**Audit Committee – 25 September 2012**

**Statement of Account 2011/12: Post-Audit**

**Summary of report**

This report presents the audited Statement of Accounts **(Appendix 1)** and a summary of these (**Appendix 2**), along with the council's letter of representation (**Appendix 3**), which the council is required to provide to Grant Thornton, and is signed by the Chief Finance officer and Chief Executive.

Grant Thornton's report on the authority's accounts is attached as (**Appendix 4).**

**Recommendations**

Audit Committee are requested to:

1. Receive the annual governance report from Grant Thornton on their audit of the 2011/12 statement of accounts and consider the key messages **(Appendix 4)**.
2. Note that there have been agreed amendments made to the accounts during the audit.
3. Endorse the letter of representation attached **(Appendix 3)**
4. Note and approve the final post-audit statement of accounts for 2011/12 **(Appendix 1)**.
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 Finance Officer (CFO) to distribute copies of the audited statement of accounts to partners and stakeholders alongside the Annual Governance Statement 2011/12.

**James Walsh**
**Chief Financial Officer**
**14 September 2012**

**Governance**

Councils must produce annual accounts in line with the Accounts & Audit (England) Regulations 2011. In addition, the act requires that the Chief Finance Officer and Chief Executive make accurate representations to their auditor in respect or fair presentation of the accounts. The Committee is asked to approve the letter of representation attached **(Appendix 3)**. 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 31.03.12 the post-audit statement of accounts shows general fund services, (including earmarked reserves) to have an overall surplus for the year of £0.411m. This results in net general reserves of £14.159m.

Within the statement of accounts there were a number of adjustments highlighted during the audit process. These adjustments did not have an effect on general fund reserves. The post-audit of statement of accounts **(Appendix 1)** has been updated for these changes and the Grant Thornton report **(Appendix 4)** makes reference to those changes.

There are 2 changes between the pre and post audit accounts which cause the majority of changes to the financial statements:

- Solihull MBC prepared a valuation for Birmingham Airport and commissioned BDO LLP to verify this valuation was reasonable. Walsall council received this information in August 2012 and this valuation showed that:
    - The value of Walsall council's ordinary shares increased from £15.836m to £17.776m, an increase of £1.940m
    - Walsall's preference shareholding increased from £1.420m to £1.558m, an increase of £0.138m.
    - The above is therefore a change to the accounts due to timing of receipt of the valuation rather than as a result of a misstatement in the accounts.

- An accrual for £850k on the academies capital programme was missed and this increased expenditure but did not impact reserves. The control environment has been improved for this unique project.

There were a number of changes to the disclosure documents, however these are insignificant and had no impact on the level of reserves.

**Performance management and risk management issues**

The 2011/12 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 2011/12, although some services did overspend.

The governance report at **Appendix 4** 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 and executive directors.

## Background papers

Various financial working papers, statutory and other guidance.

## Author

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# Walsall Council

# Financial Report for 2011/12

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 2012. 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 2011/12 accounts

The reporting requirements for the 2011/12 accounts remain broadly the same as those for the 2010/11 accounts with the exception of the introduction of Financial Reporting Standard 30 (FRS30) - Heritage assets. Further information on this change can be found in note 14, page 53.

## 3. Explanation of the statements

The comprehensive income and expenditure statement (CIES) on page 20 shows the costs of providing services in accordance with generally accepted accounting practices.

During 2011/12 the council received £763.504 million in income. After including non cash items such as depreciation, impairments and statutory pension adjustments it cost £793.897 million to provide the services of the council.

The net cost of services within the CIES shows that gross expenditure has reduced from £687.388 million in 2010/11 to £670.217 million in 2011/12. Gross income has also reduced from £472.220 million in 2010/11 to £443.075 million in 2011/12. This reflects the reduction in government funding and the transfer of some schools to academies.

Expenditure on adult social care has increased by approximately £6 million, due to increased demand. Expenditure on education and children's services has reduced by approximately £60 million attributable to the transfer of schools from the local authority to academies, and associated reduced costs of £33m. Back office service expenditure has reduced by around £3.5 million. Planning services expenditure has reduced by around £9 million. Approximately £49 million of other operating expenditure reflects the loss of schools buildings that were held on our balance sheet due to their becoming academies.

The actuarial loss on the pension fund of approximately £51 million is significantly higher than last year's £6 million gain. This is a result of the actuarial valuation changing to reflect market conditions. The council's contribution to the pension fund remained within our budget and it is anticipated that the liabilities will be met over the next 20 years.

Overall the CIES shows a deficit of £49.928 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, the 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 31 March 2012 general reserves are £14.159 million up slightly on 2010/11. Of these reserves £1.642 million is to be used in 2012/13 to assist in financing council expenditure that year. This planned use of reserves leaves £12.517 million available to the council. These movements can be seen within the movement reserves statement on page 18.

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 children come into care, and an ageing infrastructure, services have been provided within budget and long-term debt (borrowing) has reduced by approximately £18 million. This financial performance was achieved without the need to increase council tax or supplement ongoing expenditure with one of reserves. The council's balances at the end of 2011/12 are at a level consistent with the requirements of the medium term financial strategy.

