.502	(39.321)	70.181
10.310	(6.240)	4.070	Central services to the public	11.098	(6.796)	4.302
309.645	(232.793)	76.852	Education & children's services	263.572	(208.259)	55.313
7.256	0.007	7.263	Corporate & democratic core	7.738	(0.430)	7.308
0.272	0.000	0.272	Court services	0.234	0.000	0.234
22.596	(5.608)	16.988	Cultural and related services	20.384	(4.025)	16.359
28.383	(7.848)	20.535	Environmental and regulatory services	30.097	(7.081)	23.016
14.411	(4.652)	9.759	Planning services	12.813	(4.924)	7.889
27.911	(3.432)	24.479	Highways & transport services	24.183	(3.843)	20.340
148.597	(142.934)	5.663	Housing services	155.496	(148.857)	6.639
(10.121)	0.000	(10.121)	Non-distributed costs	(5.200)	0.000	(5.200)
670.217	**(443.075)**	**227.142**	**Net cost of services**	**629.917**	**(423.536)**	**206.381**
49.356	0.000	49.356	Other operating expenditure (Note 9)	49.280	0.000	49.280
75.173	(47.334)	27.839	Financing and investment income and expenditure (Note 10)	70.122	(45.001)	25.121
0.000	(273.095)	(273.095)	Taxation and non-specific grant income (Note 11)	0.000	(258.036)	(258.036)
794.746	**(763.504)**	**31.242**	**(Surplus) or deficit on provision of services**	**749.319**	**(726.573)**	**22.746**
		(32.355)	(Surplus) or deficit arising on revaluation of non-current assets (Note 27)			(15.124)
		2.035	Impairment losses or (reversals) on non-current assets charged to the revaluation reserve (Note 27)			1.584
		(2.078)	(Surplus) or deficit arising on revaluation of available for sale financial assets (Note 27)			0.000
		51.084	Actuarial (gains) and losses on pension fund assets and liabilities (Note 27)			81.381
		49.928	**Total comprehensive income and expenditure**			**90.587**

Balance sheet

The balance sheet shows the value of the assets and liabilities recognised by the council as at 31 March 2013. 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 are usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of general reserves and any statutory limitations on their use (for example the capital receipts reserve may only be used to fund capital expenditure or repay debt). The second category of reserves, unusable reserves, are those that the council is not able to use to provide services. These include reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the movement in reserves statement line 'Adjustments between accounting basis and funding basis under regulations'.

2011/12 £m		Note	2012/13 £m
440.655	Property, plant and equipment	12	424.877
16.725	Heritage assets	14 & 15	17.771
1.839	Investment property	16	1.715
0.977	Intangible assets	17	0.683
34.628	Long term investments	18	33.516
9.696	Long term debtors	18	10.158
504.520	**Long term assets**		**488.720**
120.602	Short term investments	18	120.702
4.280	Assets held for sale	22	3.088
0.702	Inventories	19	1.145
33.092	Short term debtors	20	41.154
0.387	Cash and cash equivalents	21	3.885
159.063	**Current assets**		**169.974**
(0.166)	Short term borrowing	18	(0.809)
(50.536)	Short term creditors	23	(54.457)
(8.132)	Provisions	24	(7.750)
(58.834)	**Current liabilities**		**(63.016)**
(1.546)	Provisions	24	(0.923)
(267.139)	Long term borrowing	18	(266.145)
(407.915)	Other long term liabilities	25	(491.048)
(676.600)	**Long term liabilities**		**(758.116)**
(71.851)	**Net assets**		**(162.438)**
(150.303)	Usable reserves	26	(165.290)
222.154	Unusable reserves	27	327.728
71.851	**Total reserves**		**162.438**

The unaudited accounts were issued on 28 June 2013 and the audited accounts were authorised for issue on 25 September 2013.

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 (i.e. borrowing) to the council.

2011/12 £m		2012/13 £m
31.242	Net (surplus) or deficit on the provision of services	22.746
(75.888)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 28)	(55.894)
(126.687)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 29)	(125.435)
(171.333)	**Net cash (inflows)/outflows from operating activities**	**(158.583)**
185.762	Investing activities (Note 31)	151.107
19.484	Financing activities (Note 32)	3.978
33.913	**Net (increase) or decrease in cash and cash equivalents**	**(3.498)**
(34.300)	Cash and cash equivalents at the beginning of the reporting period	(0.387)
(0.387)	**Cash and cash equivalents at the end of the reporting period (Note 21)**	**(3.885)**

Notes to the accounts

1. Accounting policies

General principles

The statement of accounts summarises the council's transactions for the 2012/13 financial year and its position at the year end of 31 March 2013. The council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2011 in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the Service Reporting Code of Practice (SERCOP) 2012/13, supported by International Financial Reporting Standards (IFRS).

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

Accruals of expenditure and income

The revenue accounts of the council are maintained on an accruals basis in accordance with proper accounting practices. In particular:

- Fees, charges and rents are accounted for as income at the date the council provides the relevant goods or service
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the supply date and when the supplies are used, they are carried as inventories on the balance sheet
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected
- Income and expenditure are credited and debited to the surplus or deficit on provision of services, unless they properly represent capital receipts or capital expenditure

Cash and cash equivalents

The council identifies cash as being both cash in hand and demand deposits (i.e. bank current accounts). These also include any bank overdrafts that the council may have. Cash equivalents are identified as short term liquid deposits held by the council. These are any deposits made by the council with financial institutions that have an initial maturity period of less than three months and are not subject to penalties for early redemption. This will include at call and money market fund investments.

Prior period adjustments, changes in accounting policies and estimation errors

Prior period adjustments arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively and do not give rise to a prior period adjustment.

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

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

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 fixed assets during the year:

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

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance, the minimum revenue provision.

Depreciation, revaluation and impairment losses and amortisations are replaced by the 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.

Employee benefits

Benefits payable during employment

Short term employee benefits (i.e. wages and salaries, annual leave, flexi-time and time off in lieu) are accounted for in the period in which the employee renders services. An accrual is made for the cost of holiday entitlements (or any other form of leave) earned by employees but not taken before the year end that can be carried forward into the following financial year. The accrual is charged to the surplus or deficit on the provision of services. It is then reversed out through the movement in reserves statement so that holiday benefits are charged to revenue in the financial year that the holiday absence occurs.

Termination benefits

Termination benefits are payable whenever an employee’s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy. These are charged on an accruals basis to the non distributed costs line in the comprehensive income and expenditure statement when it is demonstrably committed to either terminate the employment of current employees 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 charged with the amount payable by the council to the pension fund or individual 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 individuals and any such amounts payable but unpaid at the year-end.

Post employment benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The Local Government Pension Scheme, administered by Wolverhampton City Council

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

Arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the education surplus or deficit on provision of services is charged with the employer's contributions payable to teachers' pensions in the year.

<u>*Local government pension scheme*</u>

The local government scheme is accounted for as a defined benefits scheme.

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

Liabilities are discounted to their value at current prices, based on the weighted average of spot yields on high quality corporate bonds.

The assets of the West Midlands Authorities 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 service earned in year – allocated in the surplus or deficit in provision of services to the service for which the employee worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years service earned in earlier years – debited to the surplus or deficit on provision of services 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 surplus or deficit on provision of services within financing and investment income and expenditure
- 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 surplus or deficit on provision of services within financing and investment income and expenditure
- Gains/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 to the surplus or deficit on provision of services 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 other comprehensive income and expenditure
- Contributions paid to the West Midlands Metropolitan Authorities Pension Fund – cash paid as employers contributions to the pension fund

Statutory provisions limit the council to raising council tax to cover the amounts payable by the council to the pension fund in the year. In the movement in reserves statement there are appropriations to and from the pensions reserve to remove notional debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

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.

Events after the balance sheet date

These are events that have occurred between the end of the financial year, 31 March 2013, and the date the financial accounts are authorised for issue. Two types of event can be identified:

- Adjusting events occur where conditions existed at the financial year end
- Non-adjusting events occur where the conditions arose after the financial year end

Adjusting events are recognised by the adjustment of the financial statements and are detailed within a note to the accounts. Non-adjusting events are not recognised by an adjustment within the financial statements but are disclosed within a note to the accounts.

Financial instruments

Financial assets
Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determined 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

<u>Loans and receivables</u>
Loans and receivables are initially measured at fair value and subsequently carried at their amortised cost. Annual credits to the surplus and deficit on provision of services for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate 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 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 comprehensive income and expenditure statement.

Any gain or loss that arises on de-recognition of an asset is credited or debited to the comprehensive income and expenditure statement.

Available-for-sale assets
Available-for-sale assets are initially measured and subsequently carried at fair value. Where the asset has fixed or determinable payments, annual credits to the comprehensive income and expenditure statement for interest receivable are based on the amortised cost of the asset multiplied by the effective interest rate for the instrument. Where there are no fixed or determinable payments, income (i.e. 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 recognised in the comprehensive income and expenditure statement. The exception is where impairment losses have been incurred – these are debited to the comprehensive income and expenditure statement along with any net gain/loss for the asset accumulated in the 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, the asset is written down and a change made to the comprehensive income and expenditure statement.

Any gains or losses that arise on the de-recognition of the asset are credited/debited to the comprehensive income and expenditure statement.

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

Financial liabilities
Financial liabilities are initially measured at fair value and subsequently carried at their amortised cost. Annual charges to 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. For most of the borrowings that the council has, this means that the amount present in the balance sheet is the outstanding principal repayable and interest charged to the surplus or deficit on provision of services is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the comprehensive income and expenditure statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the surplus or deficit on provision of services is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the surplus or deficit on provision of services, regulations allow the impact on the general fund balance to be spread over future years. The council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was paid. For discounts receivable, statute limits this to a maximum of 10 years. 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.

For stepped rate loans (i.e. LOBO's – Lender Option Borrower Option loans) taken prior to 9 November 2007, Walsall Council has applied regulation 30E of the Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414). This allows local authorities to continue with their established method of calculating interest on these loans prior to this date rather than that required by the code; either charging just the interest payable or creating a deferred liability to enable the smoothing of interest over a defined period set by the council. Walsall's method, in line with the above regulation, is to charge the interest paid in year with an adjustment to smooth interest up to the first option date where the new interest rate is unknown.

Government/non-government grants and contributions

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

- the grants/contributions will be received
- the council will comply with any conditions attached to the payments

Monies will not be recognised within the comprehensive income and expenditure account until the conditions attached to the grants/contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential in the asset acquired using the grant/contribution are required to be consumed by the council as specified in the grant conditions or the grant/contribution must be repaid to the awarding body.

Where the conditions have not been satisfied the grant/contribution will be carried on the balance sheet as creditors. When the conditions have been satisfied the grant/contribution will be recognised in the comprehensive income and expenditure statement by either crediting:

- the relevant service line (attributable revenue grants/contributions)
- taxation and non specific grant income (non-ringfenced revenue grants and all capital grants)

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.

Impairment of non-current assets

At the end of the financial period all non-current assets (excluding non-current assets classified as held for sale) are assessed by type of asset for an indication of any possible impairment. If there is an indication of a possible impairment, an estimate of the new asset value is made. If there is no indication of a possible impairment no further action is taken.

Any loss created by impairment of an asset is recognised firstly in the revaluation reserve up to the amount held in the reserve for that asset. Any remaining amount is recognised in the comprehensive income and expenditure statement.

If the conditions that gave rise to an earlier impairment no longer exist the impairment is reversed out of the comprehensive income and expenditure statement and reinstated to the asset value. This reversal will not exceed what would be the carrying amount for the asset at the reversal date had the impairment not taken place. Any excess to this amount is treated as a revaluation gain and recognised in the revaluation reserve.

Intangible assets

Intangible assets are recognised if it is probable that future benefits created by the asset will flow to the council.

Intangible assets are initially measured at cost. Any internally generated intangible assets (e.g. websites or bespoke computer programs) are recognised by the council if they meet the following criteria:

- Technical feasibility of completing the asset so that it is available for use or sale
- Intention to use the asset
- Ability to use or sell the asset
- The asset will generate future economic benefits or service potential
- Availability of resources to complete the asset
- Ability to measure reliably the expenditure attributable to developing the asset

After recognition intangible assets are carried at cost less accumulated amortisation and impairments.

Amortisation of intangible assets is carried out where a finite useful life is identified. Amortisation is based on what is determined to be a pattern that reflects the use of economic benefits. If this pattern is not determinable then the asset is amortised on a straight line basis.

Inventories

Stock is initially measured at the lower of net realisable value and cost, except where it involves a non-exchange transaction where the cost is measured as the fair value at the date of acquisition. The council values all stock at the end of the year at actual cost price where suitable. Where this is not possible then stock is measured on a first in first out (FIFO) or weighted average basis. The same valuation technique is used for similar items.

Any change in value of stock is recognised in the surplus or deficit on provision of services.

Investment properties

Investment properties are properties held by the council to solely earn rentals and/or capital appreciation. They are recognised only when it is probable that future economic benefits or service potential will flow to the council, and that the cost or fair value of the expenditure can be measured reliably.

Investment properties are initially measured at cost, except where acquired through a non-exchange transaction which measured at fair value. The measurement of cost for this purpose consists of, where appropriate:

- Purchase price
- Transaction costs
- Directly attributable expenditure

After recognition investment properties are measured at fair value. Any gain or loss from a change in fair value is recognised in the surplus or deficit on provision of services in which it arises.

Investment properties measured at fair value are not subject to depreciation.

When investment properties are disposed of or decommissioned the net gain or loss is taken to the surplus or deficit on provision of services.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership of a non-current asset 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 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 rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement)

The gain credited to the comprehensive income and expenditure statement on disposal is not permitted by statute to increase the general fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the general fund balance to the capital receipts reserve in the movement in reserves statement. Where the amount due in relation to the 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 in the movement in reserves statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point the deferred capital receipts are transferred to the capital receipts reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

Operating leases
Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the other operating expenditure line in the comprehensive income and expenditure statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (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.

Non-current assets held for sale

For a non-current asset to be recognised as held for sale it must meet the following criteria:

- The asset must be available for immediate sale in its current condition
- The sale must be highly probable
- The asset must be actively marketed at a price that is reasonable in relation to its current fair value
- The sale should be expected to be completed within the next 12 months and is unlikely to change

Non-current assets held for sale are measured at the lower of its carrying value or fair value less costs of sale. Immediately prior to classification as held for sale non-current assets are revalued to determine fair value less costs of sale. If this is lower than the carrying amount any impairment loss created will be recognised in line with the council's policy on impairments.

Non-current assets held for sale are not subject to depreciation.

Overheads

The costs of overheads and support services are charged to those that benefit from the supply or service. 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:

- Costs relating to the council's status as a multi-functional, democratic organisation – corporate and democratic core
- Cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties – non-distributed costs

Private Finance Initiative (PFI)/Public-Private Partnership (PPP) schemes

PFI/PPP contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI/PPP contractor.

Where a PFI/PPP arrangement meets the criteria laid out in section 4.3.2 of the Code and International Financial Reporting Interpretations Committee Note 12 (IFRIC12) – Service Concession Arrangements, the assets used to deliver the service are declared as property, plant and equipment on the council's balance sheet. Recognition of these assets occurs in line with our property, plant and equipment policy. In addition a corresponding liability is also recognised on the balance sheet.

Assets recognised for PFI/PPP schemes will be subject to the council's property, plant and equipment policy for depreciation and impairment policy.

Payments made under these arrangements are accounted for as finance leases being split into service and construction elements where possible, or into repayment of liability, interest and service charge. The construction element/repayment of liability will be paid straight to the liability shown on the balance sheet. Provision for the repayment of debt in the movement in reserves statement matches the repayment of liability.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the provision of goods/ services, or for administrative purposes, and are expected to be used for more than one year.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis. This is provided that it is probable that future economic benefits or service potential will flow to the council, and that the cost or fair value of the expenditure can be measured reliably.

Any expenditure that does not meet this criteria i.e. it maintains the asset's potential to deliver future economic benefits and service potential (day to day servicing/repairs and maintenance), is charged to revenue as it is incurred.

Where the council incurs capital spend on or revalues any property, plant and equipment this will be reviewed to determine whether there are any material components. An identifiable component within a main asset (e.g. a lift within a building) will be recognised separately and accounted for like any other piece of property, plant and equipment. The council will only review material components where the main asset has a gross book value of £1 million. Individual components will only be recognised where the value is greater than £150k or they represent a significant proportion of the main asset.

Measurement

Property, plant and equipment are initially measured at cost, except donated assets which are measured at fair value. The measurement of cost for this purpose consists of, where appropriate:

- Purchase price
- Directly attributable costs to bringing the asset into working condition for its intended use
- Initial estimate of the cost of dismantling and removing the asset and restoring the site on which it is located

Where it is a donated asset the measurement of the asset at fair value does not constitute a revaluation and is not recognised as such.

After recognition property, plant and equipment assets are carried on the balance sheet using the following measurement bases:

- Infrastructure – historical cost
- Community assets – historical cost
- Assets under construction – historical cost
- All other property, plant and equipment – fair value

Where no market-based evidence for fair value is available due to the specialist nature of the building and are rarely sold (i.e. schools) use has been made of depreciated replacement cost (DRC) to approximate fair value.

Assets carried at fair value are revalued when there have been material changes in the value or every five years whichever is sooner. Where the carrying value is increased, this increase is matched by credits to the revaluation reserve, unless this is reversing a previous impairment loss charged to the surplus or deficit on provision of services on the same asset. In this case an amount up to the value of the previous impairment loss is charged to the surplus or deficit on provision of service, with any remaining revaluation being matched by credits to the revaluation reserve.

Where the carrying value is decreased by revaluation, the decrease in value is recognised in the revaluation reserve up to the credit balance existing for that asset, with any remaining loss being charged to the surplus or deficit on provision on services.

Depreciation

Depreciation is applied to all property, plant and equipment assets with the exception of land where it is demonstrated that it has an unlimited useful life (excluding land subject to depletion i.e. car parks). Assets are not depreciated until they are available for use. Depreciation is calculated by allocating the value of the asset over its expected useful life.

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the life of the property as estimated by the valuer (usually 10 to 80 years)
- Car Parks – straight line allocation over the life of the property as estimated by the valuer (usually 40 to 50 years)
- Infrastructure – straight line allocation over 25 to 30 years
- Vehicles, plant and equipment – straight line allocation over the life of the property as estimated by the valuer (usually 5 to 10 years)

As community assets are assets that the council intends to hold in perpetuity, have no determinable useful life and may have restriction on their disposal, no depreciation is charged.

Disposals

When property, plant and equipment assets are disposed of or decommissioned the net gain or loss is taken to the surplus or deficit on provision of services.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts (75%) relating to mortgages given to former tenants who purchased their properties under the right to buy scheme is payable to the Government. The balance of the receipts is credited to the capital receipts reserve. Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

Heritage assets

The accounting policy for heritage assets as laid out below makes no distinction between tangible and intangible heritage assets. The assets the council holds cover both tangible (e.g. war memorials) and intangible (e.g. the audio-visual material held within the Epstein Archive) heritage assets.

The council holds a range of heritage assets. These include 4 art collections and the Epstein Archive within the New Art Gallery, collections within Walsall Museum and Leather Museum, local history archive and a number of public art works, statues, war memorials and other items. The Walsall Museum collection, the Leather Museum collection, statues and war memorials around the borough are held to increase the knowledge, understanding and appreciation of local and national history. The art collections and Epstein Archive are held to increase the knowledge, understanding and appreciation of local, national and international art history.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment. However some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The council includes the Council House, Town Hall and Walsall Library/Museum buildings within its asset base. Although these are historical buildings, they are operational assets i.e. the council uses them to deliver its services. These are included within property, plant and equipment and valued using the depreciated replacement cost (DRC) methodology, and depreciated over their remaining useful life.

The council's collections of heritage assets are accounted for as follows.

Art collections

The art collections include paintings (both oil and watercolour), sculptures, drawings/sketches, ancient/classical pottery and figures, and ethnographic works. These are reported on the balance sheet at insurance valuation, based on market values. These assets are deemed to have indeterminate lives and a high residual value. Therefore the council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation in line with the gallery's acquisition policy available at www.thenewartgallerywalsall.org.uk/collections-and-library. Acquisitions are initially recognised at cost and donations are recognised at insurance valuation.

Epstein Archive

The Epstein Archive includes documents, photographs and audio-visual material relating to Sir Jacob Epstein. The council maintains an inventory of this archive however there is no readily available valuation held by the council. These are reported on the balance sheet at insurance valuation, based on market values.

Museum collections

The museum collections include clothing, locks, lorinery and other leather working exhibits, historic civic regalia, medals and items connected to the canals. These are reported at insurance valuation, based on market values for those items over £1,000. The council maintains an inventory of this collection however there is no readily available valuation held by the council for items of less than £1,000. The council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost given the specialised nature of this archive. As such the council has not recognised items less than £1,000 on the balance sheet.

For those assets held on the balance sheet they are deemed to have indeterminate lives and a high residual value. Therefore the council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at insurance valuation if value over £1,000.

Local history archive

The council's local history archive includes church records, census records, council archives, photographs, film and other items relating to the history of Walsall. The council maintains an inventory of this archive however there is no readily available valuation held by the council. There is no definitive market value for these type of assets as they are normally obtained by donation. The council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost given the specialised nature of this archive. As such the council has not recognised this archive on the balance sheet.

Civic regalia

The council holds civic regalia for use by the mayor and mayoress for official ceremonial purposes. These are reported at insurance valuation. Due to the nature of these assets the council does not deem it appropriate to charge depreciation.

Statues

The council has four statues around the borough. There is no readily available valuation held by the council for these assets and no definitive market value for these type of assets as they are not normally traded. The council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost given the specialised nature of these assets. As such the council has not recognised these assets on the balance sheet.

War memorials

The council has a number of war memorials around the borough, however does not hold a readily available valuation. The council believes that it is not appropriate to obtain a valuation due to the very specialised nature of the asset and the lack of comparable market values. The council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost. As such the council has not recognised these assets on the balance sheet.

Memorial clocks

The council has a number of memorial clocks around the borough, however does not hold a readily available valuation. The council believes that it is not appropriate to obtain a valuation due to the specialised nature of the assets and the lack of comparable market values. The council believes that the benefits of obtaining the valuation for these items to the user of the accounts would not justify the cost. As such the council has not recognised these assets on the balance sheet.

Public art

The council has a number of public art works around the borough, however does not hold a readily available valuation. The council believes that it is not appropriate to obtain a valuation due to the specialised nature of the assets and the lack of comparable market values. The council believes that the benefits of obtaining the valuation for these items to the user of the accounts would not justify the cost. As such the council has not recognised these assets on the balance sheet.

Heritage assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council's general policies on impairment – see accounting policy for property, plant and equipment. The council may occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the disposal of property, plant and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see accounting policy for property, plant and equipment).

Provisions, contingent assets and liabilities

Provisions

Provisions are required for any liabilities of uncertain timing or amount that have been incurred. They are recognised when:

- the council has a present obligation (legal or constructive) as a result of a past event
- it is probable that a transfer of economic benefits or service potential will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation

If these conditions are not met then no provision is made.

Recognition of the provision is made in the year that the council becomes aware of the obligation and is based on the best estimate of the likely settlement. This is charged to the surplus or deficit on provision of services for the relevant service.

Estimated settlements are reviewed at the end of each financial year. Where it becomes apparent that a transfer of economic benefit is not required (or a lower settlement than anticipated is made) the provision is reversed back to the surplus or deficit on provision of services for the relevant service.

When some or all of the payment required to settle a provision is expected to be met by another party (i.e. from an insurance claim), this is only recognised as income in the surplus or deficit on provision of services if it is virtually certain that reimbursement will be received if the obligation is settled.

Provision for unequal pay claims

The council has made a provision for settling the costs of equal pay arising from claims prior to implementation of its equal pay strategy. Statutory arrangements allow settlements to be financed from the general fund in the year that payments actually take place, not when the provision is established. As a result this provision is balanced by an unequal pay back pay account created from amounts credited to the general fund balance in the year the provision was made or modified. The balance on the unequal pay back pay account will be debited back to the general fund balance in the movement in reserves statement in future financial years as payments are made.

Landfill allowance schemes

Landfill allowances, as allocated by Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another council, are recognised as current assets and 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 or net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or the payment of a cash penalty to DEFRA (or a combination of both). 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 where it is probable that there will be an outflow of economic benefits or service potential.

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.

Reserves

The council sets aside specific amounts as reserves for future expected commitments or to cover contingencies. Reserves are created by appropriating amounts from 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 surplus or deficit on provision of services in that year. The reserve is then appropriated back into the movement in reserves statement so there is no charge against council tax for the expenditure.

Revenue expenditure funded from capital under statute

Capital expenditure incurred during the year but not resulting in the creation of a non-current asset for the council is classified as revenue expenditure funded from capital under statute. Expenditure that can be classified as this is defined within the Local Government Act 2003 and associated capital financing regulations. This includes: grants paid to other person (such as housing renovation grants and disabled facility grants) and bodies for capital expenditure purposes; and amounts (including provisions for equal pay claim reviews) that the Secretary of State has given direction should be capitalised.

The council writes out the entire expenditure to the comprehensive income and expenditure statement in the year it is incurred. To ensure that no impact is passed on to council taxpayers, this expenditure is then reversed out through the movement in reserves statement by a transfer to the capital adjustment account on the balance sheet.

Value Added Tax (VAT)

Where the council is able to recover VAT it is excluded from both income and expenditure. This is in accordance with proper accounting practices.

Accounting for schools

The accounting treatment of land and buildings for each type of school is based on the legal framework underlying each type of school. The council controls the management and running of community and voluntary controlled schools and therefore the land and buildings of those schools are separately shown on the council's balance sheet. The land and buildings of voluntary aided and foundation schools are owned and controlled by the trustees of the schools or the foundation body and are therefore not shown on the balance sheet of the council.

Capital expenditure on community and voluntary controlled schools is added to the balances for those schools. Capital expenditure on voluntary aided and foundation schools is treated as revenue from capital under statute expenditure and written off each year to the comprehensive income and expenditure statement within education and children's services.

The Dedicated Schools Grant is allocated between central council budget and budgets allocated to individual schools ("delegated school budgets"). Expenditure from central council budgets and delegated schools budgets is charged to the comprehensive income and expenditure statement under education and children's services.

Individual schools' balances at 31 March 2013 are included in the balance sheet of the council as any unspent delegated schools budgets remain the property of the council.

PFI Schemes
The council has one school subject to PFI contract, which is not shown on the council's balance sheet. This is because it is a voluntary aided school and the control of the right to use the buildings has passed to the school trustees.

The PFI liabilities in respect of the PFI school remain on the council's balance sheet as the council is the party to the contract with the PFI operator.

2. Accounting standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2013, the following changes are not considered to have a significant impact on the statement of accounts as demonstrated below:

IAS1 Presentation of Financial Statements – The changes require authorities to disclose separately the gains or losses reclassified into the Surplus or Deficit on the Provision of Services. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure required.

IAS12 Income Taxes – This change in the accounting policy particularly affects investment properties. It is not considered that this change will affect the Statement of Accounts as the council has no group account relationships.

IFRS7 Financial Instruments: Disclosures – The change in accounting policy is in relation to the offsetting of financial assets and liabilities. Within the cash and cash equivalents line on the balance sheet there is a bank overdraft, note 21 provides a breakdown of this item.