The deficit of £49.928 million within the CIES can also be reconciled back to the movement in the balance sheet between 2010/11 and 2011/12.

As at the 31 March 2012 Walsall Council's balance sheet (page 21) shows a negative net worth of £71.851 million. This is in large due to the net pension liability of £397.246 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 two years on this premise. In addition to this there has been a net gain of approximately £30 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, up from 2.28 in 2010/11. The council can cover its long-term borrowing by its long-term assets by 1.89, up from 1.83 in 2010/11. 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 has been good. A £5 million increase in long-term investments reflects the council's strategy of taking investment opportunities as interest rates become favourable. Short-term investments have increased by approximately £8 million reflecting the council's policy of protecting the principle invested by accepting a lower interest rate. Approximately £4 million worth of assets held for sale reflects the council's strategic approach to its property portfolio as it considers the best use of its assets going forward. The approximate £5 million reduction in short-term debtors and approximate £10.5 million reduction in short-term creditors over the previous year reflects well on the council's increased emphasis on cash flow management.

# 4. An overview of the council's financial performance in 2011/12

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 £61.868 million on capital expenditure in 2011/12. This expenditure was funded by grants and contributions of £40.761 million, borrowing of £18.760 million and other council resources of £2.347 million.

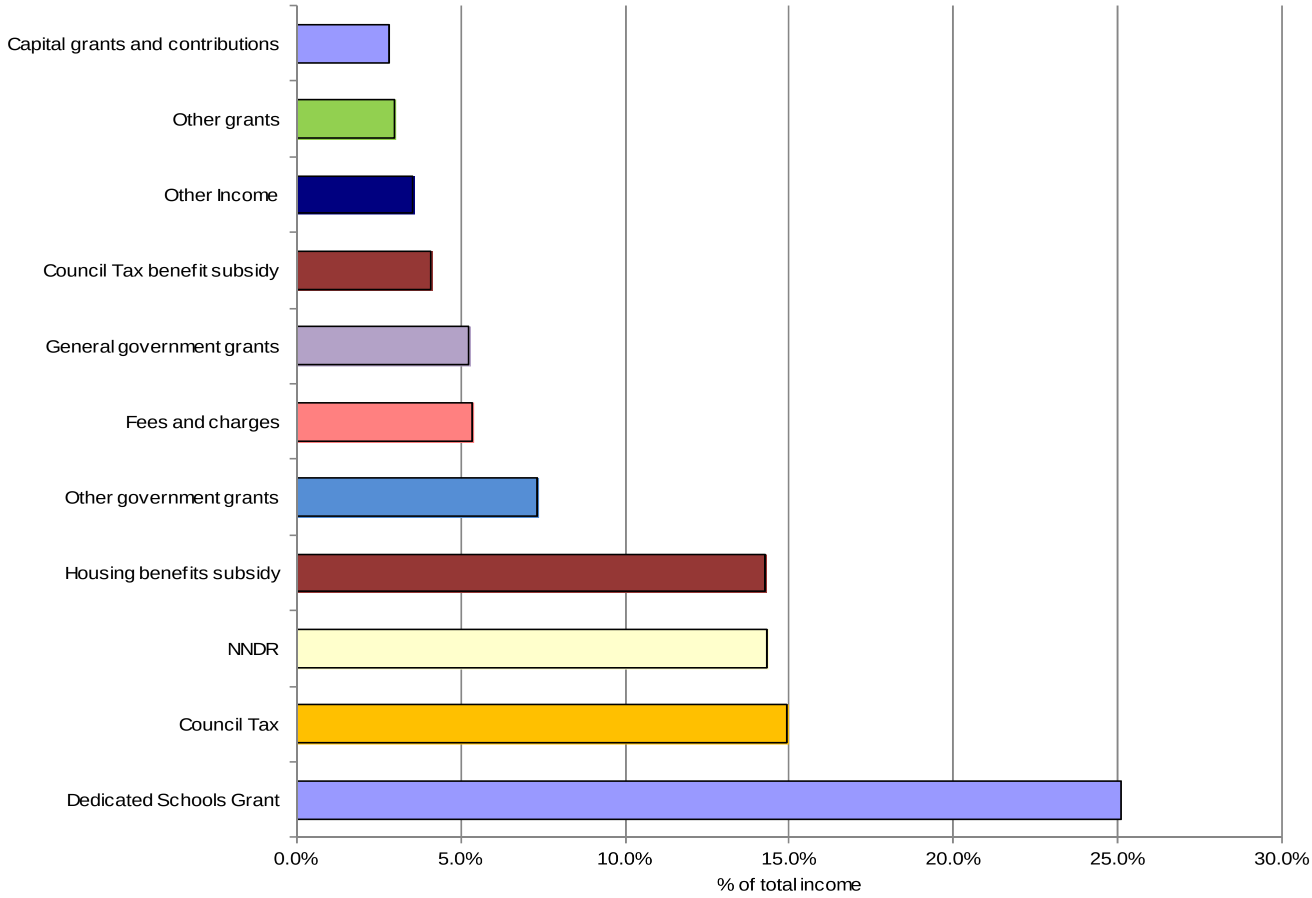
The major areas of capital expenditure were £25.975 million on land and buildings and £20.951 million on revenue expenditure funded from capital under statute. This expenditure arises when capital expenditure is incurred on assets not owned by the council and which therefore cannot be added to the council's 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.

## Revenue expenditure

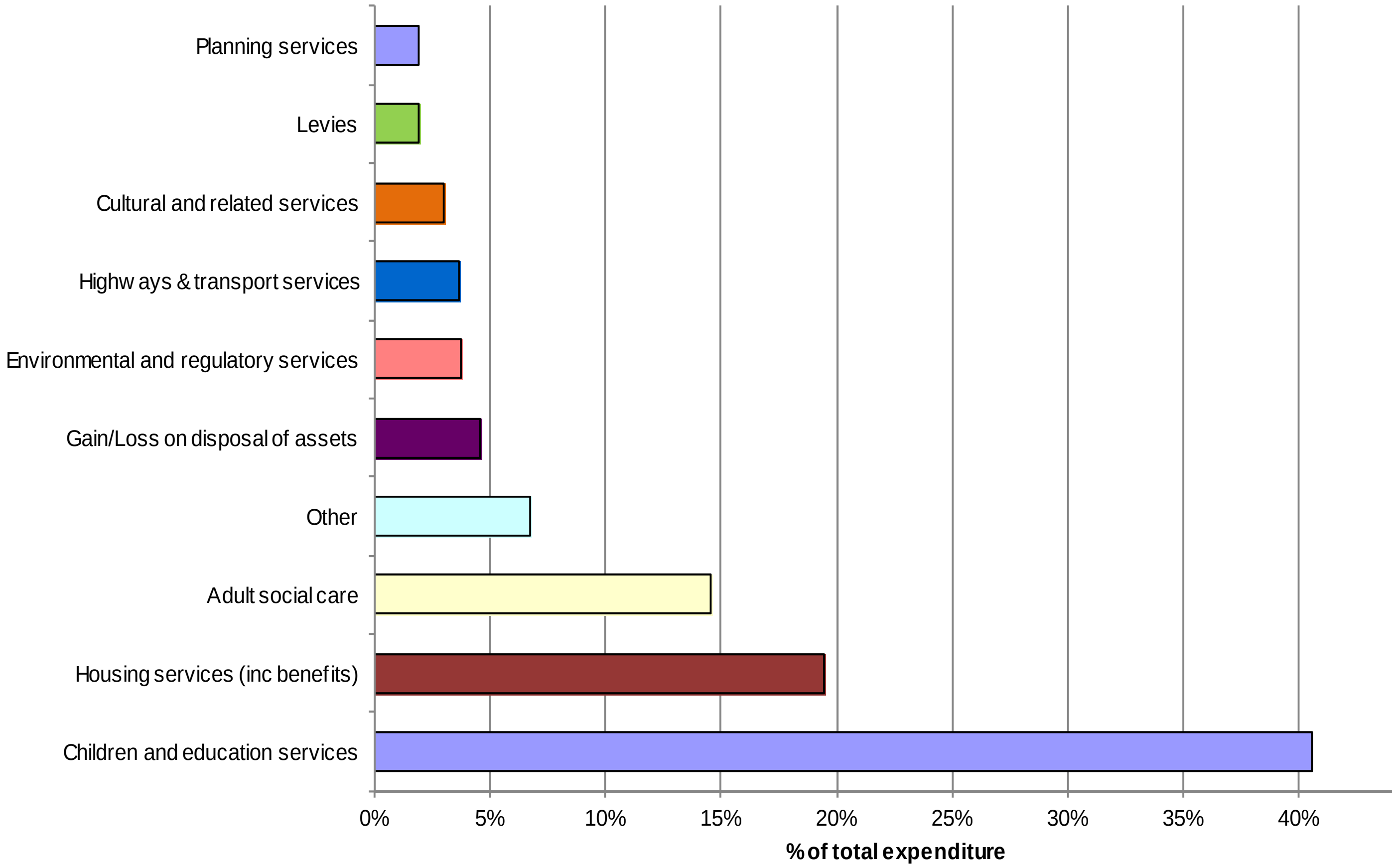
There has been similarly good performance in the area of revenue expenditure particularly in a climate of reduced funding. In October 2010 the comprehensive spending review was announced for 2011/12 to 2014/15. This detailed a reduction in overall local government funding of 28% over the four-year period. This reduction was frontloaded and has resulted in a real terms decrease in funding for 2011/12. During 2011/12 grants from government have fallen by approximately £25 million. A list of the grant changes can be found on page 97.

The total net expenditure for services prior to statutory adjustments is shown within the CIES on page 20. This shows that there was a deficit of £31.242 million for 2011/12. 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 £0.411 million for the year. After taking into account the in-year planned use of general reserves of £0.787 million, and additional transfers of just over £0.619 million, arising from unspent earmarked reserves allocations, the net position for the council is an underspend of £0.580 million.

The following graph shows the differing sources of income received by the council within the CIES on page 20.




The following graph shows how the council's total expenditure within the CIES (page 20) is split between services.




## Material and unusual changes to non-current assets

Following the introduction of FRS30 - Heritage assets, £13.981 million previously classified as community assets within property, plant and equipment has been reclassified as heritage assets. This change has been applied retrospectively to prior year balances.