There have been several significant changes in relation IAS19 Employee Benefits. IAS19 is changing for accounting years starting on or after 1 January 2013 and this will affect the budgeted pension expense for the next financial year. The key change affecting LGPS employers relates to the expected return on assets. Advance credit for anticipated outperformance of return seeking assets (such as equities) will no longer be permitted. The expected return on assets is currently credited to the CIES, however from 2013 this is effectively replaced with an equivalent figure calculated using the discount rate (as opposed to that calculated using the Expected Return on Assets assumption). For 2012/13 this would have resulted in a £5.616m expense increase in the CIES.

3. Critical judgments in applying accounting policies

In applying the accounting policies set out in note 1, 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:

- There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision
- The council determined that there was no group relationship with Birmingham Airport Holdings Ltd. The basis for this conclusion was that the council had insufficient voting power to affect any decision changes, had no material transactions and did not provide essential technical information. The investments are classified as available for sale financial assets as a recent valuation is available
- In determining which leases were finance leases an assessment was made against all recognition criteria especially where the lease period was greater than 75% of the asset's expected life, or where the value of discounted minimum lease payments is close to 90% of the asset value. Where a lease met at least two of the criteria it was usually classified as a finance lease
- To decide whether to apply componentisation for property, plant and equipment, each identified component was assessed to determine whether it had a significantly different life to other components within the same asset. It was also assessed to determine if the component was a significant element of the asset

4. Assumptions made about the future and other major sources of estimation uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the council about the future or 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 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Provisions – note 24	The council has made a provision of £6.271 million for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the council or at what level these may or may not be settled.	An increase/decrease over the forthcoming year of 10% of the estimated average settlement would have the effect of increasing or decreasing by £0.627 million the provision needed.
Pensions Liability – note 42	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 effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase or decrease in the discount rate assumption would result in a decrease or increase in the pension liability of £17.121 million respectively. However, the assumptions interact in complex ways. During 2010/11, the council's actuaries carried out a full actuarial valuation. The assumptions used in 2012/13 resulted in no measured differences to the estimated valuation.
Arrears – note 20	At 31 March 2013, the council had a sundry debtor balance of £9.355 million. A review of significant balances suggested that a net impairment of doubtful debts of 13.56% (£1.268 million) was appropriate. However, in the current economic climate it is not certain that such an allowance will be sufficient.	If collection rates were to deteriorate, a 5% change in collection rates for the impairment of doubtful debts would increase or decrease by £0.421 million the amount to set aside as an allowance respectively.

5. Material items of income and expense

During 2012/13 the following schools transferred to academy status resulting in derecognition of land and buildings totalling £34.468m.

- Bentley Drive Primary School £3.240 million
- Harden Primary School £2.516 million
- Croft Community Primary School £2.118 million
- Mossley Primary School £1.357 million
- Woodlands Primary School £4.255 million
- Alumwell Business and Enterprise College £15.185 million
- North Walsall Primary School £2.833 million
- Rough Hay Primary School £2.964 million

Walsall Council has previously made a provision for costs associated with equal pay claims and its associated costs. The review of that provision has seen a charge to net costs of services of £0.787 million in 2012/13 (£3.103 million credit during 2011/12). The provision for 2012/13 is £6.271 million (£7.519 million 2011/12). This provision is in line with International Accounting Standard 37 - Provisions, contingent liabilities and contingent assets.

6. Events after the balance sheet date

The statement of accounts were authorised for issue by the Chief Financial Officer on 25 September 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The following disclosure is in accordance with IAS 10 – Events After the Reporting Period and is disclosed as a non-adjusting event.

The following schools are anticipated to become academy schools within 2013/14 whereby the carrying value of the schools will be de-recognised from the council balance sheet.

- Birchills CE Primary £2.989m
- Sunshine Infant and Nursery School £1.106m
- Edgar Stammers Primary School £2.931m
- Phoenix EBD £2.653m

Cooper and Jordan CE VA Primary will become an academy school in 2013/14. This school is a voluntary aided (VA) school and is therefore already held at nil value on the balance sheet. Brownhills School will also become an academy school in 2013/14. This school is a foundation trust school and is therefore already held at nil value.

In addition to the value of the assets being written out of the accounts the Dedicated Schools Grant (DSG) will be paid directly to the school rather than the council in future years.

From 1 April 2013 the regime around the income that local authorities collect from National Non Domestic (Business) Rates (NNDR) changes from one where the council collects purely on behalf of central Government to one where this income is shared between central Government, the council and major precepting bodies (West Midlands Fire Authority in Walsall's case). This change affects the retention of that income collected and also carries a risk to the council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment.

Risks of non-collection include rates billed from 1 April, but also those not yet collected from prior years and also appeals that were not resolved before that date.

In relation to Walsall's NNDR there is a general risk of non-collection and also the potential losses on appeal was estimated at £9.203m for prior year appeals as at 31 March 2013. Walsall's share of these potential losses is 49%, with the balance being Government 50%, West Midlands Fire Authority 1%. This amounts to a potential loss to Walsall of around £4.509m. These are potential losses at the point of change and if these losses are exceeded then the council will further bear its share of that excess.

7. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to 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 meet future capital and revenue expenditure.

2012/13 Actuals

	Movement in general fund balance £m	Movement in capital grants unapplied account £m	Movement in capital receipts reserve £m	Movement in unusable reserves £m
Adjustments primarily involving the Capital Adjustment Account (Note 27)				
Charges for depreciation and impairment of non-current assets	(21.554)	0.000	0.000	21.554
Revaluation losses on Property, Plant and Equipment	4.325	0.000	0.000	(4.325)
Movements in the market value of Investment Properties	(0.124)	0.000	0.000	0.124
Amortisation and impairment of intangible assets	(0.396)	0.000	0.000	0.396
Capital grants and contributions applied	3.491	0.000	0.000	(3.491)
Revenue expenditure funded from capital under statute	(9.551)	0.000	0.000	9.551
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(40.172)	0.000	0.000	40.172
Statutory provision for the financing of capital investment	9.351	0.000	0.000	(9.351)
Capital expenditure charged against the General Fund	0.156	0.000	0.000	(0.156)
	(54.474)	**0.000**	**0.000**	**54.474**
Adjustments primarily involving the Capital Grants Unapplied Account (Note 26)				
Capital grants and contributions unapplied credited to the CIES	8.027	(8.027)	0.000	0.000
Application of grants to capital financing transferred to the Capital Adjustment Account	0.000	13.638	0.000	(13.638)
	8.027	**5.611**	**0.000**	**(13.638)**
Adjustments primarily involving the Capital Receipts Reserve (Note 26)				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	5.261	0.000	(5.221)	(0.040)
Use of the Capital Receipts Reserve to finance new capital expenditure	0.000	0.000	4.625	(4.625)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(0.017)	0.000	0.017	0.000
Transfer from Deferred Capital Receipts upon receipt of cash	0.000	0.000	(0.545)	0.545
	5.244	**0.000**	**(1.124)**	**(4.120)**
Subtotal c/f	**(41.203)**	**5.611**	**(1.124)**	**36.716**

	Movement in general fund balance £m	Movement in capital grants unapplied account £m	Movement in capital receipts reserve £m	Movement in unusable reserves £m
Subtotal b/f	**(41.203)**	**5.611**	**(1.124)**	**36.716**
Adjustments primarily involving the Deferred Capital Receipts Reserve (Note 27)				
Movements required for Soft Loans advanced by the council for future cashflows	0.325	0.000	0.000	(0.325)
Adjustments primarily involving the Financial Instruments Adjustment Account (Note 27)				
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(0.041)	0.000	0.000	0.041
Adjustments primarily involving the Pensions Reserve (Note 27)				
Reversal of items in relation to retirement benefits debited/(credited) to the CIES	(25.829)	0.000	0.000	25.829
Employer's pensions contributions and direct payments to pensioners payable in the year	23.659	0.000	0.000	(23.659)
Adjustments primarily involving the Collection Fund Adjustment Account (Note 27)				
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	0.276	0.000	0.000	(0.276)
Adjustment primarily involving the Accumulated Absences Account (Note 27)				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable with statutory requirements	0.593	0.000	0.000	(0.593)
Total adjustments	**(42.220)**	**5.611**	**(1.124)**	**37.733**

2011/12 Comparatives

	Movement in general fund balance £m	Movement in capital grants unapplied account £m	Movement in capital receipts reserve £m	Movement in unusable reserves £m
Adjustments primarily involving the Capital Adjustment Account (Note 27)				
Charges for depreciation and impairment of non-current assets	(26.520)	0.000	0.000	26.520
Revaluation losses on Property, Plant and Equipment	(27.758)	0.000	0.000	27.758
Movements in the market value of Investment Properties	(0.790)	0.000	0.000	0.790
Amortisation and impairment of intangible assets	(0.431)	0.000	0.000	0.431
Capital grants and contributions applied	5.224	0.000	0.000	(5.224)
Revenue expenditure funded from capital under statute	1.439	0.000	0.000	(1.439)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(36.950)	0.000	0.000	36.950
Statutory provision for the financing of capital investment	14.107	0.000	0.000	(14.107)
Capital expenditure charged against the General Fund	0.616	0.000	0.000	(0.616)
	(71.063)	**0.000**	**0.000**	**71.063**
Adjustments primarily involving the Capital Grants Unapplied Account (Note 26)				
Capital grants and contributions unapplied credited to the CIES	15.623	(15.623)	0.000	0.000
Application of grants to capital financing transferred to the Capital Adjustment Account	0.000	13.156	0.000	(13.156)
	15.623	**(2.467)**	**0.000**	**(13.156)**
Adjustments primarily involving the Capital Receipts Reserve (Note 26)				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	2.253	0.000	(2.253)	0.000
Use of the Capital Receipts Reserve to finance new capital expenditure	0.000	0.000	1.561	(1.561)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(0.030)	0.000	0.030	0.000
Transfer from Deferred Capital Receipts upon receipt of cash	0.000	0.000	(0.100)	0.100
	2.223	**0.000**	**(0.762)**	**(1.461)**
Subtotal c/f	**(53.217)**	**(2.467)**	**(0.762)**	**56.446**

	Movement in general fund balance £m	Movement in capital grants unapplied account £m	Movement in capital receipts reserve £m	Movement in unusable reserves £m
Subtotal b/f	**(53.217)**	**(2.467)**	**(0.762)**	**56.446**
Adjustments primarily involving the Deferred Capital Receipts Reserve (Note 27)				
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	0.085	0.000	0.000	(0.085)
Adjustments primarily involving the Financial Instruments Adjustment Account (Note 27)				
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(0.031)	0.000	0.000	0.031
Adjustments primarily involving the Pensions Reserve (Note 27)				
Reversal of items in relation to retirement benefits debited/(credited) to the CIES	(18.981)	0.000	0.000	18.981
Employer's pensions contributions and direct payments to pensioners payable in the year	22.274	0.000	0.000	(22.274)
Adjustments primarily involving the Collection Fund Adjustment Account (Note 27)				
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	0.097	0.000	0.000	(0.097)
Adjustment primarily involving the Accumulated Absences Account (Note 27)				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable with statutory requirements	0.518	0.000	0.000	(0.518)
Total adjustments	**(49.255)**	**(2.467)**	**(0.762)**	**52.484**

8. Earmarked reserves

This note sets out the amounts set aside from the general fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet general fund expenditure in 2012/13.

	Balance as at 31/03/2011 £m	Transfers in 2011/12 £m	Transfers out 2011/12 £m	Balance as at 31/03/2012 £m	Transfers in 2012/13 £m	Transfers out 2012/13 £m	Balance as at 31/03/2013 £m
Nursery schools	(0.247)	(2.525)	2.435	**(0.337)**	(2.307)	2.324	**(0.320)**
Primary schools	(3.880)	(94.598)	92.477	**(6.001)**	(89.444)	88.163	**(7.282)**
Secondary schools	(3.180)	(41.372)	42.238	**(2.314)**	(13.441)	15.052	**(0.703)**
Special schools	(0.909)	(11.832)	11.402	**(1.339)**	(12.011)	11.719	**(1.631)**
Foundation schools	(2.919)	(1.175)	1.990	**(2.104)**	0.245	0.116	**(1.743)**
School balances	**(11.135)**	**(151.502)**	**150.542**	**(12.095)**	**(116.958)**	**117.374**	**(11.679)**
Grant funding receipts in advance under IFRS	(6.388)	(6.042)	2.426	**(10.004)**	(6.840)	6.614	**(10.230)**
Business rates retention scheme	0.000	(1.014)	0.000	**(1.014)**	0.000	0.000	**(1.014)**
Walsall works	0.000	0.000	0.000	**0.000**	(2.010)	0.000	**(2.010)**
Treasury commutation	(4.357)	(0.763)	0.000	**(5.120)**	0.000	0.000	**(5.120)**
Carbon management reduction programme	(0.564)	(0.355)	0.078	**(0.841)**	(0.190)	0.007	**(1.024)**
Education transition	0.000	(1.000)	0.097	**(0.903)**	(0.061)	0.000	**(0.964)**
Environmental warranties	(0.700)	(0.300)	0.000	**(1.000)**	0.000	0.000	**(1.000)**
Borrowing re-scheduling	(5.626)	(1.626)	4.003	**(3.249)**	(1.670)	0.000	**(4.919)**
External legal costs - pay & grading	(1.054)	(0.600)	0.559	**(1.095)**	0.000	0.386	**(0.709)**
Working Smarter	0.000	0.000	0.000	**0.000**	(0.750)	0.000	**(0.750)**
Insurance fund	(1.032)	(1.952)	0.000	**(2.984)**	0.000	0.354	**(2.630)**
Leasing	0.000	(1.043)	0.000	**(1.043)**	0.000	1.043	**0.000**
Mediation	(0.859)	(0.339)	0.048	**(1.150)**	(1.436)	0.024	**(2.562)**
New homes bonus	0.000	(1.074)	0.140	**(0.934)**	(2.007)	0.650	**(2.291)**
Pensions / ABS	(1.000)	0.000	0.000	**(1.000)**	0.000	0.000	**(1.000)**
Private finance initiative	(11.581)	(2.463)	0.000	**(14.044)**	(1.821)	0.000	**(15.865)**
Children's improvement plan	0.000	0.000	0.000	**0.000**	(0.644)	0.000	**(0.644)**
Retention policy / information management project	(0.250)	(0.250)	0.000	**(0.500)**	0.000	0.000	**(0.500)**
Smarter workplaces	(0.887)	(0.473)	0.321	**(1.039)**	0.000	0.425	**(0.614)**
Strategic capital investment	0.000	0.000	0.000	**0.000**	(6.637)	0.000	**(6.637)**
Pay & Grading Protection / Appeals	(4.196)	(2.500)	0.751	**(5.945)**	0.000	3.659	**(2.286)**
Transactional employment & pension costs	(15.377)	0.000	0.000	**(15.377)**	(7.680)	1.681	**(21.376)**
Walsall Adult Community College	(2.890)	(0.836)	0.674	**(3.052)**	(0.078)	0.373	**(2.757)**
Workforce planning	(1.684)	(3.000)	2.925	**(1.759)**	(1.607)	2.253	**(1.113)**
Worklessness agenda	(4.367)	0.000	2.433	**(1.934)**	0.000	0.865	**(1.069)**
Project reserve	0.000	(3.275)	0.000	**(3.275)**	(1.883)	0.333	**(4.825)**
Other earmarked reserves	(6.440)	(7.168)	4.976	**(8.632)**	(4.663)	3.873	**(9.422)**
Earmarked general fund balances	**(69.252)**	**(36.073)**	**19.431**	**(85.894)**	**(39.977)**	**22.540**	**(103.331)**
Total	**(80.387)**	**(187.575)**	**169.973**	**(97.989)**	**(156.935)**	**139.914**	**(115.010)**

9. Other operating expenditure

The following table provides further information for other operating expenditure shown in the CIES on page 22.

2011/12 £m		2012/13 £m
14.628	Levies	14.352
0.030	Payments to the capital housing receipts pool	0.017
34.698	(Gains) and losses on the disposal of fixed assets	34.911
49.356	**Total**	**49.280**

10. Financing and investment income and expenditure

The following table provides further information for financing and investment income and expenditure shown in the CIES on page 22.

2011/12 £m		2012/13 £m
19.218	Interest payable and similar charges	14.603
44.422	Pension interest cost (Note 42)	42.321
(31.553)	Expected return on pension assets (Note 42)	(28.546)
(4.153)	Interest income	(4.007)
(0.166)	Income, expenditure, depreciation and impairment of investment properties (Note 16)	(0.166)
0.656	(Surplus) or deficit on trading undertakings not included in net cost of services (Note 34)	1.674
(0.585)	Other investment income (Note 18)	(0.758)
27.839	**Total**	**25.121**

11. Taxation and non specific grant income

The following table provides further information for taxation on non specific grant incomes shown in the CIES on page 22.

2011/12 £m		2012/13 £m
(109.080)	Council tax income	(109.522)
(104.733)	NNDR distribution	(126.709)
(20.847)	All capital grants and contributions (Note 45)	(11.511)
(38.435)	Non-ringfenced government grants (Note 45)	(10.294)
(273.095)	**Total**	**(258.036)**

12. Property, plant and equipment

Movement on balances

Movements in the council's property, plant and equipment values are shown in the following tables.

2012/13 actuals

	Operational buildings £m	Operational land £m	Vehicles, plant and equipment £m	Infrastructure £m	Community assets £m	Assets under construction £m	Surplus assets £m	Total £m	PFI assets included in infrastructure £m
Cost									
As at 31 March 2012	225.849	139.603	23.254	138.288	0.000	3.179	16.290	**546.463**	18.096
Additions	9.151	1.695	5.505	4.483	2.221	3.804	0.209	**27.068**	0.000
Acc Depreciation & Impairment Written Out to Gross Carrying Value	(15.587)	(0.369)	0.000	0.000	0.000	0.000	(0.153)	**(16.109)**	0.000
Revaluation increases/ (decreases) recognised in the revaluation reserve	10.943	4.157	0.000	0.000	0.000	0.000	(0.015)	**15.085**	0.000
Revaluation increases/ (decreases) recognised in the surplus/ (deficit) on the provision of services	12.310	(6.642)	0.000	0.000	0.000	0.000	(0.975)	**4.693**	0.000
Derecognition - disposals	(23.172)	(14.844)	(1.598)	0.000	0.000	0.000	(0.228)	**(39.842)**	0.000
Derecognition - other	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**	0.000
Assets reclassified (to)/ from held for sale	(0.282)	(0.096)	0.000	0.000	0.000	0.000	(1.510)	**(1.888)**	0.000
Other movements in cost of valuation	5.631	(0.950)	(0.002)	0.000	0.000	(5.395)	0.788	**0.072**	0.000
Total cost movements in 2012/13	**(1.006)**	**(17.049)**	**3.905**	**4.483**	**2.221**	**(1.591)**	**(1.884)**	**(10.921)**	**0.000**
As at 31 March 2013	**224.843**	**122.554**	**27.159**	**142.771**	**2.221**	**1.588**	**14.406**	**535.542**	**18.096**

	Operational buildings	Operational land	Vehicles, plant and equipment	Infrastructure	Community assets	Assets under construction	Surplus assets	Total	PFI assets included in infrastructure
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost as at 31 March 2013	**224.843**	**122.554**	**27.159**	**142.771**	**2.221**	**1.588**	**14.406**	**535.542**	**18.096**
Depreciation									
As at 31 March 2012	(11.921)	(0.289)	(17.029)	(76.452)	0.000	0.000	(0.117)	**(105.808)**	(5.856)
Depreciation charge for the year	(7.639)	(0.084)	(3.509)	(4.771)	0.000	0.000	(0.035)	**(16.038)**	(0.604)
Acc Dep & Imp Written Out to Gross Carrying Value	15.587	0.369	0.000	0.000	0.000	0.000	0.153	**16.109**	0.000
Impairment losses / (reversals) recognised in the revaluation reserve	(1.538)	(0.008)	0.000	0.000	0.000	0.000	(0.037)	**(1.583)**	0.000
Impairment losses / (reversals) recognised in the surplus / (deficit) on the provision of services	(2.670)	0.000	(0.197)	(0.308)	(2.221)	(0.012)	(0.108)	**(5.516)**	0.000
Derecognition - disposals	0.863	0.008	1.322	0.000	0.000	0.000	0.008	**2.201**	0.000
Derecognition - other	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**	0.000
Assets reclassified (to)/from Assets Held for Sale	0.032	0.004	0.000	0.000	0.000	0.000	0.003	**0.039**	0.000
Other movements	(0.075)	0.000	(0.002)	0.000	0.000	0.000	0.008	**(0.069)**	0.000
Total depreciation movements in 2012/13	**4.560**	**0.289**	**(2.386)**	**(5.079)**	**(2.221)**	**(0.012)**	**(0.008)**	**(4.857)**	**(0.604)**
As at 31 March 2013	**(7.361)**	**0.000**	**(19.415)**	**(81.531)**	**(2.221)**	**(0.012)**	**(0.125)**	**(110.665)**	**(6.460)**
Net book value at 31 March 2013	**217.482**	**122.554**	**7.744**	**61.240**	**0.000**	**1.576**	**14.281**	**424.877**	**11.636**
Net book value at 31 March 2012	**213.928**	**139.314**	**6.225**	**61.836**	**0.000**	**3.179**	**16.173**	**440.655**	**12.240**

2011/12 Comparatives

	Operational buildings	Operational land	Vehicles, plant and equipment	Infrastructure	Community assets	Assets under construction	Surplus assets	Total	PFI assets included in infrastructure
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost									
As at 31 March 2011	237.888	143.053	22.465	137.789	0.000	8.712	19.040	**568.947**	18.096
Additions	29.350	3.004	2.925	5.075	2.131	2.378	1.212	**46.075**	0.000
Acc Depreciation & Impairment Written Out to Gross Carrying Value	(7.696)	(0.009)	0.000	0.000	0.000	0.000	(0.233)	**(7.938)**	0.000
Revaluation increases/ (decreases) recognised in the revaluation reserve	5.313	17.686	0.000	0.000	0.000	0.000	1.259	**24.258**	0.000
Revaluation increases/ (decreases) recognised in the surplus/ (deficit) on the provision of services	(12.301)	(13.338)	0.000	0.000	0.000	0.000	(1.250)	**(26.889)**	0.000
Derecognition - disposals	(24.617)	(6.500)	(1.620)	0.000	0.000	0.000	(0.203)	**(32.940)**	0.000
Derecognition - other	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**	0.000
Assets reclassified (to)/ from held for sale	(4.827)	(2.720)	0.000	0.000	0.000	0.000	(4.750)	**(12.297)**	0.000
Other movements in cost of valuation	2.739	(1.573)	(0.516)	(4.576)	(2.131)	(7.911)	1.215	**(12.753)**	0.000
Total cost movements in 2011/12	**(12.039)**	**(3.450)**	**0.789**	**0.499**	**0.000**	**(5.533)**	**(2.750)**	**(22.484)**	**0.000**
As at 31 March 2012	**225.849**	**139.603**	**23.254**	**138.288**	**0.000**	**3.179**	**16.290**	**546.463**	**18.096**

	Operational buildings	Operational land	Vehicles, plant and equipment	Infrastructure	Community assets	Assets under construction	Surplus assets	Total	PFI assets included in infrastructure
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost as at 31 March 2012	**225.849**	**139.603**	**23.254**	**138.288**	**0.000**	**3.179**	**16.290**	**546.463**	**18.096**
Depreciation									
As at 31 March 2011	(13.376)	(0.226)	(14.710)	(71.821)	0.000	0.000	(0.280)	**(100.413)**	(5.253)
Depreciation charge for the year	(7.641)	(0.073)	(3.395)	(4.631)	0.000	0.000	(0.048)	**(15.788)**	(0.603)
Acc Dep & Imp Written Out to Gross Carrying Value	7.696	0.009	0.000	0.000	0.000	0.000	0.233	**7.938**	0.000
Impairment losses / (reversals) recognised in the revaluation reserve	(1.825)	(0.161)	0.000	0.000	0.000	0.000	(0.048)	**(2.034)**	0.000
Impairment losses / (reversals) recognised in the surplus / (deficit) on the provision of services	(3.190)	(0.093)	(0.516)	(4.576)	(2.131)	(0.011)	(0.202)	**(10.719)**	0.000
Derecognition - disposals	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**	0.000
Derecognition - other	0.997	0.001	1.076	0.000	0.000	0.000	0.013	**2.087**	0.000
Other movements	5.418	0.254	0.516	4.576	2.131	0.011	0.215	**13.121**	0.000
Total depreciation movements in 2011/12	**1.455**	**(0.063)**	**(2.319)**	**(4.631)**	**0.000**	**0.000**	**0.163**	**(5.395)**	**(0.603)**
As at 31 March 2012	**(11.921)**	**(0.289)**	**(17.029)**	**(76.452)**	**0.000**	**0.000**	**(0.117)**	**(105.808)**	**(5.856)**
Net book value at 31 March 2012	**213.928**	**139.314**	**6.225**	**61.836**	**0.000**	**3.179**	**16.173**	**440.655**	**12.240**
Net book value at 31 March 2011	**224.512**	**142.827**	**7.755**	**65.968**	**0.000**	**8.712**	**18.760**	**468.534**	**12.843**

In accordance with IAS8 Accounting Policies, Changes in Accounting Estimates and Errors prior year comparatives have been updated for the above table. The key changes are the movement of impairment losses from cost section to the depreciation section, in addition to a movement of £0.501m from surplus assets to operational land.

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Land (car parks) and Buildings – 10-80 years
Vehicles, Plant and Equipment – 5-10 years
Infrastructure – 25-30 years

Capital commitments

At 31 March 2013, the council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2013/14 and future years which are budgeted to cost £16.416m. Similar commitments at 31 March 2012 were £33.426m. The major commitments are shown in the following table:

Projects	Council funded £m	Externally funded £m	Total 2012/13 £m
Academies	0.000	10.388	**10.388**
Aids and adaptations	0.775	0.000	**0.775**
Barcroft school	0.328	0.000	**0.328**
Department of Health Capital Allocation	0.000	0.378	**0.378**
Eldon House	0.000	0.108	**0.108**
Environmental regeneration schemes	0.163	1.153	**1.316**
Fuel Poverty Grant	0.000	0.212	**0.212**
Health Through Warmth	0.335	0.000	**0.335**
Highways maintenance and improvements	0.211	0.887	**1.098**
Investment in council assets	0.127	0.000	**0.127**
Investment in school buildings	0.022	0.128	**0.150**
PARIS	0.405	0.000	**0.405**
Pelsall library, childrens centre and health centre	0.000	0.188	**0.188**
Preventative adaptations & Supported independent living	0.140	0.000	**0.140**
Smarter Workplaces	0.022	0.000	**0.022**
Other	0.292	0.154	**0.446**
	2.820	**13.596**	**16.416**

Revaluations

The council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. The effective date of the revaluations carried out in 2012/13 was 31 March 2013. These valuations were carried out in house by the council's Estates and Property Manager, S D Law MRICS.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

- Land and Buildings, Equipment and Surplus assets have been valued on an existing use value basis except where the assets are specialised
- Specialised assets have been valued on the depreciated replacement cost method using modern equivalent asset basis
- The values used for the depreciated replacement cost calculation were from the Building Cost Information Service (BCIS) Quarterly Review of Building Prices – 1st quarter 2013
- Assets under construction have been valued on a cost basis
- Infrastructure and community assets have been valued on a depreciated historic cost basis.