During 2011/12 Joseph Leckie Community Technical College and Sneyd Community School transferred to academy status resulting in derecognition of land and buildings totalling £19.330 million.

## Pensions

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

As at 31 March 2012 there is an actuary calculated shortfall for Walsall Council of £397.246 million (£349.454 million at 31 March 2011) (see note 41, page 89 and note 42, page 89) between the forecast cost of future pensions and the value of the assets currently 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.

| | £m |
|---|---|
| Calculated shortfall as at 31 March 2010 | 392.396 |
| Calculated shortfall as at 31 March 2011 | 349.454 |
| Calculated shortfall as at 31 March 2012 | 397.245 |

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 has been one addition to the accounting policies following the introduction of FRS30 - Heritage assets.

The purpose of this accounting policy is to aid clarity within the accounts for assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, historic motor vehicles, civic regalia, order and decorations (medals), museum and gallery collections and works of art. Previously these types of asset were included within community assets on the balance sheet. This change in accounting policy has resulted in the council showing a third balance sheet. This reflects the changes made although in prior years the net effect on the council was nil.

The accounting policy for the Area Based Grant (ABG) has been removed from the accounting policies as this type of funding is no longer received.

## Major changes in statutory functions and planned developments

The Education Act 2011 looks for local authorities to play a different role in the provision of education. Key responsibilities will be to act as 'Champion of Choice' and encourage Academy/free schools, to support vulnerable children and children in alternative provision, to provide school transport arrangements which promote fair access and to develop school improvement strategies for trading to schools. The Academies Act 2010 will impact on the number of schools that the local authority will be providing. Already 10 schools (including 2 voluntary aided schools) are in the process of becoming an academy in 2012/13. Prior to 1 April 2012 17 schools had transferred to academy status.

The Local Government Finance Bill which is due to receive Royal Assent during the autumn of 2012/13 will introduce major funding changes to local authorities.

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. 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 £3.3 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.

The council is currently producing options for consultation with members and stakeholders and the impact of the preferred option will be included within the Councils financial planning framework for 2013/14 onwards. Walsall and the Police and 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 also 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 needs calculated via various formulas set by government. Under the new scheme 50% of the local business rates will be retained locally and the 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 10% before any additional funding will be received by 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 until at least 2014/15 with many experts both within and outside of Government suggesting that the reduction in public expenditure will continue for a decade. Walsall Council are continuing to respond to this reduction through initiatives such as the Working Smarter programme. Many activities are in progress and are looking to meet the challenges over the next 4 financial years. Examples include the Smarter Workplace theme which is targeting reducing the number of buildings where council staff are based and saving money through more modern working approaches.

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 is due to take effect from 1 April 2013, with a shadow year due from April 2012. Work is still ongoing at a national level to confirm split of services between councils and the new agency, and the methodology for allocation of resources. Final details on future responsibilities and funding allocations are currently due to be communicated by the end of 2012.

Walsall Council served notice to terminate its contract with Serco Limited on 8 August 2011. Termination will take place no later than 8 August 2013. Services currently part of the contract will be brought back into the council over a phased period.

## 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.

During 2011/12 short term investments increased to £121.380 million (£112.377 million 2010/11). This is required to cashflow those capital projects currently underway where completion is due beyond 31 March 2012 combined with an increase in earmarked reserves for revenue expenditure.

The target investment rate receivable by the council for 2011/12 was 1.70% however as at 31 March 2012 the actual rate was 1.82%. When compared to current market conditions this rate shows the council continues to maximise investment income. In cash terms this means the council received £3.348 million (£3.251 million in 2010/11) of investment income. This is in addition to £0.585 million (£0.097 million in 2010/11) of dividend income from shares held in Birmingham Airport.

At 31 March 2012 the council's external long term borrowing was £263.194 million (£281.364 million as at 31 March 2011), a reduction of £18.170 million. The interest costs associated with this debt represent just 5.75% of the net budget requirement for the year, at an average interest rate of 4.47% (4.55% in 2010/11) compared against the target interest rate for the year of 4.54%.

## 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 credit to net costs of services of £3.103 million in 2011/12 (£20.582 million during 2010/11). The provision for 2011/12 is £7.519 million (£20.344 million 2010/11). This provision is in line with International Accounting Standard (IAS) 37 - Provisions, contingent liabilities and contingent assets.

The council has set aside a £12.092 million provision for the impairment of bad and doubtful debts. Of this £6.581 million is in respect of outstanding council tax debtors, £1.898 million is for sundry debtors and the remaining £3.613 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 106 and note 52, page 107.

## 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 2012/13 whereby the carrying value of the schools will be de-recognised from the council balance sheet.

Bentley Drive Primary £3.140 million
Harden Primary £2.153 million
Croft Community Primary School £2.118 million
Mossley Primary £1.357 million
Woodlands Primary £4.138 million
Castle Business and Enterprise College £1.798 million
Alumwell Business and Enterprise College £15.003 million
Phoenix Primary EBD £2.552 million

Cooper and Jordan CE VA Primary and Blue Coat CE Performing Arts Specialist College will also become academy schools in 2012/13. These schools are voluntary aided (VA) schools and are 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.