13. Accounting for local government schools

The council has the following maintained schools:

2012/13 actuals

	Community	Voluntary Controlled	Voluntary Aided	Foundation
Number of schools, excluding PFI schools	62	10	13	4
Value of land and buildings at 31 March 2013	£178.587m	£17.816m	£0m	£0m
Number of schools subject to PFI contracts	0	0	1	0

2011/12 comparatives

	Community	Voluntary Controlled	Voluntary Aided	Foundation
Number of schools, excluding PFI schools	70	10	14	4
Value of land and buildings at 31 March 2012	£203.372m	£13.792m	£0m	£0m
Number of schools subject to PFI contracts	0	0	1	0

The treatment of land and buildings for each type of school is based on the legal framework underlying each type of school. The council controls the management and running of community and voluntary controlled schools and therefore the land and buildings of those schools are separately shown on the council's balance sheet. The land and buildings of voluntary aided and foundation schools are owned and controlled by the trustees of the schools or the foundation body and are therefore not shown on the balance sheet of the council.

Capital expenditure on community and voluntary controlled schools is added to the balances for those schools as reported in property, plant and equipment (note 12). Capital expenditure on voluntary aided and foundation schools is treated as revenue from capital under statute expenditure and written off each year to the comprehensive income and expenditure statement within education and children's services.

Dedicated Schools Grant (DSG) is credited to the comprehensive income and expenditure statement within taxation and non-specific income based on amounts due from the Department for Education for 2012/13.

The DSG is allocated between central council budget and budgets allocated to individual schools (delegated school budgets). Expenditure from central council budgets and delegated schools budgets is charged to the comprehensive income and expenditure statement under education and children's services.

Individual schools' balances at 31 March 2013 are included in the balance sheet of the council under the earmarked reserves heading.

PFI schemes
The council has one school subject to PFI contract, which is not shown on the council's balance sheet. This is because it is a voluntary aided school and the control of the right to use the buildings has passed to the school trustees.

The PFI liabilities in respect of the PFI school remain on the council's balance sheet as the council is the party to the contract with the PFI operator.

14. Heritage assets

Reconciliation of the carrying value of heritage assets held by the council

2012/13 Actuals

	Garman Ryan Collection £m	New Art Gallery Collection £m	Epstein Archive £m	Garman Ryan Epstein Collection £m	Leather Museum Collection £m	Walsall Museum Collection £m	Civic Regalia £m	Total £m
Cost/valuation								
As at 1 April 2012	**10.428**	**3.813**	**0.060**	**0.251**	**0.750**	**1.200**	**0.223**	**16.725**
Additions	-	1.000	-	0.008	-	-	-	**1.008**
Disposals	-	-	-	-	-	-	-	**-**
Revaluations	-	0.038	-	-	-	-	-	**0.038**
Balance as at 31 March 2013	**10.428**	**4.851**	**0.060**	**0.259**	**0.750**	**1.200**	**0.223**	**17.771**

2011/12 Comparatives

	Garman Ryan Collection £m	New Art Gallery Collection £m	Epstein Archive £m	Garman Ryan Epstein Collection £m	Leather Museum Collection £m	Walsall Museum Collection £m	Civic Regalia £m	Total £m
Cost/valuation								
As at 1 April 2011	**10.428**	**1.380**	**-**	**-**	**0.750**	**1.200**	**0.223**	**13.981**
Additions	-	-	-	-	-	-	-	**-**
Disposals	-	-	-	-	-	-	-	**-**
Revaluations	-	2.433	0.060	0.251	-	-	-	**2.744**
Balance as at 31 March 2012	**10.428**	**3.813**	**0.060**	**0.251**	**0.750**	**1.200**	**0.223**	**16.725**

Valuations

Art collections
The council's art collections are reported in the balance sheet at insurance valuations based on market values, the last such valuation being 31 March 2012. A random sample group of 50 artworks are researched and updated on an annual basis. Further research into the value of any works is carried out at any time in the event of any significant change in an artist's or artworks status. Valuations are based on research of the art market which establishes the recent sale prices at auction or from galleries of similar works.

The most significant valuations include Lucian Freud's 'Portrait of Kitty' and 'Annabel', and Vincent van Gogh's 'Sorrow'.

Museum collections
The council's museum collections are included in the balance sheet at insurance valuation based on market values. The most valuable items in the collection have recently been valued by professional valuers. The remaining items in the collection are insured at valuations derived by curators, based on their knowledge of current market values.

Civic regalia
The council's mayoral civic regalia is included in the balance sheet at insurance valuation based on replacement values. The items are photographed, described and catalogued. The last valuation took place in 2009 by Fellows and Sons, auctioneers and valuers based in Birmingham.

Additions of heritage assets
There were a number of additions of art works during 2012/13. These have been added to the relevant collections. None of these works are classed as being significant individually. However the total valued amount added was £1.008 million.

Disposal of heritage assets
There were no disposals of heritage assets during 2012/13.

Five year summary of transactions
Following a review of the transactions over the last five years there were no significant or material additions, disposals or other transactions that warrant any further disclosure.

15. Further information on heritage assets

Heritage assets held on balance sheet

Art collections
The council has four art collections: the Garman-Ryan collection, the Garman-Ryan Epstein collection, the permanent collection and the special collection. They are all based within the council's New Art Gallery. The New Art Gallery is also the home to the Epstein Archive.

The Garman-Ryan collection consists of 365 paintings, sketches, sculptures, ancient/classical artefacts and ethnographic works. This collection was donated by Lady Kathleen Epstein in 1972 to be held in trust for the people of Walsall. The collection contains a wide range of work by Sir Jacob Epstein, and significant works by European artists including van Gogh, Monet, Turner, Renoir and Constable. No new works have been, or will be, added to this collection. The council is unable to dispose of any of these art works due to the conditions applied when the collection was donated to the council.

The Garman-Ryan Epstein collection contains 132 works by artists closely related to the Garman-Ryan collection. These works have been purchased, bequeathed or donated to the council's New Art Gallery.

The permanent collection was started in 1892 and has been acquired by purchase, donation and bequests. It consists of almost 2,000 art works, both historic and contemporary. Many of the art works are connected to Walsall or its people.

The special collection consists of contemporary art works acquired by the council between 1998 and 2004 using arts lottery funding. Ownership of this collection will transfer to the council from the Contemporary Arts Society in 2014 although the council is required to accept the insurance risk at present.

The Epstein Archive consists of approximately 5,000 documents, photographs, audio visual material and books relating to the life and work of Sir Jacob Epstein, his family, the Garman family, and the Garman Ryan Collection. This archive has been purchased, bequeathed or donated to the council's New Art Gallery.

At any time 25% of the collections are on display. The remaining works are held in secure storage but access is given with advance notice to any person on request. The gallery reserves the right to refuse access if it is seen as a security or health and safety risk.

Further details of the art collections can be found on the New Art Gallery's website: www.thenewartgallerywalsall.org.uk.

Museum collections

The council's museum collections comprise the Hodson Shop collection, clothing collection, social and industrial collection and leather collection. These are held in Walsall Museum and the Leather Museum.

The Hodson Shop collection is a nationally significant collection of approximately 3,000 items of clothing and other household goods representative of stock in a general drapers shop. This collection is nationally significant due to it providing a detailed picture of the changing styles of working class clothing between 1918 and the 1950's. The council acquired this collection upon the death of Flora Hodson in 1983, when the unsold stock of the shop run by Flora Hodson and her sister was discovered.

The clothing collection (excluding the Hodson Shop collection) covers everyday clothing of the people of Walsall over the last 200 years, the oldest item being from c.1810 and the newest from 2006. There are approximately 2,500 items in this collection. The collection is intended to complement the Hodson Shop collection. These items have been acquired by donations and bequests.

The social and industrial history collection comprises a wide range of items. These include locks, old civic regalia, items relating to the canals, lorinery, items relating to nursing pioneer Sister Dora and writer Jerome K Jerome, military honours awarded to Walsall citizens and other items used or connected to the people of Walsall. These items have been acquired by donations and bequests in accordance with the council`s acquisitions and disposals policy

The leather collection contains items relating to Walsall's international leather trade. The items within this collection include saddles, horse tack, lorinery, leather working equipment, leather goods and other items connected to Walsall's leather trade. These items have been acquired by donations, purchase and bequests in accordance with the Council`s acquisitions and disposals policy.

At any one time 20% of the collections held are on display. The remaining items are held in secure storage but access is permitted to scholars and other appropriate persons for academic and research purposes. Further details of the museum collections can be found on the Walsall Council website: http://cms.walsall.gov.uk/index/libraries_museums_and_arts/museums.htm.

Civic regalia

The civic regalia consist of the mayoral insignia for the mayor and mayoress of Walsall. It also contains the chains of office for the former borough councils that were amalgamated into Walsall as a result of local government reorganisation: Darlaston, Willenhall, and Aldridge and Brownhills. The mayoral insignia are only used at formal mayoral events. Otherwise they are kept securely stored.

Heritage assets not held on balance sheet

The council holds a number of heritage assets off balance sheet due to not previously having values for these items. The council believes that the cost of obtaining valuations now for these assets will not match the potential benefit they will bring to the reader of these accounts. These assets are detailed below.

Local history archive

The local history archive is a depository for a wide range of records and material relating to the history of Walsall. They include council minutes, accounting records for local firms, chapel registers, census records, photographs and maps. The archive is housed within the local history centre. Further information is available on the local history centre's website: http://cms.walsall.gov.uk/index/libraries_museums_and_arts/museums/localhistorycentre.htm

Statues

The council has four statues around the borough. The first statue is a full figure bronze of nursing pioneer Sister Dora. This is located on The Bridge, Walsall. It was sculpted by F.J. Williamson and erected in 1886. It is reputed to be the first statute erected of a woman of non-royal blood in Britain.

The second statue is the plaster cast model of the Sister Dora bronze. This is currently located within Walsall's Manor Hospital on loan. It was gifted to the council in 1921 by the daughter of the original sculptor, F.J. Williamson.

The third statue is a bronze bust of John Henry Carless V.C. It is located in front of Walsall Museum and central library. John Carless was awarded the Victoria Cross following his actions on HMS Caledon at the Second Battle of Heligoland Bight. The bronze bust was paid for by public subscription and erected in 1920. His Victoria Cross and HMS Caledon's battle ensign are within the council's social and industrial museum collection.

The fourth statue is a concrete and pebble composite sculpture of St George and the Dragon. The sculpture was erected in 1959 and is located on St Lawrence Way, Darlaston.

War Memorials

The council has a number of war memorials around the borough. There are a number within the Council House, Walsall including one to the borough's three Victoria Cross holders, and other memorials to Walsall residents who lost their lives during various conflicts. There are also the

Cenotaph in Bradford Place, Walsall, and the War memorial in Victoria Park, Darlaston, which are both Grade II listed buildings. Other towns and villages within the borough also have their own war memorials.

Memorial clocks
The council has a number of memorial and town clocks around the borough. These include the pillar clock which is located on the Bridge, Walsall, Arboretum Memorial Clock, Walsall and the grade II listed Town Clock on Market Place, Willenhall.

Public art
Around the borough the council has over the years commissioned a number of public art works. These have been commissioned as a result of town regeneration projects. Notable examples of these art works include the Hippo, Water Fountain and Saddle on the Bridge, Walsall and the Miner, Brownhills.

Heritage assets of particular importance

Within the Garman Ryan collection there are some significant art works. In addition to having a large collection of Sir Jacob Epstein's work the collection contains a notable work by van Gogh. This work is deemed to be a masterclass in draughtsmanship and is insured for £1 million. There are also two notable pieces by Lucian Freud which are insured for £2.5 million and £1 million. The insurance value of this entire collection, as explained earlier, is £10.4 million.

Preservation and management

Art Gallery
The New Art Gallery Walsall has a rolling programme of major repair and restoration of its artifacts, this is prioritized through exhibition and display needs. The total cost of the conservation programme is £6,632 p.a. The cost of this programme is carried out using The New Art Gallery Walsall's core budgets.

The New Art Gallery Walsall is managed by the Head of Collections who reports to the Director of the Gallery reporting to the Head of Arts Libraries and Heritage and through to the Chief Executive. Regular reports are also received by the council's community services scrutiny committee. The Head of Collections manages the collections in accordance with SPECTRUM guidelines and with policies that are approved by the council. Further information on the New Art Gallery Walsall's policies is provided on the galleries website. www.thenewartgallerywalsall.org.uk

The acquisition and disposal policy sets out that the assets in the collections are only disposed of in accordance with SPECTRUM procedures on de-accession and disposal. The Authority accepts the principle that, except for sound curatorial reasons, there is a strong presumption against the disposal of any items in the gallery's collections.

Acquisitions are made in accordance with the acquisitions policy and average about 50 items a year.

Assets are collated, preserved and managed in accordance with the SPECTRUM guidelines. The register for its collections records the nature, provenance, condition and current location on each asset. The gallery collections are also available on line enabling public access to information about its assets, images of approximately 60% of these assets are available on line and there is an ongoing process to obtain copyright permission to enable more of these assets to be displayed on line. It is anticipated that images of approximately 85% of the collections will be on line in the next 5 years.

Museum

The condition of items in the museum collection is continuously monitored, with the emphasis being on preventive conservation through the control and management of the environment in which items are stored and displayed e.g. by controlling light levels and minimising the risk of damage through handling and moving. Excellent good housekeeping, for example the immediate removal of dust from exhibits and the prompt treatment of any outbreak of insect infestation is also critical. Such practices help to minimise the need for remedial conservation treatment which can be both expensive and controversial. Where regular monitoring indicates that a particular item might require conservation work, curators generally seek expert advice from qualified conservators eg specialist conservation staff at Birmingham Museum and Art Gallery, conservators at the Leather Conservation Centre in Northampton, or qualified freelance conservators. This work is funded from within revenue budgets.

The heritage collections within Walsall museums are managed by a team of qualified staff, all of whom hold post-graduate qualifications in museum studies. The Senior Museums Curator and Community History Curator both hold the Associateship of the Museums Association (AMA), the recognised professional body. The Senior Museums Curator reports to the Head of Libraries Arts and Heritage. He also meets quarterly with the three other heads of museum services from the Black Country (Wolverhampton, Dudley and Sandwell) at the "Black Country Heads of Service Forum", where issues relating to the collections held in the region are regularly discussed.

Collaborative working by the Forum has led to the establishing of the Black Country History website: http://blackcountryhistory.org/ Collections records of the bulk of Walsall`s collections are now accessible on this site, alongside a significant number of digitised images.

Both Walsall Museum and Walsall Leather Museum have undergone the process of museum accreditation. Both museums are fully accredited by the Arts Council MLA.

16. 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:

2011/12 £m		2012/13 £m
(0.175)	Rental income from investment properties	(0.175)
0.009	Direct operating expenses from investment properties generating rental income in period	0.009
0.000	Direct operating expenses from investment properties not generating income in period	0.000
(0.166)	**Net (gain)/loss**	**(0.166)**

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:

2011/12 £m		2012/13 £m
1.948	Balance at start of the year	1.839
	Additions	
0.000	Purchases	0.000
0.681	Subsequent capital expenditure	0.001
0.045	Other	0.000
0.000	Disposals	(0.001)
(0.835)	Net gains/(losses) from fair value adjustments	(0.124)
	Transfers	
0.000	(to)/from property, plant and equipment	0.000
0.000	Other changes	0.000
(0.109)	**Total movements in year**	**(0.124)**
1.839	**Balance at end of the year**	**1.715**

17. Intangible assets

The council accounts for its software licences as intangible assets, to the extent that the software is not an integral part of a particular information technology system and accounted for as part of the hardware item of property, plant and equipment. The intangible assets include purchased 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:

	Internally generated software	Other assets
3 years	None	None
5 years	None	Licences
10 years	None	None

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.347m charged to revenue in 2012/13 (£0.336m 2011/12) was charged to the IT administration cost centre and then absorbed as an overhead across all the service headings in the net cost of services.

The movement on intangible asset balances during the year is as follows:

2011/12 £m		2012/13 £m
	Balance at start of year	
1.102	- Gross carrying amounts	1.893
(0.580)	- accumulated amortisation	(0.916)
	Additions	
0.886	- purchase	0.102
0.000	Other disposals	0.000
0.000	Revaluation increases/ (decreases)	0.000
0.000	Impairment losses recognised or reversed directly to the revaluation reserve	0.000
(0.095)	Impairment losses recognised in the surplus/deficit on the provision of services	(0.049)
0.000	Reversals of past impairment losses written back to the surplus/deficit on the provision of services	0.000
(0.336)	Amortisation for the year	(0.347)
0.000	Other movements	0.000
0.455	**Total movements in the year**	**(0.294)**
0.977	**Net carrying amount at end of the year**	**0.683**
	Comprising:	
1.893	- Gross carrying amounts	1.946
(0.916)	- accumulated amortisation	(1.263)
0.977	**Net book value at 31 March**	**0.683**

A breakdown of the remaining useful lives for intangible assets is as follows:

	Carrying amount 31 March 2012 £m	Carrying amount 31 March 2013 £m	Remaining Amortisation Period 31 March 2013
Software licences	0.000	0.000	1 years
Software licences	0.088	0.013	2 years
Software licences	0.026	0.152	3 years
Software licences	0.228	0.475	4 years
Software licences	0.633	0.042	5 years
Data base licences	0.001	0.001	2 years
Data base licences	0.001	0.000	3 years
Total	**0.977**	**0.683**	

In accordance with IAS8 Accounting Policies, Changes in Accounting Estimates and Errors prior year comparatives have been updated for the above table. The total remains the same however the split of carrying amount to match the remaining amortisation periods changed.

18. Financial instruments

Categories of financial instruments

The following categories of financial instrument are carried in the balance sheet:

2011/12			2012/13	
Long term £m	Current £m		Long term £m	Current £m
		Investments		
15.294	122.732	Loans and receivables	14.182	124.582
19.334	0.000	Available for sale financial assets	19.334	0.000
34.628	**122.732**	**Total investments**	**33.516**	**124.582**
		Debtors		
9.696	0.000	Loans and receivables	10.158	0.000
0.000	41.043	Financial assets carried at contract amounts	0.000	48.029
9.696	**41.043**	**Total debtors**	**10.158**	**48.029**
		Borrowings		
(267.139)	(0.166)	Financial liabilities at amortised cost	(266.145)	(0.809)
(267.139)	**(0.166)**	**Total borrowings**	**(266.145)**	**(0.809)**
		Creditors		
0.000	0.000	Financial liabilities carried at amortised cost	0.000	0.000
0.000	(46.482)	Financial liabilities carried at contract cost	0.000	(51.350)
0.000	**(46.482)**	**Total creditors**	**0.000**	**(51.350)**

The loans and receivables investments consist of investments with commercial banks. Of the short term investments £120.702m consist of maturity investments and £3.880m are classed as cash equivalents (see note 21 page 69).

The available for sale assets consists of the council's share holding in Birmingham Airport Holdings Limited (BAH). The seven West Midlands local authorities own 49% of BAH's 320 million ordinary shares of £0.01 each. The council owns 4.88% (£17.776m) of these shares. The other shareholders are Airport Group Investments (48.35%) and an employee share trust (2.75%). In addition the seven West Midlands authorities own all £15.657m of BAH's 6.31% preference shares, of which Walsall Council owns £1.558m. These are cumulative and irredeemable.

The borrowing financial liabilities at amortised cost consist of Public Works Loan Board (PWLB) and commercial bank loans taken by the council. Further details can be found on page 66.

Income, expense, gains and losses

2011/12					2012/13			
Financial liabilities: measured at amortised cost £m	Financial assets: loans and receivables £m	Financial assets: available-for-sale assets £m	Total £m		Financial liabilities: measured at amortised cost £m	Financial assets: loans and receivables £m	Financial assets: available-for-sale assets £m	Total £m
(18.750)	0.000	0.000	(18.750)	Interest expense	(14.263)	0.000	0.000	(14.263)
(18.750)	**0.000**	**0.000**	**(18.750)**	**Total expense in surplus/deficit on the provision of services**	**(14.263)**	**0.000**	**0.000**	**(14.263)**
0.000	3.348	0.585	3.933	Interest income	0.000	3.977	0.758	4.735
0.000	**3.348**	**0.585**	**3.933**	**Total income in surplus/deficit on the provision of services**	**0.000**	**3.977**	**0.758**	**4.735**
0.000	0.000	2.078	2.078	Gains on revaluation	0.000	0.000	0.000	0.000
0.000	0.000	0.000	0.000	Losses on revaluation	0.000	0.000	0.000	0.000
0.000	**0.000**	**2.078**	**2.078**	**Surplus/ (deficit) arising on revaluation of financial assets in other comprehensive income and expenditure**	**0.000**	**0.000**	**0.000**	**0.000**
(18.750)	**3.348**	**2.663**	**(12.739)**	**Net gain/ (loss) in year**	**(14.263)**	**3.977**	**0.758**	**(9.528)**

Fair value of assets and liabilities

Financial liabilities and assets represented by loans and receivables and long-term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31 March 2013 of 4.08% to 4.44% for loans from the PWLB and 0.23% to 3.13% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are as follows:

2011/12			2012/13	
Carrying Amount £m	Fair Value £m		Carrying Amount £m	Fair Value £m
(116.487)	(153.934)	PWLB loans	(116.527)	(156.148)
(25.029)	(25.029)	Other local authority debt	(24.135)	(24.135)
(0.095)	(0.095)	Individuals	(0.092)	(0.092)
(122.166)	(131.926)	Private sector loans	(122.000)	(135.920)
(263.777)	**(310.984)**	**Financial liabilities**	**(262.754)**	**(316.295)**

The total fair value of the liabilities is higher than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2013) arising from a commitment to pay interest to lenders above current market rates.

2011/12			2012/13	
Carrying Amount £m	Fair Value £m		Carrying Amount £m	Fair Value £m
15.000	15.613	Long term investments	14.105	14.492
121.380	123.334	Short term investments	123.275	125.206
19.334	19.334	Available for sale financial assets	19.334	19.334
9.696	9.696	Long term debtors	10.158	10.158
165.410	**167.977**	**Financial assets**	**166.872**	**169.190**

The fair value of the assets is higher than the carrying amount because the council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. This shows a notional future gain (based on economic conditions at 31 March 2013) attributable to the commitment to receive interest above current market rates.

Available for sale assets are carried in the balance sheet at their fair value. The council's shareholding in Birmingham International Airport is not traded in an active market and fair value of £19.334 million has been based on valuation techniques that are not based on observable current market transactions or available market data. The valuation has been made based on an analysis of the assets and liabilities in the Company's latest audited accounts and an assessment of future trading prospects. If future valuations showed a 1% movement in the investment valuation then the fair value will be £0.193m higher or lower respectively.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

19. Inventories

This table shows the value of inventories held by the council to assist in the delivery of its services.

2012/13 actuals

	Disinfestation stores £m	Reprographics £m	Small tools and plant £m	Stationery £m	Trading operations £m	Miscellaneous £m	Total £m
Balance outstanding at the start of the year	0.012	0.020	0.006	0.004	0.136	0.524	**0.702**
Purchases	0.004	0.000	0.000	0.009	1.620	1.130	**2.763**
Recognised as expense during the year	(0.004)	0.000	0.001	(0.011)	(1.612)	(0.687)	**(2.313)**
Written off balances	0.000	(0.003)	0.000	(0.002)	0.000	(0.002)	**(0.007)**
Reversals of write-offs in previous years	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
Balance outstanding at year-end	**0.012**	**0.017**	**0.007**	**0.000**	**0.144**	**0.965**	**1.145**

2011/12 comparatives

	Disinfestation stores	Reprographics	Small tools and plant	Stationery	Trading operations	Miscellaneous	Total
	£m	£m	£m	£m	£m	£m	£m
Balance outstanding at the start of the year	0.010	0.020	0.005	0.006	0.156	0.290	**0.487**
Purchases	0.008	0.000	0.001	0.008	1.804	0.883	**2.704**
Recognised as expense during the year	(0.006)	0.000	0.000	(0.010)	(1.824)	(0.647)	**(2.487)**
Written off balances	0.000	0.000	0.000	0.000	0.000	(0.002)	**(0.002)**
Reversals of write-offs in previous years	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
Balance outstanding at year-end	**0.012**	**0.020**	**0.006**	**0.004**	**0.136**	**0.524**	**0.702**

20. Debtors

This table shows the amounts owed to the council for which payments have not been received by 31 March 2013, but which should be paid within one year.

2011/12 £m		2012/13 £m
1.347	Capital debtors	0.569
4.998	Central government bodies	8.611
0.333	Other local authorities	0.351
3.500	NHS bodies	3.177
0.004	Public corporations and trading funds	0.069
35.002	Other entities and individuals	42.040
45.184	**Total**	**54.817**
(12.092)	Provision for bad and doubtful debts	(13.663)
33.092	**Total**	**41.154**

Within other entities and individuals £1.355m (£1.306m in 2011/12) is included for property charges within social care. The council recognises that although these are correctly classified as debtors due within one year, events beyond the control of the council make it probable that a proportion of these will be settled beyond that timeframe.

Provision for bad and doubtful debts

The council makes provision for outstanding debt that it anticipates will not be recovered. The split of this provision is found in the following table.

2011/12 £m		2012/13 £m
(6.581)	Council Tax	(6.949)
0.000	NNDR	0.000
(5.511)	Other debtors	(6.714)
(12.092)	**Total**	**(13.663)**

21. Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following items:

2011/12 £m		2012/13 £m
0.051	Cash held by the council	0.050
(1.794)	Bank current accounts	(0.045)
2.130	Short term deposits	3.880
0.387	**Total**	**3.885**

22. Assets held for sale

The following table shows the movements and current balance within the assets held for sale account. These assets are for sale and actively being marketed by the council.

2011/12			2012/13	
Non-current £m	Current £m		Non-current £m	Current £m
0.000	**0.721**	**Balance outstanding at start of year**	**0.000**	**4.280**
		Assets newly classified as held for sale:		
0.000	11.917	Property, plant and equipment	0.000	1.899
		Assets de-classified as held for sale:		
0.000	0.000	Property, plant and equipment	0.000	(0.050)
		Revaluations and impairments		
0.000	(2.267)	Revaluation losses	0.000	(0.367)
0.000	0.006	Revaluation gains	0.000	0.000
0.000	(0.029)	Impairment losses	0.000	0.000
		Other movements		
0.000	(6.097)	Assets sold	0.000	(2.674)
0.000	0.029	Other movements	0.000	0.000
0.000	**4.280**	**Balance outstanding at year-end**	**0.000**	**3.088**

23. Creditors

This table shows the amounts owed by the council for which payments have not been paid by 31 March 2013, but which should be paid within one year.

2011/12 £m		2012/13 £m
(12.211)	Central government bodies	(7.642)
(2.825)	Other local authorities	(4.073)
(1.364)	NHS bodies	(2.108)
0.000	Public corporations and trading funds	0.000
(31.397)	Other entities and individuals	(37.401)
(2.739)	Capital creditors	(3.233)
(50.536)	**Total**	**(54.457)**

24. Provisions

The following table shows the movement during the year of the provisions maintained by the council. The movements will have been charged or generated from the appropriate headings in the net cost of services. These represent provisions for future expenses in respect of liabilities incurred in relation to the year under review.

	Back Pay £m	Section 117 £m	CRC Allowances £m	Insurance Fund £m	Pensions and Redundancy £m	Other £m	Total £m
Balance at 1 April 2012	(7.519)	(0.255)	(0.380)	(1.345)	(0.018)	(0.161)	**(9.678)**
Additional provisions made in 2012/13	(0.787)	0.000	(0.427)	(0.651)	(0.555)	(0.411)	**(2.831)**
Amounts used in 2012/13	2.035	0.000	0.391	1.073	0.016	0.060	**3.575**
Unused amounts reversed in 2012/13	0.000	0.255	0.000	0.000	0.000	0.006	**0.261**
Balance at 31 March 2013	**(6.271)**	**0.000**	**(0.416)**	**(0.923)**	**(0.557)**	**(0.506)**	**(8.673)**

Back pay

During 2012/13 Walsall continued to settle outstanding equal pay claims, based on a memorandum of understanding reached at the end of 2010/11. Negotiation with the legal representatives of 297 new equal pay claimants, who raised claims following the agreement of the existing memorandum of understanding, has been progressed to obtain greater clarity around the level of any liability and timing of payments. However, following recent legal rulings, there also still remains a risk of potential further equal pay claims.

In accordance with IAS37 Provisions, Contingent Liabilities and Contingent Assets the council has not disclosed an estimate of potential costs as at this stage this could seriously prejudice the position of the council should any liability accrue.

Section 117

Section 117 of the Mental Health Act 1983 applies to people who have been detained in hospital under Sections 3, 37, 45A, 47 or 48 of the Mental Health Act 1983. Under this section the health authority and social services have a duty to provide aftercare services until they are both satisfied that services are no longer required, at which point aftercare could cease. Historically the council would have charged for aftercare as part of normal charging procedures.

In July 1999 the High Court held that charges could not be made for aftercare services, including accommodation, provided under Section 117 of the Mental Health Act 1983. This judgement was upheld on appeal in July 2000.

The Local Government Ombudsman (LGO), in a special report in 2003, advised that people who have paid for Section 117 aftercare are entitled to restitution with interest, the council therefore set aside a provision toward funding the liability as part of previous years accounts.

However the Local Government Ombudsman (LGO) guidance also added that section 32(1) of the Limitation Act 1980 applies to such actions and a six-year time limit begins to run from the time when the mistake in law is established, therefore as this period has now passed, and the liability has ceased, the authority has now removed any remaining provision.

Carbon reduction commitment (CRC) allowances

2012/13 is the second year for which there is an obligation to purchase and surrender carbon reduction commitment (CRC) allowances in relation to carbon dioxide emissions. Following submission of an annual report on our emissions to Department of Energy and Climate Change, purchases and surrender of the allowances will take place between 2nd – 20th September 2013 in relation to 2012/13 emissions. A provision has been created of £0.416m for the expected costs of the allowances.

Insurance fund

The council has an established insurance fund to cover excesses on claims. These outstanding claims amount to £3.381m and are at various stages of being addressed and it is therefore unclear when settlement might be made. However, based on claim settlement profiles, projected settlements are estimated at £0.923m (£1.345m 2011/12) for which a provision is held to cover this.

Pensions and redundancy costs

The council has created an additional provision of £0.555m for pension and redundancy costs in relation to restructures undertaken during 2012/13. During 2012/13 £0.016m was charged against this provision with £0.557m carried forward to 2013/14 where it is expected that the remaining transfers of economic benefit will occur. The pension figures provided by the West Midlands Metropolitan Authorities Pension Fund and the redundancy costs are based on agreed and expected leaving dates for each officer.

Other

In addition to the above provisions the council holds £0.506m (£0.161m 2011/12) for other costs where the expected timing of any resultant transfer of economic benefit or future events cannot be accurately predicted.

The estimated timings for use of these provisions are shown in the following table.

	Back Pay £m	Section 117 £m	CRC Allowances £m	Insurance Fund £m	Pensions and Redundancy £m	Other £m	Total £m
Less than 1 year	(6.271)	0.000	(0.416)	0.000	(0.557)	(0.506)	**(7.750)**
1-2 years	0.000	0.000	0.000	(0.923)	0.000	0.000	**(0.923)**
2-5 years	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
5-10 years	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
10-15 years	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
Balance at 31 March 2013	**(6.271)**	**0.000**	**(0.416)**	**(0.923)**	**(0.557)**	**(0.506)**	**(8.673)**

25. Other long term liabilities

Other long term liabilities represent the outstanding liabilities greater than one year for finance leases and PFI contracts, and the net pension liability for the council.

2011/12 £m		2012/13 £m
(1.933)	Deferred liabilities - finance leases	(2.216)
(8.736)	Deferred liabilities - PFI	(8.035)
(397.246)	Net liability related to defined benefit pension scheme	(480.797)
(407.915)	**Total**	**(491.048)**

26. Usable reserves

Movements in the council's usable reserves can be found in the movement in reserves statement (page 20) and note 7 (page 45). Note 8 (page 49) shows the details for the council's earmarked reserves.

2011/12 £m		2012/13 £m
(14.159)	General fund reserve	(16.612)
(97.989)	Earmarked reserves	(115.010)
(32.194)	Capital grants unapplied account	(26.583)
(5.961)	Capital receipts reserve	(7.085)
(150.303)	**Total**	**(165.290)**

Capital grants unapplied account

The capital grants unapplied account shows the balance of capital grants the council has received but have not yet applied to finance capital expenditure.

2011/12 £m		2012/13 £m
(29.727)	Balance brought forward	(32.194)
(15.623)	Current year capital grants unapplied credited from comprehensive income and expenditure statement	(8.031)
13.156	Prior year capital grants applied against capital expenditure	13.638
0.000	Reclaim of grant in 2012/13	0.004
(32.194)	**Total**	**(26.583)**

Capital receipts reserve

The capital receipts reserve shows the available resources the council has from the sale of its assets to finance future capital expenditure without grants and loans.

2011/12 £m		2012/13 £m
(5.199)	Balance brought forward	(5.961)
(2.253)	Capital receipts received during the year	(5.221)
(0.100)	Capital receipts released from deferred capital receipts	(0.545)
1.561	Capital receipts applied against capital expenditure	4.625
0.030	Capital receipts paid to CLG for pooling of housing capital receipts	0.017
(5.961)	**Total**	**(7.085)**

27. Unusable reserves

Movements in the council's unusable reserves can be found in the movement in reserves statement (page 20) and note 7 (page 45).

2011/12 £m		2012/13 £m
(81.660)	Revaluation reserve	(88.387)
(12.629)	Available for sale financial instruments account	(12.629)
(85.776)	Capital adjustment account	(56.385)
0.010	Financial instruments adjustment account	0.051
(1.753)	Deferred capital receipts reserve	(1.566)
397.246	Pensions reserve	480.797
0.530	Collection fund adjustment account	0.254
6.186	Accumulated absences account	5.593
222.154	**Total**	**327.728**

Revaluation reserve

The revaluation reserve contains the gains made by the council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

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

The reserve 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 capital adjustment account.

2011/12 £m		£m	2012/13 £m
(55.486)	Balance at 1 April		(81.660)
(44.648)	Upward revaluation of assets	(19.890)	
12.293	Downward revaluation of assets and impairment losses not charged to the surplus/(deficit) on the provision of services	4.766	
2.035	Impairment losses or (reversals) on non-current assets charged to the revaluation reserve	1.584	
(30.320)	**(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or (deficit) on the provision of services**		**(13.540)**
1.197	Difference between fair value depreciation and historical cost depreciation	1.042	
2.949	Accumulated gains on assets sold or scrapped	5.771	
4.146	**Amount written off to the capital adjustment account**		**6.813**
(81.660)	**Balance at 31 March**		**(88.387)**

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

2011/12 £m		£m	2012/13 £m
(10.551)	Balance at 1 April		(12.629)
(2.078)	Upward revaluation of investments	0.000	
0.000	Downward revaluation of investments not charged to the surplus/deficit on the provision of services	0.000	
(2.078)			**0.000**
(12.629)	**Balance at 31 March**		**(12.629)**

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 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 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.

The following table details the balances and movements within the capital adjustment account.

2011/12 £m		£m	2012/13 £m
(137.976)	Balance at 1 April		(85.776)
	Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement		
25.323	Charges for depreciation and impairment of non-current assets	20.512	
27.758	Revaluation changes on property, plant and equipment	(4.325)	
0.431	Amortisation and impairment of intangible assets	0.396	
(1.439)	Revenue expenditure funded from capital under statute	9.551	
34.001	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	34.401	
86.074	**Net written out amount of the cost of non-current assets consumed in the year**		**60.535**
	Capital financing applied in the year		
(1.561)	Use of capital receipts reserve to finance new capital expenditure	(4.625)	
(5.224)	Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital expenditure	(3.491)	
(13.156)	Application of grants to capital financing from the capital grants unapplied account	(13.638)	
(14.107)	Statutory provision for the financing of capital investment charged against the general fund	(9.358)	
(0.616)	Capital expenditure charged against the general fund	(0.156)	
(34.664)	**Total financing applied to capital expenditure in the year**		**(31.268)**
0.790	Movement in the market value of investment properties debited or credited to the comprehensive income and expenditure statement		0.124
(85.776)	**Balance at 31 March**		**(56.385)**

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.

2011/12 £m		2012/13 £m	
		£m	£m
(0.031)	Balance at 1 April		0.010
0.010	Difference between implied interest within the loan agreement and actual interest chargeable under agreement	0.041	
0.031	Proportion of premiums incurred in previous financial years to be charged against the general fund balance in accordance with statutory requirements	0.000	
0.041	**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**		**0.041**
0.010	**Balance at 31 March**		**0.051**

Deferred capital receipts reserve

The deferred capital receipts reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve.

2011/12 £m		2012/13 £m
(1.758)	**Balance at 1 April**	(1.753)
0.000	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement	(0.040)
(0.095)	Deferred soft loan receipts	(0.325)
0.002	Release of deferred capital receipts to revenue as per regulations	0.007
0.098	Transfer to the capital receipts reserve upon receipt of cash	0.545
(1.753)	**Balance at 31 March**	**(1.566)**

Pensions reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. 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.

2011/12 £m		2012/13 £m
349.455	Balance at 1 April	397.246
51.084	Actuarial (gains) or losses on pensions assets and liabilities	81.381
18.981	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	25.829
(22.274)	Employer's pensions contributions and direct payments to pensioners payable in the year	(23.659)
397.246	**Balance at 31 March**	**480.797**

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.

2011/12 £m		2012/13 £m
0.627	**Balance at 1 April**	0.530
(0.097)	Amount by which council tax income credited to the comprehensive income and expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	(0.276)
0.530	**Balance at 31 March**	**0.254**

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, e.g. 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.

2011/12 £m		2012/13 £m
6.704	Balance at 1 April	6.186
(6.704)	Settlement or cancellation of accrual made at the end of the preceding year	(6.186)
6.186	Amounts accrued at the end of the current year	5.593
(0.518)	**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**	**(0.593)**
6.186	**Balance at 31 March**	**5.593**

28. Cash flow statement – adjustment for non-cash items in the net surplus/deficit on the provision of services

2011/12 £m		2012/13 £m
(26.520)	Depreciation	(21.554)
(27.758)	Impairments and revaluations	(1.446)
(0.431)	Amortisation	(0.396)
(4.282)	Increase/(decrease) in debtors	7.102
(0.041)	Increase/(decrease) in interest debtors	(0.262)
5.754	(Increase)/decrease in creditors	(3.700)
0.357	(Increase)/decrease in interest creditors	0.137
0.215	Increase/(decrease) in inventories	0.443
(3.293)	Movement in pension liability	2.170
(36.950)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(34.401)
17.061	Other non-cash items charged to the net surplus/deficit on the provision of services	(3.987)
(75.888)	**Total**	**(55.894)**

29. Cash flow statement – adjustments for investing and financing activities in the net surplus/deficit on the provision of services

2011/12 £m		2012/13 £m
43.109	Capital grants credited to surplus or deficit on the provision of services	27.769
(167.740)	Net adjustment from the sale of short and long term investments	(158.670)
(4.404)	Premiums or discounts on the repayment of financial liabilities	(0.120)
2.348	Proceeds from the sale of property plant and equipment, investment property and intangible assets	5.586
(126.687)	**Total**	**(125.435)**

30. Cash flow statement – operating activities

The cash flows for operating activities include the following items:

2011/12 £m		2012/13 £m
(4.194)	Interest received	(4.256)
19.575	Interest paid	14.740
(0.585)	Dividends received	(0.758)
14.796	**Total**	**9.726**

31. Cash flow statement – investing activities

2011/12 £m		2012/13 £m
51.194	Purchase of property, plant and equipment, investment property and intangible assets	25.507
181.065	Purchase of short-term and long-term investments	157.920
0.000	Other payments for investing activities	2.005
(2.353)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5.773)
0.000	Proceeds from short-term and long-term investments	0.000
(44.144)	Other receipts from investing activities	(28.552)
185.762	**Net cash flows from investing activities**	**151.107**

32. Cash flow statement – financing activities

2011/12 £m		2012/13 £m
4.156	Cash receipts of short- and long-term borrowing	(0.681)
0.000	Other receipts from financing activities	1.738
1.946	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	2.026
13.597	Repayments of short- and long-term borrowing	0.895
(0.215)	Other payments for financing activities	0.000
19.484	**Net cash flows from financing activities**	**3.978**

33. Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the comprehensive income and expenditure statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Cabinet on the basis of budget reports analysed across services. 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 functions is budgeted for centrally and not charged to services

Service income and expenditure as reported to management

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

Service income and expenditure 2012/13	Centrally held budgets £m	Childrens £m	Neighbourhood Services £m	Regeneration £m	Resources £m	Social Care & Inclusion £m	Total £m
Income							
Fees, charges and other service income	(4.998)	(14.022)	(28.855)	(26.003)	(32.020)	(41.833)	(147.731)
Government grants	(5.547)	(175.480)	(6.273)	(0.095)	(144.652)	(6.638)	(338.685)
Total Income	**(10.545)**	**(189.502)**	**(35.128)**	**(26.098)**	**(176.672)**	**(48.471)**	**(486.416)**
Expenditure							
Employee expenses	11.628	125.252	37.884	14.907	21.157	22.075	232.903
Other Service Expenses	11.776	112.670	52.918	24.039	156.919	91.971	450.293
Support Services Recharges	0.000	4.133	4.949	3.137	7.709	3.466	23.394
Total Expenditure	**23.404**	**242.055**	**95.751**	**42.083**	**185.785**	**117.512**	**706.590**
Transfer to/(from) reserves	18.380						18.380
Net expenditure	**31.239**	**52.553**	**60.623**	**15.985**	**9.113**	**69.041**	**238.554**

Service income and expenditure 2011/12 comparative figures	Centrally held budgets £m	Childrens £m	Neighbourhood Services £m	Regeneration £m	Resources £m	Social Care & Inclusion £m	Total £m
Income							
Fees, charges and other service income	(4.840)	(7.572)	(27.216)	(28.673)	(32.437)	(40.628)	(141.366)
Government grants	(4.525)	(235.059)	(8.319)	(2.792)	(139.015)	(6.671)	(396.381)
Total Income	**(9.365)**	**(242.631)**	**(35.535)**	**(31.465)**	**(171.452)**	**(47.299)**	**(537.747)**
Expenditure							
Employee expenses	16.153	146.071	35.985	15.353	15.860	21.048	250.470
Other Service Expenses	(11.731)	174.187	61.760	27.730	151.323	93.891	497.160
Support Services Recharges	0.000	3.819	5.743	3.052	7.533	3.965	24.112
Total Expenditure	**4.422**	**324.077**	**103.488**	**46.135**	**174.716**	**118.904**	**771.742**
Transfer to/(from) reserves	17.054	0.000	0.000	0.000	0.000	0.000	17.054
Net expenditure	**12.111**	**81.446**	**67.953**	**14.670**	**3.264**	**71.605**	**251.049**

Reconciliation of service income and expenditure to cost of services in the comprehensive income and expenditure statement

This reconciliation shows how the figures in the analysis of service income and expenditure relate to the amounts included in the comprehensive income and expenditure statement.

2011/12 £m		2012/13 £m
251.049	Costs of services in service analysis	238.554
(0.089)	Add amounts not reported to management	(0.054)
3.508	Remove amounts reported to management but not included in the comprehensive income and expenditure statement	19.520
(29.744)	Included below net cost of services in the comprehensive income and expenditure account	(51.667)
2.418	Allocation of recharges	0.028
227.142	**Net cost of services in comprehensive income and expenditure statement**	**206.381**

Reconciliation to subjective analysis

This reconciliation shows how the figures in the analysis of service income and expenditure relate to a subjective analysis of the surplus or (deficit) on the provision of services included in the comprehensive income and expenditure statement.

2012/13	Service Analysis £m	Not reported to management £m	Not included in I&E £m	Included below Net Cost of Services in Comprehensive Income and Expenditure Account £m	Allocation of recharges £m	Net cost of services £m	Corporate amounts £m	Total £m
Expenditure								
Employee services	232.903	0.000	1.558	(23.604)	0.000	210.857	9.831	220.688
Other service expenditure	403.501	0.000	46.460	(21.404)	(26.943)	401.614	2.960	404.574
Support service recharges	23.395	0.000	0.000	0.000	(23.386)	0.009	0.095	0.104
Depreciation/amortisation/ impairment	17.492	(0.054)	0.000	0.000	0.000	17.438	0.311	17.749
Interest payments	14.947	0.000	0.000	(14.947)	0.000	0.000	56.924	56.924
Precepts and levies	14.352	0.000	0.000	(14.352)	0.000	0.000	14.352	14.352
Payments to housing capital receipts pool	0.000	0.000	0.000	0.000	0.000	0.000	0.017	0.017
Gain or loss on disposal of fixed assets	0.000	0.000	0.000	0.000	0.000	0.000	34.911	34.911
Total expenditure	**706.590**	**(0.054)**	**48.018**	**(74.307)**	**(50.329)**	**629.918**	**119.401**	**749.319**
Income								
Fees, charges and service income	(142.748)	0.000	(10.022)	9.709	50.357	(92.704)	(11.732)	(104.436)
Interest and investment income	(4.983)	0.000	0.000	4.940	0.000	(0.043)	(33.268)	(33.311)
Income from Council Tax	0.000	0.000	0.000	0.000	0.000	0.000	(109.522)	(109.522)
Government grants and contributions	(338.685)	(0.096)	0.000	7.991	0.000	(330.790)	(148.514)	(479.304)
Total income	**(486.416)**	**(0.096)**	**(10.022)**	**22.640**	**50.357**	**(423.537)**	**(303.036)**	**(726.573)**
Transfer to / (from) reserves	18.380	0.096	(18.476)	0.000	0.000	0.000	0.000	0.000
Surplus or deficit on the provision of services	**238.554**	**(0.054)**	**19.520**	**(51.667)**	**0.028**	**206.381**	**(183.635)**	**22.746**

2011/12 comparative figures	Service Analysis £m	Not reported to management £m	Not included in I&E £m	Included below Net Cost of Services in Comprehensive Income and Expenditure Account £m	Allocation of recharges £m	Net cost of services £m	Corporate amounts £m	Total £m
Expenditure								
Employee services	250.470	0.000	3.293	(32.647)	0.000	221.116	2.340	223.456
Other service expenditure	427.054	(0.089)	38.116	(46.908)	(24.552)	393.621	9.170	402.791
Support service recharges	24.112	0.000	0.000	0.000	(24.112)	0.000	0.000	0.000
Depreciation/amortisation/ impairment	55.478	0.000	0.000	0.000	0.000	55.478	0.022	55.500
Interest payments	0.000	0.000	0.000	0.000	0.000	0.000	63.640	63.640
Precepts and levies	14.628	0.000	0.000	(14.628)	0.000	0.000	14.628	14.628
Payments to housing capital receipts pool	0.000	0.000	0.000	0.000	0.000	0.000	0.030	0.030
Gain or loss on disposal of fixed assets	0.000	0.000	0.000	0.000	0.000	0.000	34.698	34.698
Total expenditure	**771.742**	**(0.089)**	**41.409**	**(94.183)**	**(48.664)**	**670.215**	**124.528**	**794.743**
Income								
Fees, charges and service income	(137.346)	0.000	(20.847)	32.203	51.082	(74.908)	(11.043)	(85.951)
Interest and investment income	(4.020)	0.000	0.000	4.020	0.000	0.000	(36.291)	(36.291)
Income from Council Tax	0.000	0.000	0.000	0.000	0.000	0.000	(109.079)	(109.079)
Government grants and contributions	(396.381)	0.000	0.000	28.216	0.000	(368.165)	(164.015)	(532.180)
Total income	**(537.747)**	**0.000**	**(20.847)**	**64.439**	**51.082**	**(443.073)**	**(320.428)**	**(763.501)**
Transfer to / (from) reserves	17.054	0.000	(17.054)	0.000	0.000	0.000	0.000	0.000
Surplus or deficit on the provision of services	**251.049**	**(0.089)**	**3.508**	**(29.744)**	**2.418**	**227.142**	**(195.900)**	**31.242**

34. Trading operations

The council has established 4 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the council or other organisations. Details are as follows:

2011/12		2012/13		
Total £m		Expenditure £m	Income £m	Total £m
0.438	Catering	4.346	(3.523)	0.823
(0.170)	Cleaning and caretaking	5.035	(4.859)	0.176
0.036	Markets	1.006	(0.779)	0.227
0.352	Internal support services	2.405	(1.957)	0.448
0.656		**12.792**	**(11.118)**	**1.674**

Trading operations are incorporated into the comprehensive income and expenditure statement. The net expenditure of these operations is charged as financing and investment income and expenditure (see note 10).

The council provides services to schools under the traded services agreement. Services provided are cleaning, caretaking, human resources, legal services, finance support, property services, recruitment services, sports and leisure services and wellbeing. Typically a range of pricing options are available for schools to make their desired choice.

Catering provide school meals to 64 schools within the borough and other catering needs including breakfasts, mid morning break, wrap around for children's centres. Catering also run the Town Hall Restaurant which provides a service to the general public. From this facility Catering also provide a catering service to the council including refreshments, buffets and civic functions.

The objective of the catering service is to provide a school lunch service to all schools within the borough which meets the needs of the students, their parents and the Governors of the school at a reasonable price whilst meeting the Government's objectives to improve the health and wellbeing of young people and assist in their educational attainment by complying with the School Food Trust Nutritional and Food Based Standards.

Cleaning services provide a full cleaning service to internal and external customers of Walsall Council, ranging from domestic to specialist cleaning. Tailor made packages are available to suit customer requirements and budgets. All work is fully insured and they offer extensive experience, care and attention to detail when working with organisations to achieve high standards of cleanliness. Employees are fully trained, motivated and committed to providing a hygienic and safe environment for customers and visitors and they are treated with the utmost priority.

Caretaking services provide a caretaking service to internal and external customers of Walsall Council. They currently provide caretaking services to education and non education buildings including civic buildings, libraries, and museums. They have a large, experienced workforce and offer a professional service offering flexible solutions to tasks including, premise maintenance and security. They also provide a relief service to cover all eventualities including absence cover.

Markets provide facilities for successful markets within the borough of Walsall. The service aims to ensure a suitable quality and variety of goods is available for sale to the general public.

The internal support services represent traded services to schools and print and design services. Internal support services 'Print and Design' provides a comprehensive, design, print production, finishing and delivery service to Walsall Council and its partners. The service works with customers to understand their needs and objectives so that the best design and print solution for their needs and those of their stakeholders can be provided.

35. Agency services

The council provides payroll services to a number of services involving the payment of £47.957m in employee costs and salaries and £3.769m to Her Majesty's Revenue and Customs. Each employer pays a management fee based on the number of payslips processed. Details of the breakdown are shown in the following table.

2011/12				2012/13		
Payment for employees £m	Payment to HMRC £m	Payroll Charge £m		Payment for employees £m	Payment to HMRC £m	Payroll Charge £m
0.840	0.178	0.004	Black Country School Improvement Partnership	0.758	0.153	0.004
0.000	0.000	0.000	Blue Coat CE PA Specialist College	1.836	0.000	0.006
0.261	0.068	0.001	Chuckery TMO	0.284	0.000	0.001
0.000	0.000	0.000	Croft Community Primary	0.359	0.000	0.002
0.916	0.227	0.003	Joseph Leckie Academy	5.611	0.000	0.019
0.000	0.000	0.000	Jubliee Academy Mossley	0.577	0.000	0.003
0.187	0.046	0.001	Leamore TMO	0.196	0.000	0.001
0.781	0.153	0.004	Manor Primary	0.731	0.155	0.001
0.000	0.000	0.000	Pool Hayes Community School	5.042	0.000	0.020
1.332	0.295	0.006	Ryders Hayes Academy	1.379	0.000	0.006
0.000	0.000	0.000	Rough Hay Primary Academy	0.201	0.000	0.001
0.208	0.044	0.001	Sandbank TMO	0.216	0.000	0.001
5.588	1.300	0.009	Streetly School	5.569	0.000	0.009
0.252	0.049	0.000	Elections	0.292	0.055	0.000
0.119	0.013	0.000	Extra Care	0.123	0.012	0.000
1.386	0.326	0.005	Mirus Academy	5.454	0.000	0.021
0.248	0.069	0.001	New Horizons Community Enterprise	0.000	0.000	0.000
2.155	0.588	0.007	Steps to Work	2.132	0.496	0.005
1.475	0.361	0.005	Walsall e-ACT Academy	0.000	0.000	0.000
6.031	1.320	0.020	St Thomas More School	6.358	1.482	0.020
0.000	0.000	0.000	West Walsall Academy	2.548	0.000	0.008
0.000	0.000	0.000	Willenhall e-ACT Academy	5.979	1.416	0.019
0.000	0.000	0.000	Woodland Academy	0.957	0.000	0.006
1.060	0.267	0.002	WATMOS	1.355	0.000	0.002
20.623	5.036	0.042	Walsall Housing Group	0.000	0.000	0.000
5.561	2.777	0.020	Starting Point recruitment	0.000	0.000	0.000
49.023	**13.117**	**0.131**		**47.957**	**3.769**	**0.155**

36. Pooled budgets

The council, in association with NHS Walsall, has established both an integrated health and social care service for adults with learning disabilities, and an integrated community equipment service with pooled fund arrangements. The agreement for the integrated health and social care service for adults with learning disabilities sets out that the council contributes 72.10% and NHS Walsall 27.90% to the fund. The agreement for the integrated community equipment service sets out that the council contributes 59% and NHS Walsall 41% to the fund. These same proportions are used to meet any deficit or share any surplus arising on the pooled budget at the end of each year.