## 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 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 and a council tax freeze that has been implemented. The council is working hard in terms of improving efficiency and working practices to ensure there is service provision maintained during these hard times.

In terms of the council's treasury management activities the low interest rates are continuing to have an impact on the investment income that the council is able to generate from its cashflows.

# 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 Finance 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 Finance 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 2012.

**James T. Walsh B.Hum (Hons) ACMA CGMA**
Chief Financial Officer
XX September 2012

# 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 20). 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.

### 2011/12 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 31/03/11 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** |

## 2010/11 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 31/03/10 carried forward** | **(8.267)** | **(61.415)** | **(24.141)** | **(5.303)** | **(99.126)** | **(8.527)** | **(107.653)** |
| (Surplus) or deficit on provision of services (accounting basis) | 135.447 | 0.000 | 0.000 | 0.000 | **135.447** | 0.000 | **135.447** |
| Other comprehensive income and expenditure | 0.000 | 0.000 | 0.000 | 0.000 | **0.000** | (5.871) | **(5.871)** |
| **Total comprehensive income and expenditure** | **135.447** | **0.000** | **0.000** | **0.000** | **135.447** | **(5.871)** | **129.576** |
| Adjustments between accounting basis & funding basis under regulations (Note 7) | (159.900) | 0.000 | (5.586) | 0.104 | **(165.382)** | 165.382 | **0.000** |
| **Net (increase) / decrease before transfers to earmarked reserves** | **(24.453)** | **0.000** | **(5.586)** | **0.104** | **(29.935)** | **159.511** | **129.576** |
| Transfers to/from earmarked reserves (Note 8) | 18.972 | (18.972) | 0.000 | 0.000 | **0.000** | 0.000 | **0.000** |
| **(Increase) / decrease in year** | **(5.481)** | **(18.972)** | **(5.586)** | **0.104** | **(29.935)** | **159.511** | **129.576** |
| **Balance at 31/03/11 carried forward** | **(13.748)** | **(80.387)** | **(29.727)** | **(5.199)** | **(129.061)** | **150.984** | **21.923** |

## 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 18).

| 2010/11 Gross expenditure £m | 2010/11 Gross income £m | 2010/11 Net expenditure £m | | 2011/12 Gross expenditure £m | 2011/12 Gross income £m | 2011/12 Net expenditure £m |
|---|---|---|---|---|---|---|
| 105.104 | (37.319) | 67.785 | Adult social care | 110.957 | (39.575) | 71.382 |
| 10.773 | (5.771) | 5.002 | Central services to the public | 10.310 | (6.240) | 4.070 |
| 368.824 | (271.866) | 96.958 | Education & children's services | 309.645 | (232.793) | 76.852 |
| 10.728 | (0.249) | 10.479 | Corporate & democratic core | 7.256 | 0.007 | 7.263 |
| 0.241 | 0.000 | 0.241 | Court services | 0.272 | 0.000 | 0.272 |
| 19.625 | (4.941) | 14.684 | Cultural and related services | 22.596 | (5.608) | 16.988 |
| 31.234 | (7.977) | 23.257 | Environmental and regulatory services | 28.383 | (7.848) | 20.535 |
| 23.668 | (6.198) | 17.470 | Planning services | 14.411 | (4.652) | 9.759 |
| 27.560 | (4.379) | 23.181 | Highways & transport services | 27.911 | (3.432) | 24.479 |
| 139.485 | (133.520) | 5.965 | Housing services | 148.597 | (142.934) | 5.663 |
| (49.854) | 0.000 | (49.854) | Non-distributed costs | (10.121) | 0.000 | (10.121) |
| **687.388** | **(472.220)** | **215.168** | **Net cost of services** | **670.217** | **(443.075)** | **227.142** |
| 203.370 | (0.154) | 203.216 | Other operating expenditure (Note 9) | 49.356 | 0.000 | 49.356 |
| 79.114 | (50.431) | 28.683 | Financing and investment income and expenditure (Note 10) | 75.173 | (47.334) | 27.839 |
| 0.000 | (311.620) | (311.620) | Taxation and non-specific grant income (Note 11) | 0.000 | (273.095) | (273.095) |
| **969.872** | **(834.425)** | **135.447** | **(Surplus) or deficit on provision of services** | **794.746** | **(763.504)** | **31.242** |
| | | 6.051 | (Surplus) or deficit arising on revaluation of non-current assets (Note 27) | | | (32.355) |
| | | (6.305) | Impairment losses or (reversals) on non-current assets charged to the revaluation reserve (Note 27) | | | 2.035 |
| | | 0.237 | (Surplus) or deficit arising on revaluation of available for sale financial assets (Note 27) | | | (2.078) |
| | | (5.854) | Actuarial (gains) and losses on pension fund assets and liabilities (Note 27) | | | 51.084 |
| | | **129.576** | **Total comprehensive income and expenditure** | | | **49.928** |

## Balance sheet

The balance sheet shows the value of the assets and liabilities recognised by the council as at 31 March 2012. 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'.