2011/12 Total £m	Pooled fund memorandum account – integrated health & social care for adults with learning difficulties	2012/13 Cash £m	2012/13 Grant £m	2012/13 Total £m
	Expenditure			
0.773	Integrated team	0.788	0.000	0.788
10.706	Community support	11.498	0.000	11.498
2.657	Day care	2.112	0.000	2.112
12.493	Residential & Nursing	4.053	6.638	10.691
0.390	Supported employment	0.613	0.000	0.613
2.700	Management & administration	2.106	0.000	2.106
3.422	NHS Provider Contract	3.329	0.000	3.329
33.141		**24.499**	**6.638**	**31.137**
	Gross funding			
(8.689)	NHS Walsall	(8.689)	0.000	(8.689)
(21.467)	Walsall Council	(11.983)	(6.638)	(18.621)
(30.156)		**(20.672)**	**(6.638)**	**(27.310)**
2.985	**Net over/(under) spend**	**3.827**	**0.000**	**3.827**
	Allocation of over/(under) spend			
0.833	NHS Walsall			1.068
2.152	Walsall Council			2.759
2.985				**3.827**

2011/12 Total £m	Pooled fund memorandum account – integrated community equipment service	2012/13 Cash £m	2012/13 Grant £m	2012/13 Total £m
	Expenditure			
0.367	Staffing costs	0.372	0.000	0.372
0.095	Premises/facilities/transport	0.118	0.000	0.118
0.925	Equipment – Walsall Council	0.903	0.000	0.903
1.387		**1.393**	**0.000**	**1.393**
	Gross funding			
(0.568)	NHS Walsall	(0.568)	0.000	(0.568)
(0.824)	Walsall Council	(0.824)	0.000	(0.824)
(1.392)		**(1.392)**	**0.000**	**(1.392)**
(0.005)	**Net over/(under) spend**	**0.001**	**0.000**	**0.001**
	Allocation of over/(under) spend			
(0.002)	NHS Walsall			0.000
(0.003)	Walsall Council			0.001
(0.005)				**0.001**

It was agreed by the Assistive Equipment and Telehealthcare Board to carry forward the underspend from 2011/12 of the integrated community equipment service into 2012/13. Therefore, the carry forward has been implemented in the accounts of Walsall Healthcare NHS Trust.

37. Members allowances

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

2011/12 £m		2012/13 £m
0.705	Basic allowances	0.704
0.184	Special responsibility	0.183
0.889	**Total**	**0.887**

38. Officers' remuneration

The remuneration paid to the council's senior employees was as follows:

		Salary, fees and allowances £	Bonuses £	Expenses allowances £	Compensation for loss of office £	Pension contribution £	Total £
Chief Executive (Paul Sheehan)	2012/13	189,533	0	1,297	0	22,175	**213,005**
	2011/12	189,533	10,860	1,263	0	23,446	**225,102**
Executive Director - Resources	2012/13	114,328	0	2,680	0	13,689	**130,697**
	2011/12	114,328	7,431	2,681	0	14,558	**138,998**
Executive Director - Children's Services (1)	2012/13	66,691	0	1,558	100	7,985	**76,334**
	2011/12	114,328	5,739	2,670	0	14,360	**137,097**
Interim Executive Director - Children's Services (2)	2012/13	120,289	0	0	0	0	**120,289**
	2011/12	0	0	0	0	0	**0**
Executive Director - Social Care (1)	2012/13	114,328	0	2,570	0	13,689	**130,587**
	2011/12	114,328	6,002	8,720	0	14,391	**143,441**
Interim Executive Director - Social Care (2)	2012/13	29,021	0	0	0	0	**29,021**
	2011/12	0	0	0	0	0	**0**
Executive Director - Neighbourhood Services	2012/13	114,328	0	2,745	0	13,689	**130,762**
	2011/12	114,328	7,431	2,703	0	14,558	**139,020**
Executive Director - Regeneration Services	2012/13	114,328	0	2,682	0	13,689	**130,699**
	2011/12	114,328	9,146	2,670	0	14,759	**140,903**
Assistant Director - Finance - Section 151 officer	2012/13	90,086	0	23		10,540	**100,649**
	2011/12	90,086	7,772	26	0	11,449	**109,333**
Assistant Director - Law & Constitutional Services - Monitoring Officer (1)	2012/13	0	0	0	0	0	**0**
	2011/12	953	0	48	131,669	112	**132,782**
Acting Head of Legal and Democratic Services - Monitoring Officer (2)	2012/13	0	0	0	0	0	**0**
	2011/12	19,091	0	0	0	2,234	**21,325**
Head of Legal and Democratic Services - Monitoring Officer (2)	2012/13	85,751	0	26	0	10,033	**95,810**
	2011/12	53,655	0	4	0	6,278	**59,937**

Please note there is only one post of Executive Director Childrens Services, however due to changes this post was occupied by 2 individuals during the 2012/13 financial year:

- Executive Director – Childrens Services (1) covered the period 01.04.12 to 31.10.12
- Interim Executive Director – Childrens Services (2) covered the period 15.10.12 to 31.03.13 –no on costs applied due to being consultant

Please note there is only one post of Executive Director Social Care, however the post was occupied by 2 individuals during the 2012/13 financial year:

- Executive Director – Social Care (1) covered the period 01.04.12 to 31.03.13
- Interim Executive Director – Social Care (2) covered the period 04.02.13 to 31.03.13

Please note that there is only one post for Assistant Director – Law and Constitutional Services redefined as Head of Legal and Democratic Services. Due to changes this post was occupied by 2 individuals during the financial years 2011/12 and 2012/13.

- Assistant Director – Law and Constitutional Services – Monitoring Officer (1) covered the period 01.04.11 to 04.04.11
- Acting Head of Legal and Democratic Services – Monitoring Officer (2) covered the period 13.04.11 to 31.03.12 excluding the period 13.07.12 to 07.08.12 inclusive, and then for the whole 2012/13 financial year.

Other council employees who receive more than £50,000 remuneration (excluding pension contributions) during the year are shown in the following tables. Teachers have been split into two categories due to their employment status. Teachers at community and voluntary controlled (VC) schools are directly employed by the council. Teachers at foundation and voluntary aided (VA) schools are employed by the governing body of the school, and as such are not direct employees of the council.

Remuneration band	2012/13 post numbers			
	Council officers	Teachers - community/ VC schools	Teachers - foundation/ VA schools	Total
£50,000 - £54,999	23	27	11	**61**
£55,000 - £59,999	11	26	12	**49**
£60,000 - £64,999	10	16	9	**35**
£65,000 - £69,999	7	10	5	**22**
£70,000 - £74,999	21	4	0	**25**
£75,000 - £79,999	1	1	1	**3**
£80,000 - £84,999	3	0	1	**4**
£85,000 - £89,999	2	1	0	**3**
£90,000 - £94,999	1	0	1	**2**
£95,000 - £99,999	0	0	0	**0**
£100,000 - £104,999	0	1	1	**2**
£105,000 - £109,999	0	0	1	**1**
£110,000 - £114,999	0	0	0	**0**
£115,000 - £119,999	0	0	0	**0**
£120,000 - £124,999	0	0	0	**0**
Total	**79**	**86**	**42**	**207**

Remuneration band	2011/12 comparative post numbers			
	Council officers	Teachers - community/ VC schools	Teachers - foundation/ VA schools	Total
£50,000 - £54,999	26	31	19	**76**
£55,000 - £59,999	10	36	13	**59**
£60,000 - £64,999	5	21	8	**34**
£65,000 - £69,999	5	17	3	**25**
£70,000 - £74,999	18	6	0	**24**
£75,000 - £79,999	4	2	0	**6**
£80,000 - £84,999	4	3	0	**7**
£85,000 - £89,999	0	0	1	**1**
£90,000 - £94,999	1	1	1	**3**
£95,000 - £99,999	1	0	0	**1**
£100,000 - £104,999	0	0	2	**2**
£105,000 - £109,999	0	0	1	**1**
£110,000 - £114,999	0	0	0	**0**
£115,000 - £119,999	0	0	0	**0**
£120,000 - £124,999	0	1	0	**1**
Total	**74**	**118**	**48**	**240**

In accordance with IAS8 Accounting Policies, Changes in Accounting Estimates and Errors prior year comparatives have been updated for the above table.

39. Termination benefits

The council terminated the contracts of a number of employees in 2012/13, incurring liabilities of £2.958m (£1.838m in 2011/12). Included within these amounts are payments for various school based staff and council employees.

40. Exit packages

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the following table.

Exit Package cost band (including special payments) £	Number of Compulsary Redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12 £m	2012/13 £m
0 - 20,000	39	33	56	188	95	221	0.635	1.231
20,001 - 40,000	5	-	18	38	23	38	0.628	0.988
40,001 - 60,000	2	-	4	11	6	11	0.307	0.530
60,001 - 80,000	-	-	3	7	3	7	0.195	0.452
80,001 - 100,000	1	-	2	2	3	2	0.264	0.178
Total	**47**	**33**	**83**	**246**	**130**	**279**	**2.029**	**3.379**

41. Pension scheme accounted for as defined contribution

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 2012/13, the council paid £8.027m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/12 were £10.882m 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 42.

42. Defined benefit pension schemes

Participation within 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 necessary at the time that employees earn their future entitlement.

The council participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Wolverhampton City Council – 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
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due

Transactions relating to post employment benefits

We recognise 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 we are 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.

2011/12				2012/13		
Local Government Pension Scheme		Unfunded teachers		Local Government Pension Scheme		Unfunded teachers
Funded £m	Unfunded £m	£m		Funded £m	Unfunded £m	£m
			<u>Comprehensive income and expenditure statement</u>			
			<u>Cost of service:</u>			
16.243	0.000	0.000	Current service cost	17.609	0.000	0.000
0.128	0.000	0.000	Past service costs	0.178	0.000	0.000
(10.867)	0.000	0.608	Settlements and curtailments	(5.954)	0.000	0.221
			<u>Financing and investment income and expenditure:</u>			
42.116	1.504	0.802	Interest cost (Note 10)	40.270	1.341	0.710
(31.553)	0.000	0.000	Expected return on scheme assets (Note 10)	(28.546)	0.000	0.000
16.067	**1.504**	**1.410**	**Total post employment benefit charged to the surplus or deficit on the provision of services**	**23.557**	**1.341**	**0.931**
			<u>Other post employment benefit charged to the comprehensive income and expenditure statement</u>			
49.929	0.637	0.518	Actuarial (gains) and losses	77.124	2.182	2.075
65.996	**2.141**	**1.928**	**Total post employment benefit charged to the comprehensive income and expenditure statement**	**100.681**	**3.523**	**3.006**
			<u>Movement in reserves statement</u>			
2.803	0.570	(0.080)	Reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the Code	(3.433)	0.826	0.436
			Actual amount charged against the general fund balance for pensions in the year:			
18.870			Employers' contributions payable to scheme	20.124		
	2.074	1.330	Retirement benefits payable to pensioners		2.167	1.367

The past service costs on the local government scheme consist of costs due to early retirements within the year.

The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement to the 31 March 2013 is a loss of £268.299m (£186.918m in 2011/12).

Assets and liabilities in relation to post employment benefits

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

2011/12				2012/13		
Local Government Pension Scheme		Unfunded teachers		Local Government Pension Scheme		Unfunded teachers
Funded £m	Unfunded £m	£m		Funded £m	Unfunded £m	£m
(777.248)	(28.377)	(15.519)	Opening balance at 1 April	(828.903)	(28.444)	(16.117)
(16.243)	0.000	0.000	Current service cost	(17.609)	0.000	0.000
(42.116)	(1.504)	(0.802)	Interest cost	(40.270)	(1.341)	(0.710)
(6.282)	0.000	0.000	Contributions by scheme participants	(6.149)	0.000	0.000
(28.619)	(0.637)	(0.518)	Actuarial gains and (losses)	(106.761)	(2.182)	(2.075)
27.937	2.074	1.330	Benefits paid	29.806	2.167	1.367
(0.128)	0.000	0.000	Past service costs	(0.178)	0.000	0.000
0.000	0.000	0.000	Entity combinations	0.000	0.000	0.000
15.562	0.000	0.000	Settlements	7.857	0.000	0.000
(1.766)	0.000	(0.608)	Curtailments	(0.608)	0.000	(0.221)
(828.903)	**(28.444)**	**(16.117)**	**Closing balance at 31 March**	**(962.815)**	**(29.800)**	**(17.756)**

Reconciliation of fair value of the scheme assets:

Local Government Pension Scheme 2011/12 £m		Local Government Pension Scheme 2012/13 £m
471.690	Opening balance at 1 April	476.219
31.553	Expected rate of return	28.545
(21.310)	Actuarial gains and (losses)	29.637
20.944	Employer contributions	22.292
6.282	Contributions by scheme participants	6.149
(30.011)	Benefits paid	(31.973)
0.000	Entity combinations	0.000
(2.929)	Settlements	(1.295)
476.219	**Closing balance at 31 March**	**529.574**

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 £58.183m (2011/12 £10.244m).

Scheme history

	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m
Present value of liabilities:					
Funded LGPS	(590.286)	(816.332)	(777.248)	(828.903)	(962.815)
Unfunded LGPS	(28.393)	(33.882)	(28.377)	(28.444)	(29.800)
Unfunded teachers	(12.528)	(14.514)	(15.519)	(16.117)	(17.756)
Total present value of scheme liabilities	**(631.207)**	**(864.728)**	**(821.144)**	**(873.464)**	**(1,010.371)**
Fair value of assets in the Local Government Pension Scheme	**363.102**	**472.332**	**471.690**	**476.219**	**529.574**
Surplus/(deficit) in the scheme:					
Funded LGPS	(227.184)	(344.000)	(305.558)	(352.684)	(433.241)
Unfunded LGPS	(28.393)	(33.882)	(28.377)	(28.444)	(29.800)
Unfunded teachers	(12.528)	(14.514)	(15.519)	(16.117)	(17.756)
Total	**(268.105)**	**(392.396)**	**(349.454)**	**(397.245)**	**(480.797)**

The liabilities show the underlying commitments that the council has in the long term to pay retirement benefits. The total liability of £480.797m has a substantial impact on the net worth of the council. It reduces the overall net worth to -£162.438m. However statutory arrangements for funding the deficit means that the financial position of the council remains healthy:

- The deficit on the West Midlands Metropolitan Authorities Pension Fund will be made good by increasing employer contributions over the remaining working life of employees, as assessed by the scheme actuary on a triennial basis
- Finance is only required to be raised to cover the unfunded teachers' pensions when the pensions are actually paid.

Employee contributions were amended from 1 April 2011, and employer contributions also increase annually to ensure adequate funding of future pension liabilities given the increase in life expectancies.

The total contributions expected to be made to the West Midlands Metropolitan Authorities Pension Fund in 2013/14 by the council is £21.771m.

Basis for estimating assets and liabilities

Liabilities for both the West Midlands Metropolitan Authorities Pension Fund and the unfunded teachers' pension costs have been assessed by Mercer Limited, an independent firm of actuaries. The assessment has been on an actuarial basis using the projected unit method, an estimate of the pensions that will have to be paid in the future, using mortality rates, salary levels etc. The estimates for the West Midlands Metropolitan Authorities Pension Fund have been based on the latest full valuation of the scheme as at 31 March 2010.

The investment return used in calculating the year end pension scheme assets is 12.30% (2.23% in 2011/12). Consistent with the prior year, this has been calculated from the actual investment return for the ten months to 31 January 2013, multiplied by the market index returns for the two months to 31 March 2013, less an allowance for expenses.

The following actuarial assumptions have been made:

	Local Government Pension Scheme				Unfunded teachers pensions	
	Funded		Unfunded			
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
Long-term expected rate of return on assets in the scheme:						
Equity investments	7%	7%	n/a	n/a	n/a	n/a
Government bonds	3%	3%	n/a	n/a	n/a	n/a
Other bonds	4%	4%	n/a	n/a	n/a	n/a
Property	6%	6%	n/a	n/a	n/a	n/a
Cash/liquidity	1%	1%	n/a	n/a	n/a	n/a
Other	7%	7%	n/a	n/a	n/a	n/a
Expenses deduction	0%	0%	n/a	n/a	n/a	n/a
Mortality assumptions:						
Longevity at 65 for current pensioners:						
- Men	21.7	22.1	21.7	22.1	21.7	22.1
- Women	24.3	24.8	24.3	24.8	24.3	24.8
Longevity at 65 for future pensioners:						
- Men	23.10	23.90	n/a	n/a	n/a	n/a
- Women	25.90	26.70	n/a	n/a	n/a	n/a
Rate of inflation	2.50%	2.40%	2.50%	2.40%	2.30%	2.40%
Rate of increase in salaries	4.25%	4.15%	n/a	n/a	n/a	n/a
Rate of increase in pensions	2.50%	2.40%	2.50%	2.40%	2.30%	2.40%
Rate for discounting scheme liabilities	4.90%	4.20%	4.90%	4.20%	4.60%	3.70%
Take-up of option to convert annual pension into retirement lump sum	50%	50%	n/a	n/a	n/a	n/a

The unfunded pensions 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:

	2011/12 %	2011/12 £m		2012/13 %	2012/13 £m
Equity investments	54.80%	260.968		42.10%	222.949
Government bonds	10.50%	50.003		9.00%	47.662
Other bonds	8.20%	39.050		12.00%	63.549
Property	10.00%	47.622		9.00%	47.662
Cash/liquidity	1.40%	6.667		2.20%	11.651
Other	15.10%	71.909		25.70%	136.101
	100.00%	**476.219**		**100.00%**	**529.574**

History of experience gains and losses

The actuarial gains and (losses) identified as movements on the pensions reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2008/09 %	2009/10 %	2010/11 %	2011/12 %	2012/13 %
Differences between the expected and actual return on assets					
West Midlands Authorities Pension Fund	(33.4)	18.7	(7.4)	(4.5)	5.6
Experience gains and (losses) on liabilities					
West Midlands Authorities Pension Fund	0.0	0.0	3.8	0.0	0.0
Unfunded teachers pensions	0.0	0.0	(13.1)	0.0	0.0

43. 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:

2011/12 £m		2012/13 £m
0.315	Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	0.189
0.052	Fees payable to Grant Thornton for the certification of grant claims and returns for the year	0.030
0.000	Fees payable in respect of other services provided by Grant Thornton during the year	0.000
0.367	**Total**	**0.219**

44. Dedicated schools grant

The council's expenditure on schools is funded by the Dedicated Schools Grant (DSG), provided by the Department for Education. DSG is ring-fenced and can only be applied to meet eligible expenditure included in the schools budget. The schools budget includes elements for a restricted range of services provided on a council wide basis and the Individual Schools Budget (ISB), which is divided into budget shares for each school. Over and under spends on the two elements are required to be accounted for separately. The council has not supplemented the schools budget from its own resources this year.

Details of the deployment of DSG receivable for 2012/13 which has been deployed in accordance with the Schools Standard and Framework Act (1998 14) are shown in the following table:

2011/12			Dedicated Schools Grant (DSG)	2012/13		
Central Expenditure	ISB	Total		Central Expenditure	ISB	Total
£m	£m	£m		£m	£m	£m
(18.144)	(198.739)	(216.883)	Final DSG for year before Academy recoupment	(15.925)	(201.485)	(217.410)
0.343	32.687	33.030	Academy figure recouped	1.205	69.093	70.298
(17.801)	**(166.052)**	**(183.853)**	**Total DSG after Academy recoupment**	**(14.720)**	**(132.392)**	**(147.112)**
(0.476)	0.000	(0.476)	Plus brought forward from previous year	(2.911)	(1.176)	(4.087)
0.000	0.000	0.000	Less carry forward to next year agreed In advance	0.000	0.000	0.000
(18.277)	**(166.052)**	**(184.329)**	**Agreed initial budgeted distribution in year**	**(17.631)**	**(133.568)**	**(151.199)**
0.000	0.000	0.000	In Year adjustments	0.000	0.000	0.000
(18.277)	**(166.052)**	**(184.329)**	**Agreed final budgeted distribution in year**	**(17.631)**	**(133.568)**	**(151.199)**
14.190	0.000	14.190	Less actual central expenditure	13.838	0.000	13.838
0.000	166.052	166.052	Less actual ISB deployed to schools	0.000	133.568	133.568
0.000	0.000	0.000	Plus local authority contribution in year	0.000	0.000	0.000
(4.087)	**(0.000)**	**(4.087)**	**Carry forward to next year**	**(3.793)**	**0.000**	**(3.793)**

45. Grant income

The council credited the following grants, contributions and donations to the comprehensive income and expenditure statement in 2012/13:

2011/12 £m	Revenue grants	2012/13 £m
	Credited to taxation and non specific grant income	
(32.373)	Revenue support grant	(2.456)
(0.667)	Local Services Support Grant	(0.568)
0.000	Community Rights to Bid	(0.009)
0.000	Community Rights to Challenge	(0.005)
0.000	Troubled Families Grant	(0.794)
0.000	DfT Bikeability Grant	(0.044)
0.000	Looked after Children remand grant	(0.003)
0.000	Town Team Partners	(0.010)
0.000	High Street Innovation grant	(0.100)
0.000	Welfare Reform grant	(0.051)
(1.595)	Street Lighting PFI grant	(1.595)
(2.725)	Council Tax Freeze Grant	(2.731)
0.000	Council Tax Reform Grant	(0.084)
(1.075)	New Homes Bonus	(1.844)
(38.435)	**Total**	**(10.294)**
	Credited to services	
(0.876)	Arts Council Funding - National Portfolio Funding	(0.876)
(3.948)	Skills funding agency - Walsall Adult and Community College (WACC)	(3.864)
(0.764)	Arts Council Funding - Music Support Grant	(0.687)
(3.259)	Housing benefits administration subsidy grant	(3.131)
(104.409)	Housing benefits rent allowances grant	(110.867)
(29.872)	Council Tax benefit subsidy grant	(29.462)
(0.754)	Housing benefit non Housing Revenue Account (HRA) rebates	(0.660)
(6.459)	Learning Disabilities - main grant	(6.638)
(184.330)	Dedicated Schools Grant	(147.112)
(10.955)	Education Funding Agency (EFA) sixth form funding grant	(5.936)
(0.638)	Youth Justice Board	(0.610)
(4.271)	Pupil Premium	(5.881)
(1.074)	Group Funding to prevent homelessness	0.000
(14.844)	Early Intervention Grant (EIG)	(15.402)
(0.522)	Pothole Grant	0.000
0.000	St Thomas More PFI Grant	(0.773)
(4.325)	Other	(2.028)
(371.300)	**Total**	**(333.927)**
(409.735)	**Total Revenue Grants**	**(344.221)**

In accordance with its grant conditions Walsall Council has fully utilised the Arts Council grants received by it in 2012/13 shown in the above table.

2011/12 £m	Capital grants	2012/13 £m
	Credited to taxation and non specific grant income	
(8.113)	Devolved Formula Capital	(0.344)
(0.088)	Primary Care Trust (PCT) Walsall	0.000
0.000	Sure start	0.000
(1.525)	Lottery	(0.733)
(1.044)	Youth	0.000
(6.478)	Department for Education	(5.637)
(0.312)	CENTRO	(0.331)
0.000	Housing specific	(0.011)
0.000	Department for Environment, Food and Rural Affairs (DEFRA)	0.000
0.000	Town centre transport package	0.000
0.000	Local area agreement	0.000
(2.949)	Local transport plan	(2.380)
(0.528)	Department for Health	(0.692)
0.429	s106 contributions	(0.526)
0.000	Arts Fund International	(0.188)
0.000	Arts Council Funding	(0.069)
(0.239)	Other	(0.600)
(20.847)	**Total**	**(11.511)**
	Credited to services	
(15.565)	Academies	(10.651)
(1.910)	Devolved Formula Capital	(0.319)
(0.107)	Lottery	(0.134)
(0.943)	Department for Education	(0.972)
(0.042)	Department for Environment, Food and Rural Affairs (DEFRA)	0.000
(0.212)	Department for Health	(0.066)
(0.015)	Local area agreement	0.000
(0.749)	Local transport plan	(0.884)
(0.110)	CENTRO	(0.308)
(1.613)	Housing specific	(1.671)
(0.731)	s106 contributions	(0.032)
(0.384)	Other	(0.419)
(22.381)	**Total**	**(15.455)**
(43.228)	**Total capital grants**	**(26.966)**

46. Related parties

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 (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 33 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2013 are shown in note 45.

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in note 37. During 2012/13, no works and services were commissioned from companies in which members had an interest. In addition, the council paid grants totalling £2.441m to voluntary organisations including some where members had positions on the governing body. The grants were made with proper consideration of declarations of interest. The register of members' interest is open to public inspection at the Civic Centre during office hours or can be viewed on the council's website.

Officers

Council officers are required to declare any interest under section 117 of the Local Government Act 1972. There were no significant transactions between the council and its Executive Directors, Heads of Service, and other related parties during the year.

Other public bodies (subject to common control by central government)

The council has a pooled budget arrangement with NHS Walsall for an integrated health and social care service for adults with learning difficulties, and an integrated community equipment service. Transactions and balances outstanding are detailed in note 36.

Entities controlled or significantly influenced by the council

The council does not control (or is controlled by) or significantly influence any other entities.

47. 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/PPP 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.

2011/12 £m		2012/13 £m
294.629	Opening capital financing requirement	299.452
	Capital investment	
39.350	Property, plant and equipment	27.068
0.681	Investment property	0.001
0.000	Heritage assets	1.008
20.951	Revenue expenditure funded from capital under statute	24.993
0.886	Intangible assets	0.102
61.868		**53.172**
	Sources of finance	
(1.561)	Capital receipts	(4.625)
(40.761)	Government grants and contributions	(32.577)
	Sums set aside from revenue	
(0.616)	Direct revenue contributions	(0.156)
(14.107)	Minimum revenue provision	(9.358)
(57.045)		**(46.716)**
299.452	**Closing capital financing requirement**	**305.908**
	Explanation of movements in year	
(14.107)	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	0.000
18.760	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	5.121
0.170	Assets acquired under finance lease	1.335
4.823	**Increase/(decrease) in capital financing requirement**	**6.456**

48. Leases

Council as lessee

Finance leases

The council has acquired a number of vehicles and reprographic/printing equipment under finance lease.

The assets acquired under these leases are carried as property, plant and equipment in the balance sheet at the following net amounts:

31 March 2012 £m		31 March 2013 £m
0.000	Other land and buildings	0.000
2.344	Vehicles, plant, furniture and equipment	2.479
2.344	**Total**	**2.479**

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 £m		31 March 2012 £m
	Finance lease liabilities (net present value of minimum lease payments):	
1.152	- current	0.791
0.929	- non-current	1.250
0.396	Finance costs payable in future years	0.505
2.477	**Minimum lease payments**	**2.546**

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

	Minimum lease payments			Finance lease liabilities	
	31 March 2012 £m	31 March 2013 £m		31 March 2012 £m	31 March 2013 £m
Not later than one year	1.374	0.944		1.152	0.791
Later than one year and not later than five years	1.060	1.012		0.892	0.788
Later than five years	0.043	0.590		0.037	0.462
	2.477	**2.546**		**2.081**	**2.041**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13 no contingent rents were payable by the council (2011/12 £nil).

The council has sub-let some of the vehicles held under these finance leases. At 31 March 2013 the minimum payments expected to be received under non-cancellable sub-leases was £nil (£nil at 31 March 2012).

Operating leases

The council has acquired vehicles, equipment and property by entering into operating leases. The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2012 £m		31 March 2013 £m
1.011	Not later than one year	0.871
2.101	Later than one year and not later than five years	1.329
2.706	Later than five years	2.706
5.818	**Total**	**4.906**

The council has sub-let some of the vehicles held under these operating leases. At 31 March 2013 the minimum payments expected to be received under non-cancellable sub-leases was £0.115m (£0.112m at 31 March 2012).

The expenditure charged to the net cost of services in the comprehensive income and expenditure statement during the year in relation to these leases was:

2011/12 £m		2012/13 £m
1.008	Minimum lease payments	1.145
0.504	Contingent rents	0.105
(0.112)	Sublease payments received	(0.115)
1.400	**Total**	**1.135**

Council as lessor

Finance leases

The council has leased out five properties across the borough on a finance lease. The range of remaining life in the leases range from 14 to 93 years.

The council has a gross investment in these leases, 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 2012 £m		31 March 2013 £m
	Finance lease debtor (net present value of minimum lease payments):	
0.004	- current	0.004
0.054	- non-current	0.050
0.079	Unearned finance income	0.069
0.044	Unguaranteed residual value of the property	0.044
0.181	**Gross investment in leases**	**0.167**

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

	Gross investment in leases			Minimum lease payments	
	31 March 2012 £m	31 March 2013 £m		31 March 2012 £m	31 March 2013 £m
Not later than one year	0.013	0.013		0.013	0.013
Later than one year and not later than five years	0.075	0.055		0.060	0.055
Later than five years	0.092	0.100		0.063	0.056
	0.180	**0.168**		**0.136**	**0.124**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13 £0.002m contingent rents were receivable by the council (2011/12 £0.002m).

Operating leases
The council leases out property under operating leases for economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2012 £m		31 March 2013 £m
0.423	Not later than one year	0.391
1.087	Later than one year and not later than five years	0.798
7.373	Later than five years	7.287
8.883	**Total**	**8.476**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13 £0.014m contingent rents were receivable by the council (2011/12 £0.019m).

49. Private finance initiatives and similar contracts

St Thomas More School

2012/13 was the ninth year of a 25 year private finance initiative (PFI) contract for the construction, maintenance and operation of a new secondary school in Willenhall. The main partners within the contract are the Governors of St Thomas More School, Birmingham Roman Catholic Diocese Trustees, Babcock and Brown and Walsall Council. The application of IFRIC 12 to this scheme has resulted in this being classed as an off balance sheet transaction. As such no asset is shown within the council's balance sheet. This is due to the council having no interest in the school at the end of the contract. Instead all the land and property reverts back to the Birmingham Roman Catholic Diocese Trustees and the Governors of St Thomas More School. In line with all other voluntary aided and foundation schools the contract has also been reviewed under IFRIC 4 and it has been determined that the council has an operating lease with the Governors of St Thomas More School and Birmingham Roman Catholic Diocese Trustees.

The following table shows the predicted payments to be made under the contract to the contractor over the life of the contract.

	£m
Payable in 2013/14	2.161
Payable within two to five years	9.083
Payable within six to ten years	12.414
Payable within eleven to fifteen years	13.706
Total	**37.364**

Public street lighting

2012/13 was the eleventh year of a 25 year PFI contract for the replacement and maintenance of the council's lighting stock across the borough. The objective of this contract is to ensure that the borough is lit in a uniform manner complying with British and European standards. The main partners within the contract are Walsall Council and Walsall Street Lighting.

Property, plant and equipment

The assets used to provide services for street lighting are recognised on the council's balance sheet. Movements in their value over the year are detailed in the analysis of the movement on the property, plant and equipment balance in note 12.

Payments

The council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2013 (excluding any estimation of inflation and availability/ performance deductions) are as follows:

	Payment for service £m	Reimbursement of capital expenditure £m	Interest £m	Total £m
Payable in 2013/14	2.188	0.701	0.110	2.999
Payable within two to five years	9.714	2.416	0.355	12.485
Payable within six to ten years	13.773	2.702	0.289	16.764
Payable within eleven to fifteen years	15.165	2.871	0.111	18.147
Payable within sixteen to seventeen years	0.265	0.045	0.001	0.311
Total	**41.105**	**8.735**	**0.866**	**50.706**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

2011/12 £m		2012/13 £m
(10.179)	Balance outstanding at start of year	(9.451)
0.728	Payments during the year	0.715
0.000	Capital expenditure incurred in the year	0.000
(9.451)	**Balance outstanding at year-end**	**(8.736)**

Housing 21

2012/13 was the fifth year of a 30 year public-private partnership scheme. The principal partners in the contract are Housing 21 and Walsall Council. This contract is to provide:

- 285 extra care units (including 70 shared ownership and 10 respite care) across the borough
- A 40 bed dementia care unit at Goscote
- 26 intermediate care beds at Rushall Mews (ended 15/11/2012)
- Increased day care across the borough (including weekend access to services)

The majority of the assets within this contract do not revert back to council ownership at the end of the 30 year contract. Instead the council has provided land to Housing 21 on 125 year leases. As such the council does not need to account for the assets created by the scheme on its balance sheet. There is one exception to this, Rushall Mews, which reverted back to council ownership on 15/11/2012 and is now held as an asset held for sale.

The table below shows the predicted payments to the contractor over the life of the agreement.

	£m
Payable in 2013/14	8.269
Payable within two to five years	35.197
Payable within six to ten years	49.178
Payable within eleven to fifteen years	55.640
Payable within sixteen to twenty years	62.952
Payable within twenty one to twenty six years	71.224
Total	**282.460**

50. Impairment losses

During 2012/13, the council has recognised an impairment loss of £4.216m in relation to its operational land and buildings, £0.197m in relation to vehicles, plant and equipment, £0.145m in relation to surplus assets, £0.012 in relation to assets under construction, £0.308m in relation to infrastructure assets and £2.221m in relation to community assets. These impairments are where capital expenditure has not added a pound for pound increase in the value of the properties but has enhanced and/or upgraded the fabric of the building. The impairment loss has been charged to the net cost of services in the comprehensive income and expenditure statement or revaluation reserve where there is an existing balance.

51. Contingent liabilities

Statutory fees for personal searches - Environmental Information Regulations

There is a possibility of claims for compensation being made by a number of private search companies following the government requiring councils to charge fees for personal searches since the Environmental Information regulation came into force. This was ruled an error in the EU courts.

In accordance with IAS37 Provisions, Contingent Liabilities and Contingent Assets the council has not disclosed an estimate of potential costs as at this stage this could seriously prejudice the position of the council.

Contaminated Land – former Gas Works – Oakridge Drive

The council purchased the former Gas Works site from West Midlands Gas Board in the late 1960's. The site was sold to a housing developer in the early 1970's which led to the development of the Stonegate estate. Under current legislation the council is now obliged to ensure that previously contaminated sites have been cleaned appropriately and are no longer an environmental or health hazard. The council has now served notice on all identified appropriate persons in order to try and determine liabilities for the cost of remediating this site. Through application of the legislation there is a potential risk to the council to inherit some of the liability.

In accordance with IAS37 Provisions, Contingent Liabilities and Contingent Assets the council has not disclosed an estimate of potential costs as liability has not been established at this stage and furthermore any disclosure could prejudice the position of the council.

Equal Pay

During 2012/13 the council continued to settle outstanding equal pay claims, based on a memorandum of understanding reached at the end of 2010/11. Negotiation with the legal representatives of 297 new equal pay claimants who raised claims following the agreement of the existing memorandum of understanding has been progressed to obtain greater clarity around the level of any liability and timing of payments. Following recent legal rulings there remains a risk of potential further equal pay claims.

In accordance with IAS37 Provisions, Contingent Liabilities and Contingent Assets the council has not disclosed an estimate of potential costs as at this stage this could seriously prejudice the position of the council.

Staffordshire Pension Fund

The council is in receipt of a number of invoices from Staffordshire Pension Fund relating to retrospective pension charges for the period 2004 to 2012. Legal advice has been sought on this matter.

In accordance with IAS37 Provisions, Contingent Liabilities and Contingent Assets the council has not disclosed an estimate of potential costs as liability has not been established at this stage and furthermore any disclosure could prejudice the position of the council.

52. Contingent assets

The council has no contingent assets to disclose as at 31 March 2013.

53. Nature and extent of risks arising from financial instruments

Overall procedures for managing risk

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

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice
- by the adoption of a treasury policy statement and treasury management clauses within its financial regulations/standing orders/constitution
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
    - The council's overall borrowing
    - Its maximum and minimum exposures to fixed and variable rates
    - Its maximum and minimum exposures to the maturity structure of its debt
    - Its maximum annual exposures to investments maturing beyond a year
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government guidance

These are required to be reported and approved at or before the council's annual council tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 23 February 2012 and is available on the council website. The key issues within the strategy were:

- The authorised limit for the 2012/13 was set at £319.724m. This is the maximum limit of external borrowings or other long term liabilities
- The operational boundary was set at £292.093m. This is the expected level of debt and other long term liabilities during the year
- The maximum amounts of fixed and variable interest rate exposure were set at 95% and 45% based on the council's long term borrowing
- The maximum and minimum exposures to the maturity structure of debt are shown on page 113.

These policies are implemented by the treasury team. The council maintains written principles for overall risk management, as well as written policies (treasury management practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically. The council complies with these policies and practices. They were approved by Audit Committee on 26 September 2011 in relation to 2012/13.

Credit risk

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

This risk is minimised through the annual investment strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria.

The annual investment strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined below. Details of the investment strategy can be found on the council's website www.walsall.gov.uk . The general policy objective for this council is the prudent investment of its treasury balances.

The council's investment priorities are:

- The security of capital and
- Liquidity of its investments and
- All investments will be in sterling

The council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

The council uses credit criteria in order to select creditworthy counterparties for placing investments with. Information used includes:

- Credit ratings rating agencies – Fitch, Moodys and Standard and Poor's (S&P).
- Treasury management advisors provide regular updates of changes to all ratings relevant to the council
- This council does not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -
    - The quality financial press
    - Market data
    - Information on government support for banks and the credit ratings of that government support

The primary credit ratings scales for Fitch and Moody's which are used are shown below.

Minimum ratings	Fitch	Moodys
Short term	F1	P1
Long term	A	A

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

The council's maximum exposure to credit risk in relation to its investments in banks and building societies of £137.380m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council's deposits, but there was no evidence at the 31 March 2013 that this was likely to crystallise.

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

Bonds rated:	Amount as at 31 March 2013 £m	Historical experience of default as at 31 March 2013 %	Adjustment for market conditions as at 31 March 2013 %	Estimated maximum exposure to default as at 31 March 2013 £m	Estimated maximum exposure to default as at 31 March 2012 £m
AAA	-	0.00%	0.00%	0.000	0.000
AA	31.080	0.02%	0.02%	0.006	0.003
A	19.300	0.09%	0.09%	0.017	0.043
BBB	38.000	1.42%	0.23%	0.540	0.023
Unrated Building Societies	49.000				
Trade debtors	19.085	Local experience	Local experience	Local experience	Local experience
Total	**156.465**				

No breaches of the council's counterparty criteria occurred during the reporting period and the council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The council does not generally allow credit for its trade debtors, such that £3.878m of the £9.355m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	As at 31 March 2012 £m	As at 31 March 2013 £m
Less than three months	1.771	1.002
Three to six months	0.175	0.425
Six months to one year	0.351	0.252
More than one year	1.456	1.553
Total	**3.753**	**3.232**

Liquidity risk

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

The council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The council is also required to approve a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets is as follows:

	2011/12 £m	2012/13 £m
Less than one year	123.026	124.659
Between one and two years	9.000	13.105
Between two and five years	6.000	1.000
More than five years	29.030	29.492
Total	**167.056**	**168.256**

In accordance with IAS8 Accounting Policies, Changes in Accounting Estimates and Errors prior year comparatives have been updated for the above table.

Refinancing and maturity risk

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

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

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the treasury management strategy, see page 110):

	Approved minimum limits £m	Approved maximum limits £m	Actual 31 March 2013 £m	Actual 31 March 2012 £m
Less than 1 year	0.000	39.534	**35.900**	35.261
Between 1 and 2 years	0.000	52.713	**25.000**	25.000
Between 2 and 5 years	0.000	65.891	**65.598**	65.557
Between 5 and 10 years	0.264	131.781	**29.541**	29.541
More than 10 years	1.054	224.028	**107.524**	108.418
Total	**1.318**	**513.947**	**263.563**	**263.777**

Market risk

Interest rate risk

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

- Borrowings at variable rates – the interest expense charged to the comprehensive income and expenditure statement will rise
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances)
- Investments at variable rates – the interest income credited to the comprehensive income and expenditure statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the provision of services or other comprehensive income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services and affect the general fund balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the other comprehensive income and expenditure statement.

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

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£m
Increase in interest payable on variable rate borrowings	0.300
Increase in interest receivable on variable rate investments	(0.039)
Increase in government grant receivable for financing costs	0.008
Impact on surplus or (deficit) on the provision of services	0.269
Decrease in fair value of fixed rate investment assets	0.000
Impact on other comprehensive income and expenditure	0.000
Decrease in fair value of fixed rate borrowings liabilities (no impact on the surplus or deficit on the provision of services or other comprehensive income and expenditure	0.000

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in note 16 – fair value of assets and liabilities carried at amortised cost.

Price risk
The council, excluding the pension fund, does not generally invest in equity shares or marketable bonds. However, it does have shareholdings to the value of £19.334m in Birmingham Airport (£17.776m ordinary shares and £1.558m preference shares).

The shares are all classified as available-for-sale, meaning that all movements in price will impact on gains and losses recognised in the available for sale reserve. A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £0.967m gain or loss being recognised in the available for sale reserve.

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

Collection Fund

The collection fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate collection fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

1. Income and expenditure account

2011/12 £m		2012/13 £m	Note
	Income		
(65.822)	Income collectable from business ratepayers	(66.528)	3
(91.847)	Income from council tax	(92.516)	5
(29.522)	Benefits	(29.098)	5
(187.191)	**Total income**	**(188.142)**	
	Expenditure		
	Precepts and demands		
108.982	Walsall Metropolitan Borough Council	109.246	6
7.827	Police	7.846	6
3.765	Fire and Civil Defence	3.774	6
120.574		**120.866**	
	Business rates		
65.475	Payment to national pool	66.184	3
0.347	Cost of collection	0.344	3
	Bad and doubtful debts		
(0.005)	Write-offs	0.011	
0.691	Provisions	0.430	
187.082	**Total expenditure**	**187.835**	
(0.109)	**(Surplus)/deficit for year**	**(0.307)**	
0.627	(Surplus)/deficit brought forward - Walsall	0.530	2
0.065	Brought forward debtor/(creditor)	0.053	2
0.000	Transfer to precepting authorities	0.000	2
(0.053)	Precepting authorities (debtor)/creditor	(0.022)	2
0.000	Transfer to general fund	0.000	2
0.530	**Collection fund balance carried forward (surplus) / deficit**	**0.254**	**2**

The income and expenditure account above has been shown to illustrate the transactions of a billing authority and has been prepared on an accruals basis.

2. Collection fund balance sheet

2011/12 £m		2012/13 £m
0.627	(Surplus)/deficit brought forward - Walsall	0.530
0.065	Brought forward debtor/(creditor)	0.053
(0.109)	(Surplus)/deficit for year	(0.307)
	Precepting authorities (debtor)/creditor	
(0.036)	- Police	(0.015)
(0.017)	- Fire and civil defence	(0.007)
0.000	Transfer to precepting authorities	0.000
0.000	Transfer to general fund - prior years surplus/(deficit)	0.000
0.530	**Collection fund balance**	**0.254**

3. Income from business rates

Income collectable
Under the arrangements for uniform business rates, the council collected non-domestic rates for the Walsall area which are based upon local rateable values multiplied by a national uniform rate. The total rateable value for business rate purposes at 31 March 2013 was £179.323 million (£181.124 million in 2011/12). The total amount, less certain relief and other deductions, is paid to a central pool, the NNDR pool, managed by central Government. This pool is then distributed between local authorities based on a standard amount per head of the local adult population. Under these arrangements the amounts included in these accounts are split as follows.

2011/12 £m		2012/13 £m
	Gross amount payable to the NNDR pool	
(77.501)	Non-domestic rates	(79.462)
	(Add)/deduct	
(0.887)	Transitional relief	(0.570)
	Less	
1.055	Bad debts written off / Provision for bad debts	1.220
11.511	Allowances and other adjustments	12.284
(65.822)	**Income from business ratepayers**	**(66.528)**
0.347	Less costs of collection allowance	0.344
(65.475)	**Net income payable to national pool**	**(66.184)**

National non-domestic rate multiplier
The national non-domestic rate multiplier is set annually by the Government. It is the rate in the pound by which the rateable value is multiplied to produce the annual rate bill for a property. For 2012/13 the multiplier was £0.458 (£0.433 in 2011/12). The small business multiplier for 2012/13 was £0.450 (£0.426 in 2011/12).

4. Calculation of tax base

The council tax base represents the number of properties in the borough expressed as band D properties. The band D equivalent figure is then assumed to have a collection rate of 98.5%. The council tax base for 2012/13 was as follows.

Band	Weighting	Number of dwellings on valuation list	Discounted value for council tax purposes	Band D equivalent	Band D equivalent for 2011/12
A	6/9	48,384	42,837	**28,551**	28,452
B	7/9	25,094	22,921	**17,828**	17,888
C	8/9	17,125	15,806	**14,050**	13,982
D	9/9	9,816	9,217	**9,216**	9,160
E	11/9	5,328	5,030	**6,148**	6,129
F	13/9	2,288	2,173	**3,138**	3,127
G	15/9	712	656	**1,094**	1,100
H	18/9	54	38	**75**	68
		108,801	**98,678**	**80,100**	**79,906**

5. Income due from council tax

The council set a council tax of £1,531.92 for 2012/13 (£1,531.92 for 2011/12). This included the precepts for the police authority and fire and civil defence authority. It is based upon a tax base of 80,100 band D properties (see note 4 above). This tax base reflects assumptions made for discounts, relief to students, changes in the register and non-payment. The actual amounts credited to the collection fund can be analysed as follows.

2011/12 £m		2012/13 £m
121.369	Gross council tax due (adjusted for changes in banding)	121.614
(29.522)	Less benefit awarded	(29.098)
91.847	**Total**	**92.516**

6. Organisations which make a precept or demand on the collection fund

The precepts and demands are those payments requested by public authorities at the beginning of the year to fund their net budgets.

2011/12 £m		2012/13 £m
108.982	Walsall Metropolitan Borough Council	109.246
7.827	Police	7.846
3.765	Fire and civil defence	3.774
120.574	**Total**	**120.866**

Trust and scholarship accounts

These accounts relate to gifts and bequests made to, held or administered by the council.

The capital sums have been invested in statutory securities and in the case of most funds administered by Education and Children's Services, and Resources. The interest is used to provide grants and prizes. The council currently administers 4 trusts:

- SW Tame Fund – for the purposes of prizes at Joseph Leckie School
- Joseph Leckie Memorial Fund – for the provision of scholarships
- Walsall Agricultural Fund – for the provision of a prize fund
- Barr Beacon Trust – for the provision and maintenance of open spaces

Walsall Council is also the corporate trustee for the following charities:

- Blanch Woolaston Charity
- CC Walker Charity
- Fishley Educational and Apprenticeship Charity
- Merrions Wood Trust
- Shelfield Playing Fields
- Walsall Wood Allotment
- WJ Croft Relief for the poor Charity

1. Income and expenditure account

Net expenditure 2011/12 £		Expenditure £	Income £	Net Expenditure 2012/13 £
	Education and Children's Services			
(6)	S W Tame	0	(6)	(6)
(310)	Joseph Leckie Memorial	0	(308)	(308)
(8,668)	Barr Beacon Trust	17,468	(11,387)	6,081
	Resources			
(5)	Walsall Agricultural Fund	0	(5)	(5)
(8,989)	**Total**	**17,468**	**(11,706)**	**5,762**

2. Valuation of trust fund assets

	Capital Element	Revenue Accumu-lation	Revaluation Reserve	Total		Market value	
				2012/13	2011/12	2012/13	2011/12
	£	£	£	£	£	£	£
Education and Children's Services							
S W Tame	0	562	0	**562**	556	**562**	556
Joseph Leckie Memorial	1,518	26,953	0	**28,471**	28,163	**28,471**	28,163
Barr Beacon Trust	0	292,881	26,001	**318,882**	294,862	**318,882**	294,862
Resources							
Walsall Agricultural Fund	330	425	0	**755**	750	**755**	750
Total	**1,848**	**320,821**	**26,001**	**348,670**	**324,331**	**348,670**	**324,331**

Monies for residents in council care homes

2011/12 £		2012/13 £
1,437,854	Balance at 1 April	2,158,136
720,282	Net deposits/ (withdrawals) in year	(1,226,036)
2,158,136	**Total**	**932,100**

3. Trusts balance sheet

2011/12 £		2012/13 £
22,001	Land & buildings	21,001
2,402,328	Investment trust fund	1,206,393
0	Creditors	0
176	Debtors	0
57,961	Cash	53,376
2,482,466	**Total assets less liabilities**	**1,280,770**
(2,454,617)	Revenue fund balances	(1,252,921)
(1,848)	Capital account	(1,848)
(26,001)	Revaluation reserve	(26,001)
(2,482,466)	**Total net worth**	**(1,280,770)**

Section B – Annual Governance Statement

Annual Governance Statement

1. Scope of responsibility

This statement is given in respect of the 2012/13 statement of accounts for Walsall Council. Walsall Council is responsible for ensuring that its business is conducted in accordance with the laws and proper standards, and that public money is safeguarded and properly accounted for, and used economically, effectively and efficiently. Walsall Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

Walsall has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website or can be obtained from the Monitoring Officer or Chief Finance Officer. This statement explains how Walsall Council has complied with the Code and also meets the requirement of regulation 4(2) of the Accounts and Audit Regulations 2011.

2. The purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether these objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that 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 Walsall Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Walsall Council for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

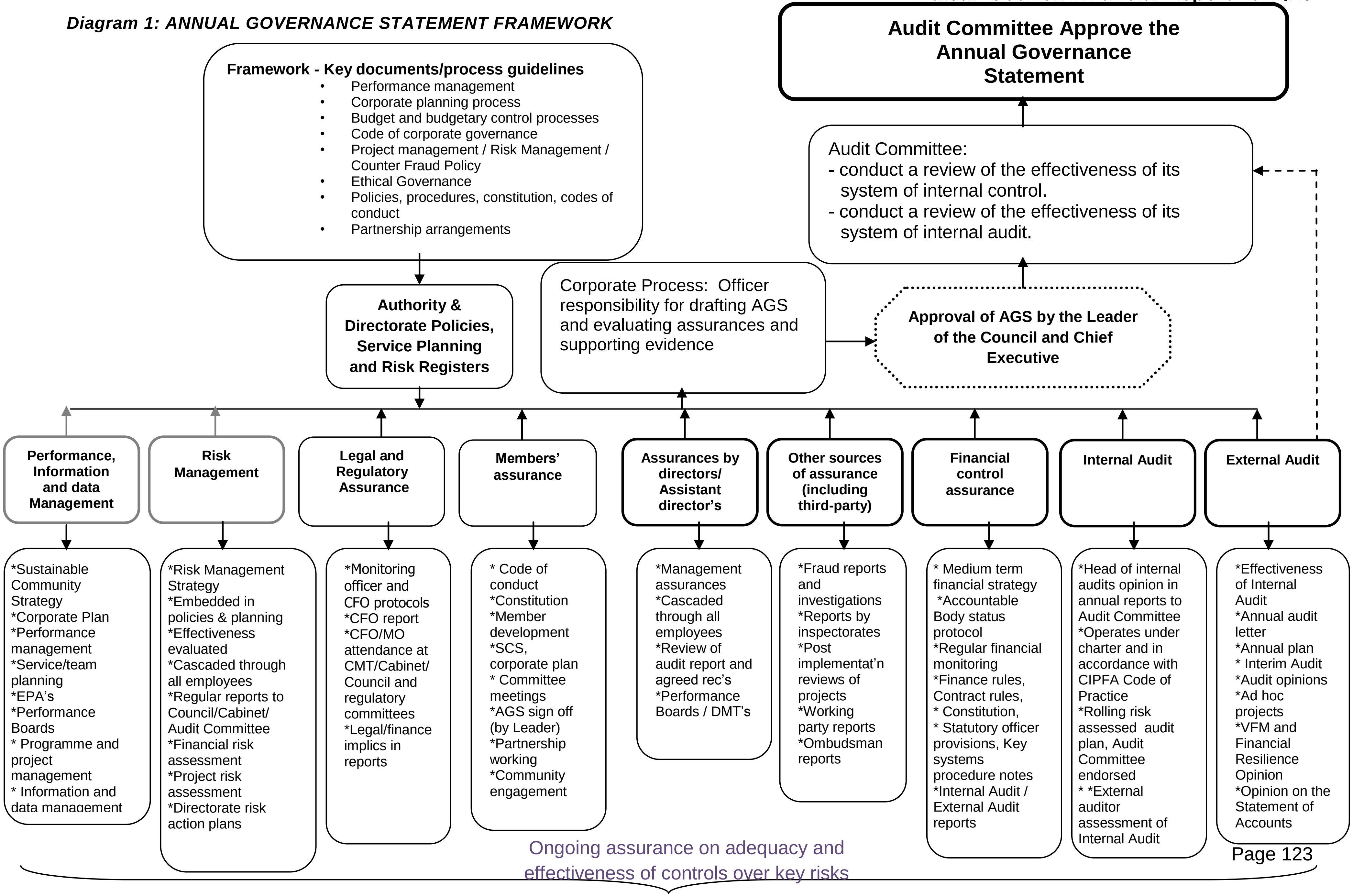
3. The Governance Framework

The Council acknowledges its responsibilities in ensuring the following key elements of the governance arrangements including the system of internal control, are in place and this statement provides further information on how it achieves this, including:

- Identifying and communicating the authority's vision and intended outcomes for citizens and service users, reviewing the vision and its implications for the authority's governance arrangements.
- Establishing and monitoring the achievement of the Authority's objectives, including measuring the quality of services for users and customers.
- Establishing clear channels of communication with the community and stakeholders, ensuring accountability and open consultation.
- The facilitation of policy and decision making.
- Complying with established policies, procedures, laws and regulation, including how risk assessment is embedded in the activity of the Authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties.
- Complying with the Local Code of Governance.
- Ensuring the authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Governments (2010).
- Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions of the council.
- Promoting values for the Authority and developing, communicating and embedding codes of conduct and defining standards of behaviour.
- Undertaking the core functions of an Audit Committee.
- Whistleblowing and receiving and investigating complaints from the public.
- Identifying and supporting development needs of members and senior officers.
- Financial management of the Authority and its reporting.
- Ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- Performance management of the Authority and its reporting.
- Programme, project and information management.
- Incorporating good governance arrangements in respect of partnerships and other group working.

The governance framework consists of management information, financial and contract rules, established financial, budgetary, personnel and other procedures, a performance management framework, community and corporate planning, management supervision in accordance with the corporate employee performance assessment (EPA) framework, a comprehensive risk management strategy and process, project management methodology and a system of officer and member delegation and accountability and codes of conduct. Diagram 1 illustrates the overall governance framework which is discussed in more detail in this section.

Diagram 1: ANNUAL GOVERNANCE STATEMENT FRAMEWORK



The council acknowledges its responsibility for ensuring that effective governance arrangements, including an effective system of internal control (including financial control), are maintained and operated in connection with the resources concerned. Any system of internal control, including internal financial 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. Development and maintenance of the system is undertaken by managers within the council.