| 2009/10 £m | 2010/11 £m | | Note | 2011/12 £m |
|---|---|---|---|---|
| 701.463 | 468.534 | Property, plant and equipment | 12 | 440.655 |
| 13.981 | 13.981 | Heritage assets | 14 & 15 | 16.725 |
| 1.752 | 1.948 | Investment property | 16 | 1.839 |
| 0.339 | 0.522 | Intangible assets | 17 | 0.977 |
| 0.000 | 0.000 | Assets held for sale | 22 | 0.000 |
| 29.974 | 27.491 | Long term investments | 18 | 34.628 |
| 10.335 | 9.982 | Long term debtors | 18 | 9.696 |
| **757.844** | **522.458** | **Long term assets** | | **504.520** |
| 47.632 | 112.377 | Short term investments | 18 | 120.602 |
| 0.050 | 0.721 | Assets held for sale | 22 | 4.280 |
| 0.484 | 0.487 | Inventories | 19 | 0.702 |
| 42.830 | 38.343 | Short term debtors | 20 | 33.092 |
| 43.156 | 34.300 | Cash and cash equivalents | 21 | 0.387 |
| **134.152** | **186.228** | **Current assets** | | **159.063** |
| 0.000 | 0.000 | Bank overdraft | 21 | 0.000 |
| (0.182) | (0.166) | Short term borrowing | 18 | (0.166) |
| (60.823) | (60.022) | Short term creditors | 23 | (50.536) |
| (49.398) | (21.539) | Provisions | 24 | (8.132) |
| 0.000 | 0.000 | Liabilities in disposal groups | | 0.000 |
| **(110.403)** | **(81.727)** | **Current liabilities** | | **(58.834)** |
| 0.000 | 0.000 | Long term creditors | | 0.000 |
| (1.663) | (1.773) | Provisions | 24 | (1.546) |
| (265.841) | (285.249) | Long term borrowing | 18 | (267.139) |
| (406.436) | (361.860) | Other long term liabilities | 25 | (407.915) |
| 0.000 | 0.000 | Capital grants receipts in advance | | 0.000 |
| **(673.940)** | **(648.882)** | **Long term liabilities** | | **(676.600)** |
| **107.653** | **(21.923)** | **Net assets** | | **(71.851)** |
| (99.126) | (129.061) | Usable reserves | 26 | (150.303) |
| (8.527) | 150.984 | Unusable reserves | 27 | 222.154 |
| **(107.653)** | **21.923** | **Total reserves** | | **71.851** |

The unaudited accounts were issued on 25 June 2012 and the audited accounts were authorised for issue on 25 September 2012.

## 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 135.447 | Net (surplus) or deficit on the provision of services | 31.242 |
| (239.432) | Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 28) | (75.888) |
| (459.935) | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 29) | (126.687) |
| **(563.920)** | **Net cash (inflows)/outflows from operating activities** | **(171.333)** |
| 596.043 | Investing activities (Note 31) | 185.762 |
| (23.267) | Financing activities (Note 32) | 19.484 |
| **8.856** | **Net (increase) or decrease in cash and cash equivalents** | **33.913** |
| (43.156) | Cash and cash equivalents at the beginning of the reporting period | (34.300) |
| **(34.300)** | **Cash and cash equivalents at the end of the reporting period (Note 21)** | **(0.387)** |

# Notes to the accounts

## 1. Accounting policies

### General principles

The statement of accounts summarises the council's transactions for the 2011/12 financial year and its position at the year end of 31 March 2012. 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) 2011/12, 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 stock 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.

*Local government pension scheme*

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 2012, 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 2012 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

An amendment to IFRS 7 – Financial instruments: disclosures, was issued in October 2010 in relation to transfers of financial assets however the amendments will not be adopted until 1 April 2012. The changes are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the authority’s financial position. CIPFA/LASAAC is of the view that the transfers described by the standard do not occur frequently in local authorities. Relevant circumstances would arise where an authority retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risks and rewards of ownership. It is expected that the amendments to IFRS 7 will not have a material impact on the financial statements.

## 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 2012 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 £7.519 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 £0.752 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 £14.788 million respectively.<br><br>However, the assumptions interact in complex ways. During 2010/11, the council's actuaries carried |

| | | |
|---|---|---|
| | | out a full actuarial valuation. The assumptions used in 2011/12 resulted in no measured differences to the estimated valuation. |
| Arrears – note 20 | At 31 March 2012, the council had a sundry debtor balance of £6.957 million. A review of significant balances suggested that a net impairment of doubtful debts of 17.09% (£1.189 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 £0.331 million the amount to set aside as an allowance respectively. |

## 5. Material items of income and expense

During 2011/12 Joseph Leckie Community Technical College and Sneyd Community School transferred to academy status resulting in derecognition of land and buildings totalling £19.330 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 credit to net costs of services of £3.103 million in 2011/12 (£20.582 million during 2010/11). The provision for 2011/12 is £7.519 million (£20.344 million 2010/11). 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 Finance Officer on 25 September 2012. 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 2012, 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 2012/13 whereby the carrying value of the schools will be de-recognised from the council balance sheet.