In particular, the system includes the following key elements:

- A sustainable community strategy, setting out ambition, objectives and priorities of the council and key partners, developed following consultation with the community and stakeholders – supported by a revised corporate plan – linked to service planning via the Walsall change management approach (Working Smarter).
- A programme and project management approach which is currently being re-assessed to support the new change management programme.
- Project management principles adopted as the methodology for projects.
- An information governance framework.
- Performance boards (in children's and adult social care) which receive consider and assess service planning and performance measures, financial planning and change management processes to influence and drive continuous improvement.
- A comprehensive risk management strategy and framework, operating at both strategic and operational levels.
- An approved Constitution, including financial and contract rules, a scheme of delegation and decision making processes of the council.
- Standards Committee, Audit Committee, scrutiny function and other regulatory committees.
- Statutory Monitoring and Chief Finance Officers ensuring the council operates within existing legislation and statutory guidance.
- Human resources and other policies and procedures, including codes of conduct (member and officer), whistle blowing policy and an anti-fraud and anti-corruption policy and strategy.
- A comprehensive financial strategy, including budget management and control framework, supported by financial procedures and guidelines underpinning sound financial management, reporting and standing.
- Clear measures of financial performance linked to service planning and the corporate plan.
- The preparation of regular reports to managers, executive directors, Corporate Management Team (CMT) and elected members which indicate actual expenditure against budget and highlight remedial action, where required.
- Clearly defined capital expenditure strategy and guidelines.
- Use of an accountable body status protocol and grant management arrangements when the council acts as accountable body for funds, including in relation to partnership working to ensure that activities are administered consistently and robustly across the council.
- A risk assessed Internal Audit programme which is planned in advance to cover all major systems of internal control and which is based on a risk assessment of key systems and controls.
- An internal audit function that operates in accordance with the CIPFA Code of Practice and which is assessed annually by external audit during their Interim Audit.
- An independent external audit function which reports on the financial and governance arrangements of the council.
- Member and officer development strategy and individual development planning processes.

- Comprehensive communication and consultation arrangements both internally and externally.

Since 2011/12, the AGS is required to contain a statement on whether the authority's financial management arrangements conform to the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government (2010)* as set out in the *Application Note to Delivering Good Governance in Local Government: A Framework*. The Statement sets out five principles which define the core activities and behaviours that belong to the role of the CFO and the organisational arrangements needed to support them. In assessing these five principles, the Authority complies with all but one. This relates to Principle 1, in that "*the CFO is a key member of the Leadership Team reporting directly to the Chief Executive with status at least equivalent to other members of the team".* The Statement also states that if this is not the case then the reasons should be explained publicly in the AGS and an explanation of how the actual arrangements deliver the same impact. In Walsall the CFO reports to the Executive Director Resources, who reports to the Chief Executive. The CFO attends the Leadership Team (the corporate management team), has access to all confidential papers/matters, has direct and unfettered access to and meets frequently with the Chief Executive, and has direct and unfettered access to members, including Cabinet and Audit Committee.

A key aspect of the system of internal control is the identification of key risks to the organisation and key controls needed to mitigate these risks. Comprehensive, embedded and effective performance and risk management arrangements are fundamental to demonstrating good governance.

There are a number of key elements of the governance framework and internal control environment which assist the council in monitoring and managing the achievement of its objectives. These are included in the council's published overarching strategies and plans including; the sustainable community strategy; the corporate plan; medium term financial strategy, corporate budget plan, capital strategy, risk management strategy; treasury management strategy; programme and project management approach, and directorate strategy and planning documents. These documents set out the council's priorities.

During 2012/13, the council continued to develop its approach to managing change and now all major change activity and projects are included under the umbrella of the Working Smarter programme, aimed at delivering customer service improvements, financial savings and improved staff morale. The methods being used to deliver change are many and varied. A small proportion of the activity is based upon the "systems thinking approach" to managing service change. This represents a cultural shift in the way the council thinks about the design and management of its services. It starts by getting a clear understanding of "what matters" to the people who use our services, involving those employees who deliver the service. Employees, supported by their managers, critically analyse the current service to find out "what matters" and then they assess the council's capability to deliver "what matters". Following the analysis the service is re-designed, focusing on those steps which are of value in customer terms, which releases capacity which can either be realised as cashable savings or re-invested in new or additional services. Eight of the 34 major change activity streams are beginning to use this approach, with one further advanced than the others. The remaining change activity uses more traditional methods, often using elements of change management supported by project or programme management, and the governance around these methods.

Leads (Executive Directors) are developing a resource model and delivery plan for activities.

- All eight systems thinking interventions have leader and facilitation resources allocated to them. Work is in progress to identify purpose, key measures and timescales for these activities.
- The other activities have leaders confirmed and are in the process of identifying service areas within the scope of the work and the type of change activity which will be applied; this will result in a plan and resource model for the delivery of these sub-programmes.

The corporate plan 2014/2016 explains **what** we are doing as a council, the Working Smarter Programme is the **delivery plan** for achieving the corporate plan priorities, supported by the Walsall Change Approach, which is a toolkit of advice and methodologies which will develop and change as the council moves through its change activities.

A refreshed corporate performance management framework and tool kit is currently being developed. Designed to demonstrate progress against objectives and outcome measures it will be implemented in the autumn of 2013. This will be monitored by the Working Smarter Programme Board and progress will be reported through to the Partnership and Borough Management Board.

The council has an established comprehensive risk management framework, designed to identify, evaluate, manage and where possible, mitigate risks to the council in delivering its objectives. There is an ongoing programme of reporting and review of both strategic and operational risks, and this extends to an assessment of risks in financial planning and major projects and partnerships.

Strategic risks are identified, evaluated, incorporated into a corporate risk register and reported to senior management and CMT. This includes actions to mitigate risks, as appropriate, for each key strategic risk. Cabinet also receives reports on risk management. The risk management strategy is reviewed annually by Cabinet and is subject to examination by the Audit Committee as part of its established regulatory activities.

Each directorate has identified directorate risks and work continues to ensure that the actions arising from these take proper account of the balance of risk and resources to ensure that appropriate and proportionate action is put in place. Financial risks are assessed regularly and as part of the annual budget process and regular reporting of the financial position. A corporate financial risk assessment informs the medium term financial strategy and the level and appropriateness of general and other reserves. Each directorate has a risk champion and all individual posts are risk assessed within the council and are subject to review. Risk workshops are held to ensure risk champions and those involved in the assessment and management of risk are appropriately trained.

The council's Constitution sets out how the authority operates and refers to required procedures to be followed to ensure all activity is transparent and accountable to the local community. This includes a scheme of delegation and contract and finance rules, which set out the control environment in which the council operates.

Arrangements for the provision of Internal Audit are contained within the council's Constitution. The council, via its statutory Chief Finance Officer (CFO) must ensure that there is an adequate and effective Internal Audit of accounting records and of its systems of internal control as required by the Accounts and Audit Regulations 2011.

The Constitution states that:

- The Head of Internal Audit has the right to report directly to the Chief Executive, executive directors and elected members when this is appropriate, as well as routinely reporting to the CFO and operational managers.
- Internal Audit operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom under the day-to-day control of the Head of Internal Audit who acts independently.
- The Internal Audit service plans and prioritises its work through a combination of assessment and review of the council's service provision, corporate governance arrangements, risk management processes and key internal control systems, supplemented by a programme of fraud and irregularity/consultancy work and scheduled visits to council establishments.
- The annual work plan is endorsed by CMT and Audit Committee. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted promptly to executive directors, senior managers, school heads and chairs of governors as appropriate. Regular progress reports are submitted to the council's Audit Committee for review purposes.
- The Head of Internal Audit is required to report annually on her opinion in respect of the overall adequacy and effectiveness of the council's internal control environment.

Executive directors and risk owners are required to provide assurance via audit reports and where appropriate, to Audit Committee that agreed audit actions are being implemented, and where control weaknesses are identified, to put in place remedial action in a timely manner, and as agreed with audit.

The Audit Committee receives summary reports of audits receiving a no or limited assurance opinion and external audit recommendations and actions, and on risk management and seeks to ensure that control weaknesses where identified are addressed. The Committee has a function in respect of the system of internal control and its effectiveness and the work of the Committee includes the review of the Annual Governance Statement and its approval in September of each year.

4. Review of Effectiveness

Walsall Council (via Audit Committee) has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control and its internal audit.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is set out below.

Audit Committee is able to monitor the effectiveness of the governance framework and the internal control environment and the council's system of internal audit, and receive their assurance on these matters in a number of ways. Further detail is set out in the following paragraphs and the totality of these is reviewed and considered by Audit Committee in considering the annual review of the effectiveness of the governance framework and approving the Annual Governance Statement as required by the Accounts and Audit Regulations, 2011, section 4 (3).

The review of the effectiveness is informed by and assurance obtained from:

- The annual work programme of Audit Committee including receiving, considering and reviewing reports on the work of internal and external audit, including reports on internal controls, risk management, grants, the external auditor's Interim Audit, it's opinion on VFM and financial resilience of the council, the external audit opinion on the statement of accounts and the annual audit and inspection letter.

- The Head of Internal Audit's annual report.
- Findings of the external auditor and other review agencies and inspectorates.
- Cabinet, CMT and senior officers monitoring the effectiveness of the governance framework through receiving monitoring reports on performance and financial management and risk management, including progress against key objectives and measures and corrective action planning; the overall financial position; updates on performance in relation to management of key risks to the organisation; and receive regular reports via Audit Committee on the internal control mechanisms in place and their effectiveness.
- Improvements recommended by Audit Committee on the framework or reporting. For example, in 2012/13, Audit Committee made a number of suggested improvements to the reporting of corporate risks which are currently being incorporated into the corporate risk register for consideration by CMT in July and Audit Committee in September.
- The work of the executive directors and managers within the authority who have responsibility for the development and maintenance of the governance environment.
- The Chief Executive and the Leader of the Council and elected members, via the Audit Committee, who formally consider and approve the Annual Governance Statement (AGS) annually.

The following sections set out the key areas of assurance and findings from work and activity undertaken during 2012/13 in these areas. These have been considered in the annual effectiveness reviews of the systems of internal control and internal audit and an overall analysis is summarised at the end of the two sections.

Effectiveness Review of the System of Internal Audit

The Accounts and Audit (Amendment) Regulations 2011 introduced a revised requirement for the council to conduct 'an annual review of the effectiveness of its internal audit'. This includes the effectiveness of the internal audit function, wider assurance on the system of internal audit and the Audit Committee itself.

A self-assessment document is produced annually by the Head of Internal Audit in respect of the effectiveness of the Internal Audit function, assessed against the CIPFA Code of Internal Audit Practice and CIPFA guidance. The self-assessment is reviewed independently. Out of 90 sub-areas, one area of non-compliance has been identified in relation to the question "is the head of internal audit (HIA) managed by a member of the corporate management team?". In Walsall the HIA reports to the assistant director of resources (Chief Finance Officer/S151 Officer), who reports to the executive director of resources, who reports to the chief executive. The HIA attends the Audit Committee, has unfettered access to all confidential papers/matters, has direct and unfettered access to and meets frequently with the chief executive, and has direct and unfettered access to members, including Cabinet and Audit Committee.

In addition, the council's external auditors, Grant Thornton have undertaken a review of internal audit. In their interim report dated 12 June 2013, they concluded that "*the internal audit service continues to provide an independent and satisfactory service to the council and that we can take assurance from internal audit's work in contributing to an effective internal control environment at the council'.*

Audit Committee has a regulatory role in terms of receiving reports on the effectiveness of the system of internal control through receipt and consideration of Internal Audit six monthly progress reports. Additionally, Audit Committee receive summary reports of all internal audits receiving a 'no' or 'limited' assurance opinion. Where, on audit follow up a no or limited assurance audit report, no or limited progress is made by managers in addressing weaknesses identified, executive directors and their accountable managers are required to attend Audit Committee to provide necessary assurances. This was the case during 2012/13. In addition, Internal Audit has a strategic risk assessed plan which was endorsed by CMT and Audit Committee.

To support their assessment of the council's use of resources, Grant Thornton completed a review of the Audit Committee in order to appraise its effectiveness as an important part of the council's governance framework. Recommendations were made and an action plan drawn up and approved by the Committee on 25th October 2010. Progress against implementation of this was reported to Audit Committee on 17th April 2012 and 15th April 2013. Seven recommendations were made by Grant Thornton, all of which have now been implemented.

At the 15th April 2013 meeting, Audit Committee completed an annual self-assessment of its effectiveness using CIPFA's "A Toolkit for Local Authority Audit Committees. 66 key supporting questions were considered by Audit Committee, supported by senior officers including the Chief Finance Officer and Head of Internal Audit. The results showed that Audit Committee is substantially compliant with the requirements. A further report was taken to 24 June 2013 Audit Committee, where it was considered that the Audit Committee was mainly compliant.

The areas of non-compliance were as follows, along with the controls in place to mitigate any risks:

Question	*Response*	*Mitigating Control / Proposed Action*	*For AGS purposes, is this control considered reasonable*
Are members sufficiently independent of the other key committees of the council?	Some members of the Audit Committee serve on other committees such as scrutiny panels.	To ensure independence, members are required to declare an interest in their scrutiny function role and consider removing themselves from consideration of an agenda item, should a conflict arise with their audit function.	Yes
Does the Audit Committee hold periodic private discussions with the head of internal audit?	Not formally, although the facility and opportunity for this exists.	Proposed Action: to facilitate periodic private discussions between the Audit Committee and the head of internal audit.	Yes. This has now been implemented and the facility for this is available after the conclusion of each meeting.
Does the Audit Committee hold private periodic discussions with the external auditor?	Not formally, although the facility and opportunity for this exists.	Proposed Action: to facilitate periodic private discussions between the Audit Committee and external auditor.	Yes. This has been implemented and the facility for is available after the conclusion of each meeting.
Have all members' skills and experiences been assessed and training given for identified gaps?	Not formally.	Proposed Action: All members' skills and experiences will be assessed and training given for identified gaps.	Yes. An assessment was made and results reported to Audit Committee which informed the training which took place on 11 June 2013. Further training on risk is also planned.

Based on the above and the work of the Audit Committee in 2012/13 in receiving no and unlimited audit reports, and the actions taken in respect of these during the year, the system of Internal Audit is assessed as satisfactory overall.

<u>Effectiveness Review of the System of Internal Control</u>

The review of the effectiveness of the system of internal audit is informed by the work of the Audit Committee, other regulatory committees, the work of the internal and external auditors, including the following.

<u>Head of Internal Audit Assessment of Governance and Internal Control Effectiveness during 2012/13</u>

The review of the effectiveness of the system of internal control is informed by the work of the Head of Internal Audit and her annual report on the overall adequacies of the internal control environment.

Head of Internal Audit Assessment of Governance and Internal Control Effectiveness during 2012/13:

The review of the effectiveness of the system of internal control is informed by the work of the Head of Internal Audit and her annual report on the overall adequacies of the internal control environment. In respect of the 2012/13 financial year, the following opinion has been given by the Head of Internal Audit;

"*In my opinion, formed solely on the basis of the work undertaken by internal audit and its partner organization in 2012/13, and the positive action taken or intended to be taken by managers to implement agreed audit report actions, Walsall Council's overall system of internal control facilitates the effective provision of the council's functions and provides a significant level of assurance regarding the effective, efficient and economic exercise of the council's functions.*

Control weaknesses were identified during the 2012/13 financial year and were reported as such to relevant managers. The opinion as to the level of assurance that can be placed on the system of internal control is based on an assurance that accountable managers address findings within the agreed audit report action plans in the areas for which they are responsible.

The system of internal control can only provide reasonable and not absolute assurance regarding the achievement of the council's policies, aims and objectives. The opinion is based on work in the approved operational audit plan, including irregularity, consultancy and advisory work carried out in 2012/13.

All audit work is subject to agreed terms of reference, objectives and resources allocated by the council for that purpose."

<u>2011/12 Identified Control Weaknesses</u>

The AGS effectiveness review is also informed by work undertaken in 2012/13 to improve control weaknesses identified in the previous year's AGS.

No fundamental financial systems audits received a limited assurance opinion in 2011/12, however, three were borderline significant, these being ppayroll, accounts payable and capital programme / project management.

With regard to the 'payroll' review, the summary audit opinion stated:

- There continues to be significant areas for improvement in ensuring controls and processes are fully effective particularly in the processing of new starters, variations to pay and leavers.

With regard to the 'accounts payable' review, the summary audit opinion stated:

- Some improvement is required partly due to the introduction of Finance Direct which has been implemented across the council since the previous audit and is still being embedded and also an increase in the uptake of purchase cards. In particular improvements are required for policies and procedures, system security, officer authorisations, invoice goods receipting, payment of invoices and credit notes, delegated bank accounts, purchase cards and data protection.

With regard to the 'capital programme and project management' review, the summary audit opinion stated:

- Management attention is, required in the management of work (effectiveness of controls), most notably, in ensuring that effective project management is in place and that inconsistent working practices and controls within start up and initiation, monitoring and reporting and project closure stages of capital programming and project management are addressed. Without management attention in these areas, the risk of project failure over spends and non-achievement of benefits (efficiencies, savings and customer satisfaction) remains a threat to the capital programme and project management operations.

During 2012/13 these areas were subject to audit.

Capital programme and project management were audited separately, capital programme receiving a significant assurance and project management receiving a provisional limited assurance (this is subject to final review and sign off by the head of Internal Audit and therefore may change).

Payroll received a borderline significant assurance opinion. Accounts payable received a limited assurance opinion. Further detail is included in the next section.

<u>Internal Audit 2012/13 Identified Control Weaknesses</u>
The AGS effectiveness review is also informed by internal audit work undertaken in 2012/13, the findings of these reviews and actions plans put in place by managers address control weaknesses.

Fundamental Financial Systems:
During 2012/13, Internal Audit reviews were undertaken of the 13 fundamental financial systems. Internal Audit has acknowledged that the majority of key financial systems are operating satisfactorily, as follows:

- Significant assurance opinion – 10, including 2 borderline significant - payroll and treasury management
- Limited assurance opinion – 3, including accounts payable and 2 provisional opinions – housing & council tax benefit and project management

In respect of payroll, the summary overall opinion stated that the design of work (sufficiency of controls) within the payroll service is generally sound. Weaknesses in compliance have, however, been noted in the management of work (effectiveness of controls), most notably in the processing of new starters; variations to pay; leavers and transfers; and ensuring policies and procedures are up to date.

In respect of treasury management, the summary overall opinion stated that the design of work is sufficient but the management of work (effectiveness of controls) was weakened by a number of key staff absences.

In respect of the following audits where a limited or limited provisional assurance was given:

Accounts payable (creditors) - the design and management of work in operation within accounts payable requires attention, most notably in ensuring that effective and robust system security is established, payment authorisation processes are strengthened and ensuring that only legitimate invoices are processed and paid. The processing of credit notes also requires attention, as do controls for VAT in ensuring compliance with HM Revenues & Customs requirements.

Whilst this audit received a limited assurance opinion, it was noted that, in the main, this was due to exceptions identified during audit testing of 'other' creditor payment methods such as purchase cards and delegated bank accounts where controls were found to require attention.

Housing & council tax benefits (provisionally limited) - Generally, the design and management of work in operation within housing & council tax benefits requires some strengthening, most notably in ensuring that:-

- there is sufficient documentary evidence available to support benefit entitlement awarded to claimants;
- all relevant benefit records and accounts are updated to record all transactions and all records are protected against loss / unauthorised access;
- sufficient system controls are in place to ensure that all benefit assessments are correctly calculated and valued;
- robust systems are established to ensure that all benefit claims, amendments and cancellations are processed promptly;
- write offs are approved and authorised in accordance with officer delegations as set out in the council's constitution;
- all benefit applications and payments are legitimate and appropriate with adequate controls in place for declaration of income;
- benefit payments are made in a timely manner and in accordance with legislative requirements and best practice targets;
- segregation of duties and hierarchical access controls, including authorisations and approvals, are sufficient as required in the council's financial rules; and
- the system for collection and monitoring of measures to determine purpose is implemented as planned; and a review of the effectiveness of these measures against routine benefits performance indicators is undertaken to ensure that indicators of system failures are not missed.

Project management (provisional limited) - attention is required in both the management and design of work, in particular, in ensuring that the 'Walsall Change Approach' is finalised and embedded across the council which will address inconsistent working practices and controls within project start up and initiation, monitoring and reporting and closure stages of projects. A set of suitable measures for performance should also be developed.

Other Financial and Non Financial Systems:

In addition to fundamental financial systems, 98 audit reviews were undertaken of other financial and non financial systems and processes that contribute to the council's overall corporate governance arrangements. None of these were material in the context of the statement of internal control, however, 16 of these reviews received a limited assurance opinion.

In summary, 111 specific planned audit reviews were undertaken, excluding unplanned irregularity and consultancy work. Of these:

- No reviews received a full assurance opinion (1 in 2011/12);
- 93 reviews (84%) received a significant assurance opinion {91 or 91% in 2011/12), 5 of these were borderline (9 in 2011/12);
- 18 reviews (16%) received a limited assurance opinion (8 or 8% in 2011/12); and
- No reviews received a no assurance opinion (none in 2011/12).

Of the 18 limited assurance opinion audits, 3 are fundamental financial systems as set out in above, and remaining 15 are

- Attendance management (sickness)
- Contract Systems – Kier Construction Central
- Declaration of interests, gifts & hospitality and overseas travel
- Children's - Disabilities Assessment Centre
- Children's - Family Placement (Foster Care & Adoption)
- Children's - Initial Response Service
- Children's - Looked After Children
- Children's - Safeguarding – Family Support
- Children's - Pool Hayes JMI
- Regeneration - Building Services
- Resources - Procurement
- SCI - Benefits Based Charging
- SCI - Independent Sector – Residential & Nursing
- SCI - Mental Health S117 (Aftercare)
- Social Care Operating Model

Further detail of these is set out in the Annual Report of the Head of Internal Audit on the Overall Adequacies of the Internal; Control Environment, reported to Audit Committee on 2 September 2013. Actions plans are in place for all these areas.

In addition to planned audit reviews, a number of unplanned jobs, including fraud and irregularity work was undertaken by the Internal Audit service during the year, 8 being notified through the whistle blowing procedure. A summary of the audit inquiry work undertaken is routinely reported to Audit Committee. All of the cases have or are being investigated by the section; controls have been subject to review and action taken as appropriate. While most cases were not material in the context of this opinion, one case in particular has given significant cause for concern this year and this is contained within section 5 of this statement.

<u>Regulatory Committee - Standards</u>

The functions of the Standards Committee are determined by statute and the Constitution. Standards Committee have a role in ensuring and promoting good ethical conduct. The Constitution clearly sets out the role of officers and members, including the three statutory posts of the Chief Finance Officer (S151 officer), Head of Paid Service and Monitoring Officer.

The Localism Act 2011 required the council to reconstitute its standards committee to deal with potential issues of member conduct. There is a statutory duty under section 27 of the said act for the council to promote and maintain high standards of conduct. To do so the council has to ensure that it has in place a code of conduct for elected members, arrangements for dealing with complaints about elected members behaviour, and a Standards Committee to determine issues of conduct. The council established these processes at a special meeting of Council on 25th June 2012.

External Audit Assurance

Grant Thornton has been appointed as the Council's independent external auditors by the Audit Commission. They have a broad role covering finance and governance matters. Their work in 2012/13 included:

- The Annual Audit Letter 2011/12 published 12 October 2012, designed to provide a brief overview of the auditor's key messages for the Council and external stakeholders, including members of the public. The Letter concluded that the Council had put in place proper arrangements for the conduct of its business, that public money was safeguarded and properly accounted for.
- The annual report to those charged with governance, published 13 September 2012, which provided an unqualified opinion of the 2011/12 accounts and a formal conclusion that the council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the VFM conclusion). A small number of recommendations were made which were discussed and agreed with the CFO.
- Grant certification report, reported to Audit Committee on 25th February, covering grant certification work for 2011/12. This covered the external audit of 3 claims and returns mounting to c£220m of the council's expenditure. All claims were submitted on time to the auditors and the audit certification was completed within the required deadlines. Two minor amendments were made during the audit. Two recommendations were made by the Auditors, which officers have agreed with.
- Financial resilience report, reported to Audit Committee on 25 February 2013, covering whether the council has put in place proper arrangements for securing financial resilience. The review covers key indicators of financial performance, our approach to strategic financial planning, financial governance and financial control. The overall conclusion was that, whilst the council faces some significant risks and challenges during 2012/13 and beyond, our current arrangements for achieving financial resilience are adequate and key characteristics of good practice appear to be in place.
- The annual Interim Audit, reported to Audit Committee on 24 June 2013, included a review of the council's overarching entity level controls, with six recommendations arising, none of which are material.

Financial and Risk Management

The council has a comprehensive set of strategies, plans and procedures in place in relation to financial and risk management. Regular reports are presented to senior officers, management teams, Audit Committee and Cabinet, including corporate risks, financial health indicators, medium term financial plans and service & corporate performance against budget, including corrective action plans.

External audit review the councils arrangements for delivering economy, efficiency and effectiveness in its use of resources (VFM conclusion) and audit the annuals statement of accounts. Their conclusions are set out above under "external audit assurance".

The council's medium term financial strategy and financial rules are regularly updated to ensure sound financial planning processes are in place. The council has a strong track record of delivering savings and out-turning within the approved budget. Treasury management activities are operated in accordance with the statutory Code of Practice.

In 2012/13, Audit Committee made a number of suggested improvements to the reporting of corporate risks which are currently being incorporated into the corporate risk register for consideration by CMT in July and Audit Committee in September.

Performance Management

As previously stated, the corporate plan 2014/2016 explains what we are doing as a council; the Working Smarter Programme is the delivery plan for achieving the corporate plan priorities. Responsibility for managing performance lies with individuals at all levels in the organisation and the current performance management framework and approach taken continues to empower staff, services and leadership to apply the principles of performance management appropriately as required to individual circumstances. Where required specific performance boards continue to meet, in some areas focus has been on the development of information sharing to inform action being taken on an area basis and corporately information is received via the Working Smarter Board. The opportunity has been taken to streamline and remove duplication in reporting arrangements. Whilst the organisation has tested and developed its approach to developing measures (in light of the removal of the National Indicator Set) priority has been given to areas of greatest risk and importance (for example children services) so that the needs of external inspection and internal management are met.

It is acknowledged that from a public perspective there has been limited visibility in reporting terms of how the council is performing overall. A refreshed corporate performance management framework and tool kit is currently being developed and will be implemented in September 2013 and is being designed to demonstrate progress against objectives and outcome measures. During August the revised Performance Framework will be consulted on with senior managers via the Assistant Directors Forum. It will then be presented to Audit Committee and then onwards to Cabinet.

Information Governance

The council has since the end of 2011 been establishing a range of measures to ensure that it is compliant with national and statutory requirements relating to the management of information. A framework has been created which sets out these requirements and the key responsibilities relating to information risk and security, information rights and records management, underpinned by a number of procedures and supporting guidance providing users with specific information about how they should protect and use information lawfully and appropriately. One of the key requirements of this Framework is all staff must complete appropriate training relating to Information governance on an annual basis, to ensure that they receive adequate and up to date training. The Chief Executive has personally promoted the importance of compliance with the Framework.

The primary governance for this area is carried out by the forum for information governance and assurance (FIGA) comprising the senior information risk owner (Head of Programme Delivery and Governance, Internal audit, risk management, HR, ICT, legal services and directorate information champions. FIGA reports into the Corporate Management Team.

FIGA has:

- Monitored the effectiveness of protecting Information training and its take up.
- Reviewed the council's process for handling investigations and reporting incidents and breaches.
- Approved and issued revised procedures and actions, relating to information governance and ensuring that they are implemented.
- Received reports on the numbers and types of data breaches.

The council is in the process of completing a total data flow mapping exercise to ensure that all flows of personal confidential data are recorded and carried out securely. The Caldicott Guardian is responsible for approving all data flows where the flow of information is particularly sensitive and or large in size.

There have been a number of breaches of the Data Protection Act reported to the information governance team during this period, the majority of which. The majority of the data breaches relate primarily to a failure to keep personal data secure. Information analysed indicates that this has been largely due to information being 'disclosed in error', 'non secure transfer', unauthorised access/ disclosure, and or 'lost or stolen paperwork'.

A serious data breach was reported to the information governance team in January 2013; this related to a large number of data subjects and involved data being transmitted insecurely. The risk assessment and management of this breach has been conducted in 2 parts and in consultation with Internal Audit. At the time of reporting, an informal notification of the first part of the breach has been made to the Information Commissioner's Office (ICO) and a decision regarding the second part is expected to be made shortly. No formal notification to the ICO has yet been made.

<u>Other Supporting Evidence</u>
The review of effectiveness is also informed and evidenced by the following;

- Quality assurance controls put in place by the Head of Internal Audit and managers, in managing and delivering the Internal Audit service in accordance with the CIPFA code of practice and including such areas as discussion/agreement of the risk based audit plan and each individual audit review;
- The role of the Audit Committee in endorsing Internal Audit's work plan and in their regular review and scrutiny of audit performance and;
- The work of Audit Committee reviewing specific reports which have been awarded no or limited assurance for detailed scrutiny, ensuring the committee is able to be assured that operational and control issues are being dealt with appropriately and that managers' agreed actions are being implemented. The committee are able to seek explanation from managers failing to progress agreed actions.
- The preparation and presentation of an Annual Report to Council of Audit Committee's work, assisting it to discharge the committee duty to provide independent assurance on the adequacy of the council's risk management framework and the internal control and reporting environment.
- The regular review of Internal Audit work by the CFO including meetings with the Head of Internal Audit;
- The council has a Local Code of Governance which was approved by Audit Committee and Standards Committee in 2008/09. Review of the Code against the CIPFA/SOLACE framework highlighted some areas of omission (partnership protocol and need for awareness training). A partnership toolkit has now been produced along with a register.

Whilst the officers who drafted this AGS, evaluated assurances and supporting evidence, concluded the effectiveness of the governance framework, in respect of the systems of internal audit and internal control is satisfactory overall, in undertaking the annual review of effectiveness, there are a couple of significant governance issues which occurred during 2011/12 and 2012/13 that suggest some further action is required to review the application of the governance framework to ensure that the organisation is compliant with and demonstrating good governance. These issues and an approach to how the review might be undertaken are set out in the next section.

5. Significant Governance Issues

The identification, analysis and management of risks for the delivery of its objectives are key to maintaining an effective system of internal control. It is also recognised that there remains a further need to fully embed the internal control procedures across the organisation.

During 2011/12 and 2012/13 a number of significant governance issues occurred.

Human Resources

An audit investigation into irregularities was undertaken during 2011/12 which concerned recruitment and selection; procurement; and pay and grading (officer re-grade) practices within human resources.

The investigation report, which identified significant control weaknesses within these practices, together with an agreed action plan was reported to Audit Committee on 23 July 2012, where members received assurance that action was being taken to address the concerns identified. A follow up detailing progress against the action plan was reported to Audit Committee on 12 November 2012, which concluded that of the 6 actions contained within the plan, 5 were found to be implemented and 1 was partially implemented, pending the appointment of a permanent Head of Human Resources. The new Head of Human Resources commenced on 2 April 2013. The remaining action will be followed up and reported to Audit Committee.

The control weaknesses, whilst significant, were contained solely within the Human Resources services and did not impact on recruitment and selection, procurement, and grading practices across the rest of the organisation.

Social Care

Allegations (including whistleblowing) were received from different sources in respect of procurement practices, the management of appointeeships and systems to implement personalisation within social care and inclusion. Work undertaken in respect of this is now subject to an external review which is yet to report its findings.

Inspection of Safeguarding and Looked After Children Services

OFSTED's report, which was published on 31 July 2012, concluded that safeguarding services and aspects of safeguarding outcomes for children and young people were inadequate. Services for looked after children were found to be adequate.

An improvement plan was put in place to implement the actions outlined in the report and an independently chaired Improvement Board established to oversee progress against the improvement plan. Progress has been reported by the executive director for children's services to Audit Committee on 12 November 2012 and 25 February 2013.

An un-announced OFSTED re-inspection took place between 24 June 2013 and 3 July 2013. The resultant report concluded that the overall effectiveness of the arrangements to protect children in Walsall was judged to be adequate (a service that meets minimum requirements). A further update to the Audit Committee from the executive director for children's services on progress against the improvement plan, including the outcome of the recent un-announced inspection was presented on 2 September 2013 with a further planned for 11 November 2013.

Actions Arising
As a result of the above governance issues, and to reflect the council's new way of delivering services through a systems thinking model, the council established a corporate governance group in July 2013 to carry out a full review of corporate governance over the forthcoming twelve months. This review will encompass a gap analysis of corporate governance based around the CIPFA framework of delivering good governance in local government.

The review will identify a programme of work that will ensure that resources are directed in accordance with council policy and according to priorities; that there is sound and inclusive decision making; and that there is clear accountability for the use of those resources, in order to achieve the desired outcomes for service users and communities. In particular the corporate governance group will focus on the corporate plan and supporting priorities; the way we deliver services in support of the corporate plan; specific lessons learned arising out of Audit investigations; risk; performance management; and ethical governance/behaviour. The review will also look at how we embed governance and ethical behaviour across the organisation, supporting and empowering staff to deliver services in an ethical manner according to customer demand.

This group will report progress to Audit Committee, on a six monthly basis, and the outcomes from this work will also feed into the Annual Governance Statement for 2014/15.

....

Paul Sheehan
Chief Executive
XX September 2013

In approving this statement, the views and assurances of the statutory officers and Executive Directors have been sought and appropriate evidence obtained to support it.

....

Councillor Mike Bird
Leader of the Council
XX September 2013

In approving this statement, the views and assurances of the statutory officers and executive directors have been sought and appropriate evidence obtained to support it.

Glossary

A

Account and Audit Regulations 2011: The current sets of regulations which detail the accounts needed, how they should be published, the right of electors, and the conduct of the annual statutory audit.

Accounting period: The period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period i.e. 31 March, is the balance sheet date.

Accounting policies: Within the range of possible methods of accounting, a statement of the actual methods chosen locally and used to prepare these accounts.

Accruals basis: The method of including amounts in accounts to cover income or expenditure attributable to an accounting period but for which payment has not been received or made by the end of the accounting period. This is based on the concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Agency Services: Work carried out by one party on behalf of another.

AGS: Annual Governance Statement.

Amortisation: Loss in value of an intangible asset due to age or obsolescence.

Appropriations: Transferring of an amount between specific reserves in the income and expenditure account.

Asset: Something of value which is measurable in monetary terms owned by the council and is convertible to cash.

B

Bad (and doubtful) debts: Debts which may be uneconomic to collect or unenforceable.

Balance Sheet: A statement of the recorded assets, liabilities and other balances at the end of an accounting period.

Balances: The reserves of the council, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of its funds.

Billing authority: Walsall Council is the billing authority responsible for the collection of council tax and non-domestic rates. The council tax includes amounts for precepting authorities – the West Midlands Fire and Civil Defence and Police Authorities.

Budget: A statement of the council's expected level of service expressed as an amount of spending over a set period, usually one year.

C

Cabinet: The executive decision making body of the council made up of portfolio holding executive members. Operates in a similar style to central Government.

Capital Adjustment Account: Financing of capital expenditure passes through this account.

Capital expenditure: Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of existing fixed assets.

Capital receipts: The proceeds from the sale of a fixed asset, or the repayment of an advance made by the council.

Capitalised: Transferred from revenue to capital.

Carrying Amount: The balance held on the balance sheet as at the year end date.

Cash and cash equivalents: This comprises cash in hand, cash overdrawn and short term investments which are readily convertible into known amounts of cash.

Cash flow: Movement in money received and paid by the council in the accounting period.

Cash flow statement: Statement showing the cash inflows and outflows during the year.

Charity: Trust created for advancement of education, promotion of public health and comfort, relief of poverty, furtherance of religion, or any other purpose regarded as charitable in law.

Chartered Institute of Public Finance and Accountancy: The professional body that oversees accounting practice within public bodies.

Chief financial officer: Statutory officer responsible for managing the financial risks and financial planning of the council.

CIES: Comprehensive income and expenditure statement.

CIPFA: Chartered Institute of Public Finance and Accountancy.

CIPFA/LASAAC Code of Practice on Local Authority Accounting: The Statement of Recommended Practice applicable to preparing the accounts.

CMT: Corporate management team.

Collection Fund: A statutory account which billing authorities have to maintain for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR).

Community assets: Assets that the council intends to hold in perpetuity, have no determinable finite useful life and in addition may have restrictions on their disposal. Examples of community assets are playing fields and parks.

Comprehensive income and expenditure statement: This shows the council's net expenditure on providing services during the year, based on proper accounting practices, prior to adjustments required for taxation purposes.

Comprehensive Spending Review (CSR): Review by central government to determine spending priorities for the following three years. This review determines the level of funding for local government.

Consistency: The concept that the accounting treatment of like items within an accounting period and from one period to the next should be the same.

Consolidated: Added together with adjustments to avoid double counting of income, expenditure or to avoid exaggeration, e.g. debtors, creditors as a result of trading between services within the council which are reported on as a whole in the section on consolidated financial accounts.

Contingent assets: Potential assets at the balance sheet date which depend on the occurrence or non-occurrence of one or more uncertain future events. The assets should be included in the balance sheet where it is probable that a gain will be realised which can be estimated reasonably accurately at the time the accounts are prepared, otherwise, where the contingencies are likely to be material, the fact that they exist should be disclosed as a note to the accounts.

Contingent liabilities: Potential liabilities at the balance sheet date which depend on the occurrence or non-occurrence of one or more uncertain future events. The liabilities should be included in the balance sheet where it is probable that a loss will be incurred which can be estimated reasonably accurately at the time the accounts are prepared, otherwise, where the contingencies are likely to be material, the fact that they exist should be disclosed as a note to the accounts.

Corporate and democratic core: Defined elements of support service costs which are not chargeable to services, sub-divided into Democratic Representation and Corporate Management.

Corporate management: Those activities and costs which provide the framework for services to be undertaken and information required for public accountability.

Corporate management team: The most senior management team within the council. Responsible for ensuring decisions made by cabinet and Council are implemented within the authority.

Council tax: A banded property tax which is levied on domestic properties throughout the country. The banding is based on estimated property values as at 1 April 1991. The level of tax is set annually by each local authority for the properties in its area.

Council tax benefit: Financial assistance available to residents on a low income who are liable for council tax. The majority of the cost to the council of these benefit payments is reimbursed by central government grant.

Creditors: Amounts owed by the council for work done, goods received or services rendered to the council during the accounting period, but for which payment has not been made by the balance sheet date.

Curtailments: Costs incurred as part of pension costs for redundancy/efficiency retirements.

Current assets: Assets which are easily converted to cash e.g. stock and debtors.

Current liabilities: Liabilities which are easily converted to cash e.g. creditors.

D

DCLG: Department for Communities and Local Government.

Debtors: Amounts due to the council which relate to the accounting period and have not been received by the balance sheet date.

Dedicated Schools Grant (DSG): Funding from central Government whose sole purpose if to fund the provision of an education service.

Deferred capital receipts: Amounts derived from the asset sales which will be received in instalments over a period of a year (e.g. mortgages on the sale of council houses).

Deferred liabilities: These are liabilities which are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time, e.g. deferred purchase arrangements.

DEFRA: Department for Environment, Food and Rural Affairs.

Department for Communities and Local Government: Responsible for Government policy and advice on community affairs and local Government.

Department for Education: Responsible for Government policy and advice in connection with education and the social welfare of children and families.

Department for Environment, Food and Rural Affairs: Responsible for Government policy and advice on environmental, agricultural and rural issues.

Depreciation: The loss in value of a tangible fixed asset due to age, wear and tear, deterioration or obsolescence.

Depreciated Replacement Cost (DRC): A valuation technique that is based on the current cost of reproduction or replacement of an asset less deductions for depreciation based on an assets current remaining life.

De-recognition: The reduction in asset values due to transferring ownership of assets.

DfE: Department for Education – responsible for Government policy and advice in connection with education and the social welfare of children and families.

Discounted Cash Flow (DCF): A method of estimating an investment's current value based on the discounting of projected future revenues and costs.

Diocese: An administrative territorial unit administered by a bishop i.e. Bishop of Lichfield.

E

Earmarked reserves: These reserves represent the monies set aside that can only be used for a specific usage or purpose.

ED: Executive Director.

EU: European Union.

Exceptional: Material items which arise from events or transactions that fall within the ordinary activities of the council and which by virtue of their size or incidence need to be disclosed separately to give a fair presentation of the accounts.

Expenditure: Costs incurred by the council for goods received, services rendered or other value consumed during the accounting period, irrespective of whether or not any movement of cash has taken place.

Equity: Stocks and shares that represent an ownership interest in a company.

F

Fair Value: An estimate of the potential market price of an asset or liability.

Finance lease: A lease that transfers the risk and rewards of ownership of a fixed asset to the lessee. Such a transfer of risk and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amount to substantially all the fair value of the leased asset.

Financial instrument: Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Fixed assets: Tangible assets which have value to the council for more than one year, e.g. land, buildings, equipment.

FRS: Financial Reporting Standard. Accounting standards that apply to all accounts unless there is legislation or a SORP covering that area.

G

General Fund: The main revenue account of the council, which brings together all income and expenditure other than recorded in the Housing Revenue Account, PSE accounts and the Collection Fund.

Government support/grants: Assistance by Government and inter-Government agencies and similar bodies, whether local, national or international, in the form of cash or transfer of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the council.

H

Historical cost: The actual cost of assets, goods or services, at the time of their acquisition.

HMRC: Her Majesty's Revenue and Customs.

Housing benefits: Financial assistance paid to tenants on a low income to help pay their rent and service charges.

HR: Human Resources.

I

International Accounting Standard (IAS): Standards for the preparation and presentation of financial statements created by the International Accounting Standards Committee (IASC).

ICT: Information and communication technology.

IFRIC: International financial reporting interpretations committee.

Impairment: Downward revaluation due to the consumption of economic benefits.

Income: Amounts due to the council in respect of services performed, taxes levied or grants receivable during the accounting period, irrespective or whether or not any movement of cash has taken place.

Infrastructure assets: Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

International financial reporting interpretations committee: This committee offers interpretation of IFRS.

International financial reporting standard (IFRS): Accounting standards that have replaced SSAP and FRS for the 2010/11 financial year. All accounts from this period will be reported under these standards.

Inventories: Raw materials and consumable items which the council has procured to use on a continuing basis and has not been used by the end of the accounting period.

Investment properties: Interests in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arm's length.

Investments: Items such as company shares, other securities and money deposited with financial institutions (other than bank current accounts).

IT: Information technology.

J

Joint arrangements: An arrangement between the council and other public bodies, ie pooled budgets, to jointly carry out a service.

L

LASAAC: Local Authorities (Scotland) Accounts Advisory Committee.

Leasing: A method of acquiring the use of an asset by paying a rental for a specified period of time, rather than purchasing it outright.

Levies: A charge from a public sector body towards the services they provide.

Liabilities: Amounts due to individuals or organisations which will have to be paid at some time in the future.

LOBO: Lenders Option Borrowers Option. A form of loan that has option dates. These are dates where the lenders have the ability to change the interest rate. If this happens the borrower then has the option of either continuing the loan or redeeming it in full without any penalty.

M

Material: The concept that any omission from or inaccuracy in the statements of account should not be large enough to affect the understanding of those statements by a reader.

Minimum revenue provision: The minimum amount which must be charged to a council's revenue accounts and set aside as a provision to repay external debt. It is calculated by applying a prescribed percentage of outstanding debt.

Movement in reserves statement: Statement that shows the movement in all the council's reserves over the year and the movements required for taxation purposes.

N

National non-domestic rates: A tax levied on business properties, sometimes known as Business Rates. An NNDR poundage is set annually by the Government. Rates based on properties' rateable values are collected by billing authorities and paid into a national pool. The proceeds are then redistributed by central Government as a grant to local authorities in proportion to adult population.

Net book value: The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided by depreciation.

Net realisable value: The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NNDR: National non-domestic rates.

Non-Distributed costs: Costs that are not allocated to specific services as required by the accounting code of practice.

Non-operational assets: Fixed assets held by the council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements pending sale or redevelopment.

O

Operating lease: A lease where the risks and rewards of ownership of a fixed asset remain with the lessor. Such a lease will be for a fixed period which is significantly less than the useful economical life of the asset.

Operational assets: Fixed assets occupied, used or consumed by the council in direct delivery of those services for which it has either statutory or discretionary responsibility.

P

PFI: Private finance initiative.

PPP: Public Private Partnership.

Precept: A levy determined by one authority which is collected on its behalf by another e.g. Walsall Council collects Police and Fire Authority precepts.

Precepting authority: An authority which raises finance through another authority.

Prior year adjustments: Material adjustments to the accounts of earlier 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.

Provisions: Amounts set aside in the accounts for liabilities or losses which are certain or very likely to occur but where there is uncertainty as to the amounts involved or the dates on which they will arise.

Prudential Code: The current system on financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate by.

Public Works Loan Board (PWLB): A central Government agency which lends money to local authorities at lower rates than those generally available from the private sector. Local authorities are able to borrow a proportion of their requirements to finance capital expenditure from this source.

R

Replacement cost: Cost of replacement of an asset at the balance sheet date.

Reserves: Amounts set aside in the accounts to meet expenditure which the council may decide to incur in future period, but not allocated to specific liabilities which are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as balances, and usually arise as unplanned surpluses of income over expenditure.

Revaluation: The increase or decrease in an assets value following valuation by a suitably qualified person.

Revenue contributions: Method of financing capital expenditure directly from revenue.

Revenue expenditure funded from capital under statute: This is expenditure that would normally be classed as revenue under normal accounting rules, but legislation has defined as being capital expenditure.

Revenue Support Grant: A central government grant paid to each local authority to help to finance its general expenditure. The distribution of the grant between authorities is intended to allow the provision of similar standards of service throughout the country for a similar council tax levy.

Ring-fenced: This refers to the statutory requirement that certain accounts such as the Collection Fund must be maintained separately from the General Fund.

S

Service concession arrangements: An arrangement such as a PFI or PPP whereby a private contractor builds and operates infrastructure for a set contract term. Any assets built as part of the contract are then returned to council ownership at the end of the arrangement.

Section 106: Legally binding agreement between the council and developers by which developers provide a contribution to assist in the redevelopment of a specified area and for a specified purpose.

SPECTRUM: The UK museum collections management standard maintained by the Collections Trust. It is recognised both nationally and internationally as best practice.

Supported Borrowing: The level of borrowing that the council receives funding for from central Government to support capital expenditure.

T

Trust funds: Funds administered by the council on behalf of minors and others for such purposes as prizes, charities and specific projects.

U

UITF: Urgent Issue Task Force. These are abstracts that are accounting standards that apply to all accounts unless there is legislation or code of practice covering that area.

Usable and unusable Reserves: Usable reserves are those which the council can use to maintain its services whilst those that are unusable are not readily available resources and are held as balances.

W

WATMOS: Walsall Alliance of Tenant Management Organisations. A registered social landlord in Walsall that was created as a result of the large scale voluntary transfer of all the council's housing stock.

Contact details and sources of information

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This statement is available from the Walsall Council website www.walsall.gov.uk. Paper copies are also available from the above address.

Further information about police, fire and transport authority finances can be obtained at the following addresses:

CENTRO
16 Summer Lane
Birmingham
West Midlands B19 3SD
Website: www.centro.org.uk

The Treasurer to the Police Authority
Finance Department
Lloyd House
Colmore Circus
Queensway
Birmingham B4 6NQ
Website: www.west-midlands.police.uk

The Treasurer
West Midlands Fire and Civil Defence Authority
Council House
Oldbury
Warley
West Midlands B69 3DE
Website: www.wmfs.net

Information on the West Midlands Authorities Pension Fund can be obtained from the following address:

West Midlands Pension Fund
PO Box 3948
Wolverhampton WV1 1XP
Website: http://www.wmpfonline.com

Information about Birmingham International Airport can be obtained from the following address:

Birmingham Airport Holdings Ltd
Birmingham International Airport
Birmingham B26 3QJ
Website: www.bhx.co.uk

Summary of Accounts 2012/13

Details of Walsall Council's spending during the past financial year

This summary set of accounts are not subject to audit, however are derived from figures within the 2012/13 Statement of Accounts and are presented as an overview.

Walsall Council

Introduction

The council's full set of accounts (the Statement of Accounts) runs to 130 pages. Its content is largely prescribed by accounting standards that all local authorities have to follow. This summary is intended to give the reader a brief, uncomplicated view of the council's financial results in 2012/13.

Financial review

In the financial year ended 31 March 2013, the total cost of services provided to the people of Walsall was £206.381 million. The total net expenditure shown on the comprehensive income and expenditure statement (CIES) was a deficit of £22.746 million. After statutory adjustments, such as the removal of depreciation, impairments and entries in relation to pension costs are applied the council shows an overall surplus for the general fund of £2.453 million for the year. After taking into account a planned use of general reserves of £1.642 million and additional transfers of £2.601 million arising from unspent earmarked reserve allocations, the net position for the council is an underspend of £1.494 million.

Capital investment in 2012/13 totalled £53.171 million (£61.868 million in 2011/12). The expenditure was on items such as new schools and improvements to the borough's roads. This investment was largely paid for from borrowing, asset sales and grants.

A total of £5.221 million was received during the year from the sale of assets (£2.253 million in 2011/12). Some of this was used to pay for capital investment during the year with the remainder being programmed for use on capital investment in future years.

What do we spend money on and how is it funded?

Revenue Expenditure

Provided by	Income	£m	%
Government	Government grants	205.483	28%
Government	Dedicated schools grant	147.112	20%
Government	Non domestic rates	126.709	18%
Citizen	Council tax	109.522	15%
Citizen	Other income (rents, fees and charges, specific grants)	137.747	19%
	Total	**726.573**	**100%**

What income we get

What we spend it on

Cash?	Type of expenditure	£m	%
Cash	Employees	(220.688)	29%
Non cash	Depreciation, impairment and disposal of assets	(52.660)	7%
Cash	Supplies and service	(41.887)	6%
Cash	Housing benefits	(142.159)	19%
Cash	Precepts/Levies	(14.352)	2%
Cash and Non cash	Other running costs	(277.573)	37%
	Total	**(749.319)**	**100%**

Service	£m	%
Education	(263.572)	35%
Social services	(109.502)	14%
Highways/transport	(24.183)	3%
Cultural and related services	(20.384)	3%
Environmental and regulatory services	(30.097)	4%
Planning services	(12.813)	2%
Housing	(155.496)	21%
Precepts/Levies (Centro)	(14.352)	2%
Other	(118.920)	16%
Total	**(749.319)**	**100%**

And the services it provides

Revenue summary	£m
Income	726.573
Expenditure	(749.319)
Net revenue expenditure	**(22.746)**

Revenue summary

Category	£m
Charges for depreciation and impairment	(21.554)
Revaluation losses	4.325
Capital grants and contributions	11.518
Disposal of fixed assets	(40.172)
Pension costs	(2.170)
Other statutory movements	5.833
Total	**(42.220)**

Adjustment for costs not to be included within council tax

	£m
Net revenue expenditure	(22.746)
Adjustments for costs (as above)	42.220
Transfers to earmarked reserves	(17.021)
Total	**2.453**

General Fund balance

Capital Expenditure

The council also spends money on improving and repairing the land and property owned by the council so that first class public services can be offered, such as purchasing, upgrading and improving assets such as buildings and roads. In 2012/13 a total of £53 million was spent on capital investment. This was split as follows:

What we spend it on

Capital expenditure Type of asset	2012/13 £m
Land and buildings	13.174
Vehicles and equipment	5.505
Infrastructure	4.483
Community assets	2.221
Non operational assets	2.693
Subtotal	**28.076**
Intangible assets	0.102
Revenue expenditure funded from capital	24.993
Total	**53.171**

The following chart shows how Walsall Council has paid for capital expenditure this year.

Capital Financing Source	2012/13 £m
Unsupported borrowing	14.478
Capital receipts	4.625
Capital grants and contributions	32.577
Revenue	0.156
Acquired under finance lease	1.335
Subtotal	**53.171**

Where our money comes from

What are we worth – the council's balance sheet

The council's balance sheet gives a snapshot of the council's financial position at year end. It shows what the council owns (its assets) and what it owes (its liabilities). It also gives details of how these are all funded. Below is a summary balance sheet for the financial year ending 31 March 2013.

Balance sheet category	£m	Explanation
Fixed assets	448.134	Property, equipment
Other long term assets	43.674	Investments and long term debtors
Stock	1.145	Value of goods held such as food
Money owed to the council	41.154	By citizens and businesses
Investments	120.702	Short term cash deposits
Cash and cash equivalents	3.885	Cash in bank
Assets - owned by the council	**658.694**	
Money owed by the council	(63.939)	To businesses for goods purchased
Borrowing by the council	(266.145)	To fund capital expenditure
Pensions liability	(480.797)	Total pension liability
Other long term liabilities	(10.251)	Finance leases and PFI
Liabilities - owed by the council	**(821.132)**	
Total assets less liabilities	**(162.438)**	
Financed by:		
Distributable reserves	(165.290)	Can be used to fund future years
Non redistributable reserves	(153.069)	Accounting balances mainly for financing
Pensions reserve	480.797	Total pension assets
Total reserves	**162.438**	

As at 31 March 2013 Walsall council's balance sheet shows a negative net worth of £162.232m. It must be noted that Walsall council is in good financial health when comparing the ability to pay its current liabilities. Walsall council also has a balanced budget set for 2013/14. The negative net worth position at 31 March 2013 has been caused by holding a pension liability of £480.797m. It is planned for the pension liability to decrease and achieve a break even position in 20 years and contribution rates have been set for the next 3 years on this premise.

The statement of accounts are prepared on a going concern basis.

Cashflow

Walsall Council handles significant amounts of cash relating to both revenue and capital during the year. The cashflow shows the movement of money into and out of the Council's bank accounts. The statement does not show money owed to the council or owed by the council.

Money received by the council, or cash inflows, can come from a variety of sources such as local taxation, government grants, bank interest and fees and charges.

The cash outflows include purchases, interest and principal payments on loans, salaries and other costs and expenses.

	£m
Cash and cash equivalents at the start of the year	**0.387**
Cash inflows	920.369
Cash outflows	(916.871)
Cash and cash equivalents at the end of the year	**3.885**

£726.573m from revenue activities
£192.995m from investing activities
£0.801m from financing activities

£693.425m from revenue activities
£218.787m from investing activities
£4.659m from financing activities

Glossary

Please see the glossary included within the Statement of accounts for an explanation of some of the accounting terms used within this document.

The statement of accounts has been prepared in accordance with the Accounting Code of Practice. The figures for this summary were originally compiled having regard to proper accounting practice.

The council's 2012/13 accounts are audited by Grant Thornton who issued an opinion on the accounts on 25 September 2013.

A full copy of the council's accounts is available at www.walsall.gov.uk. Alternatively call 01922 650708 to obtain a copy.