Bentley Drive Primary £3.140 million
Harden Primary £2.153 million
Croft Community Primary School £2.118 million
Mossley Primary £1.357 million
Woodlands Primary £4.138 million
Castle Business and Enterprise College £1.798 million
Alumwell Business and Enterprise College £15.003 million
Phoenix Primary EBD £2.552 million

Cooper and Jordan CE VA Primary and Blue Coat CE Performing Arts Specialist College will also become academy schools in 2012/13. These schools are voluntary aided (VA) schools and are 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.

## 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.

**2011/12 Actuals**

| | Movement in general fund balance £m | Movement in earmarked reserves £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 | 0.000 | 26.520 |
| Revaluation losses on Property, Plant and Equipment | (27.758) | 0.000 | 0.000 | 0.000 | 27.758 |
| Movements in the market value of Investment Properties | (0.790) | 0.000 | 0.000 | 0.000 | 0.790 |
| Amortisation and impairment of intangible assets | (0.431) | 0.000 | 0.000 | 0.000 | 0.431 |
| Capital grants and contributions applied | 5.224 | 0.000 | 0.000 | 0.000 | (5.224) |
| Revenue expenditure funded from capital under statute | 1.439 | 0.000 | 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 | 0.000 | 36.950 |
| Statutory provision for the financing of capital investment | 14.107 | 0.000 | 0.000 | 0.000 | (14.107) |
| Capital expenditure charged against the General Fund | 0.616 | 0.000 | 0.000 | 0.000 | (0.616) |
| | **(71.063)** | **0.000** | **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 | 0.000 | (15.623) | 0.000 | 0.000 |
| Application of grants to capital financing transferred to the Capital Adjustment Account | 0.000 | 0.000 | 13.156 | 0.000 | (13.156) |
| | **15.623** | **0.000** | **(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 | 0.000 | (2.253) | 0.000 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0.000 | 0.000 | 0.000 | 1.561 | (1.561) |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (0.030) | 0.000 | 0.000 | 0.030 | 0.000 |
| - Reclassification of grants unapplied as capital receipts after review | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Transfer from Deferred Capital Receipts upon receipt of cash | 0.000 | 0.000 | 0.000 | (0.100) | 0.100 |
| | **2.223** | **0.000** | **0.000** | **(0.762)** | **(1.461)** |
| **Subtotal c/f** | **(53.217)** | **0.000** | **(2.467)** | **(0.762)** | **56.446** |

| | Movement in general fund balance £m | Movement in earmarked reserves £m | Movement in capital grants unapplied account £m | Movement in capital receipts reserve £m | Movement in unusable reserves £m |
|---|---|---|---|---|---|
| **Subtotal b/f** | **(53.217)** | **0.000** | **(2.467)** | **(0.762)** | **56.446** |
| **Adjustments primarily involving the Deferred Capital Receipts Reserve (Note 27)** | | | | | |
| Movements required for Soft Loans advanced by the council for future cashflows | 0.085 | 0.000 | 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 | 0.000 | 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 | 0.000 | 18.981 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 22.274 | 0.000 | 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 | 0.000 | (0.097) |
| **Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account (Note 27)** | | | | | |
| Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **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 | 0.000 | (0.518) |
| **Total adjustments** | **(49.255)** | **0.000** | **(2.467)** | **(0.762)** | **52.484** |

## 2010/11 Comparatives

| | Movement in general fund balance £m | Movement in earmarked reserves £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 | (30.870) | 0.000 | 0.000 | 0.000 | 30.870 |
| Revaluation losses on Property, Plant and Equipment | (46.832) | 0.000 | 0.000 | 0.000 | 46.832 |
| Movements in the market value of Investment Properties | 0.125 | 0.000 | 0.000 | 0.000 | (0.125) |
| Amortisation and impairment of intangible assets | (0.689) | 0.000 | 0.000 | 0.000 | 0.689 |
| Capital grants and contributions applied | 15.145 | 0.000 | 0.000 | 0.000 | (15.145) |
| Revenue expenditure funded from capital under statute | 17.627 | 0.000 | 0.000 | 0.000 | (17.627) |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | (191.054) | 0.000 | 0.000 | 0.000 | 191.054 |
| Statutory provision for the financing of capital investment | 14.269 | 0.000 | 0.000 | 0.000 | (14.269) |
| Capital expenditure charged against the General Fund | 0.163 | 0.000 | 0.000 | 0.000 | (0.163) |
| | **(222.116)** | **0.000** | **0.000** | **0.000** | **222.116** |
| **Adjustments primarily involving the Capital Grants Unapplied Account (Note 26)** | | | | | |
| Capital grants and contributions unapplied credited to the CIES | 23.155 | 0.000 | (23.155) | 0.000 | 0.000 |
| Application of grants to capital financing transferred to the Capital Adjustment Account | 0.000 | 0.000 | 17.235 | 0.000 | (17.235) |
| | **23.155** | **0.000** | **(5.920)** | **0.000** | **(17.235)** |
| **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 | 1.665 | 0.000 | 0.000 | (1.584) | (0.081) |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0.000 | 0.000 | 0.000 | 2.095 | (2.095) |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (0.029) | 0.000 | 0.000 | 0.029 | 0.000 |
| - Reclassification of grants unapplied as capital receipts after review | 0.000 | 0.000 | 0.334 | (0.334) | 0.000 |
| Transfer from Deferred Capital Receipts upon receipt of cash | 0.000 | 0.000 | 0.000 | (0.102) | 0.102 |
| | **1.636** | **0.000** | **0.334** | **0.104** | **(2.074)** |
| **Subtotal c/f** | **(197.325)** | **0.000** | **(5.586)** | **0.104** | **202.807** |

| | Movement in general fund balance £m | Movement in earmarked reserves £m | Movement in capital grants unapplied account £m | Movement in capital receipts reserve £m | Movement in unusable reserves £m |
|---|---|---|---|---|---|
| **Subtotal b/f** | **(197.325)** | **0.000** | **(5.586)** | **0.104** | **202.807** |
| **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 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **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 | (0.045) | 0.000 | 0.000 | 0.000 | 0.045 |
| **Adjustments primarily involving the Pensions Reserve (Note 27)** | | | | | |
| Reversal of items in relation to retirement benefits debited/(credited) to the CIES | 14.093 | 0.000 | 0.000 | 0.000 | (14.093) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 22.994 | 0.000 | 0.000 | 0.000 | (22.994) |
| **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 | 0.069 | 0.000 | 0.000 | 0.000 | (0.069) |
| **Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account (Note 27)** | | | | | |
| Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements | 0.489 | 0.000 | 0.000 | 0.000 | (0.489) |
| **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 | (0.175) | 0.000 | 0.000 | 0.000 | 0.175 |
| **Total adjustments** | **(159.900)** | **0.000** | **(5.586)** | **0.104** | **165.382** |

## 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 2011/12.

| | Balance as at 31/03/2010 £m | Transfers in 2010/11 £m | Transfers out 2010/11 £m | Balance as at 31/03/2011 £m | Transfers in 2011/12 £m | Transfers out 2011/12 £m | Balance as at 31/03/2012 £m |
|---|---|---|---|---|---|---|---|
| Nursery schools | (0.393) | (0.247) | 0.393 | **(0.247)** | (2.525) | 2.435 | **(0.337)** |
| Primary schools | (4.865) | (3.880) | 4.865 | **(3.880)** | (94.598) | 92.477 | **(6.001)** |
| Secondary schools | (1.259) | (3.180) | 1.259 | **(3.180)** | (41.372) | 42.238 | **(2.314)** |
| Special schools | (1.120) | (0.909) | 1.120 | **(0.909)** | (11.832) | 11.402 | **(1.339)** |
| Foundation schools | (1.866) | (2.919) | 1.866 | **(2.919)** | (1.175) | 1.990 | **(2.104)** |
| **School balances** | **(9.503)** | **(11.135)** | **9.503** | **(11.135)** | **(151.502)** | **150.542** | **(12.095)** |
| Grant funding receipts in advance under IFRS | (2.482) | (7.338) | 3.432 | **(6.388)** | (6.042) | 2.426 | **(10.004)** |
| Business rates retention scheme | 0.000 | 0.000 | 0.000 | **0.000** | (1.014) | 0.000 | **(1.014)** |
| Building schools for the future | (0.500) | 0.000 | 0.500 | **0.000** | 0.000 | 0.000 | **0.000** |
| Treasury commutation | (3.529) | (0.828) | 0.000 | **(4.357)** | (0.763) | 0.000 | **(5.120)** |
| Carbon management reduction programme | (0.564) | 0.000 | 0.000 | **(0.564)** | (0.355) | 0.078 | **(0.841)** |
| Education transmission | 0.000 | 0.000 | 0.000 | **0.000** | (1.000) | 0.097 | **(0.903)** |
| Environmental warranties | (0.600) | (0.100) | 0.000 | **(0.700)** | (0.300) | 0.000 | **(1.000)** |
| Borrowing re-scheduling | 0.000 | (5.626) | 0.000 | **(5.626)** | (1.626) | 4.003 | **(3.249)** |
| External legal costs - pay & grading | (1.500) | (0.790) | 1.236 | **(1.054)** | (0.600) | 0.559 | **(1.095)** |
| Health & Safety | (1.081) | 0.000 | 1.081 | **0.000** | 0.000 | 0.000 | **0.000** |
| Insurance fund | (0.779) | (0.253) | 0.000 | **(1.032)** | (1.952) | 0.000 | **(2.984)** |
| Leasing | 0.000 | 0.000 | 0.000 | **0.000** | (1.043) | 0.000 | **(1.043)** |
| Mediation | (0.859) | 0.000 | 0.000 | **(0.859)** | (0.339) | 0.048 | **(1.150)** |
| New homes bonus | 0.000 | 0.000 | 0.000 | **0.000** | (1.074) | 0.140 | **(0.934)** |
| Pensions / ABS | (1.000) | 0.000 | 0.000 | **(1.000)** | 0.000 | 0.000 | **(1.000)** |
| Private finance initiative | (9.996) | (1.585) | 0.000 | **(11.581)** | (2.463) | 0.000 | **(14.044)** |
| Public private partnership | (0.827) | 0.000 | 0.200 | **(0.627)** | 0.000 | 0.243 | **(0.384)** |
| Retention policy / information management project | (0.250) | 0.000 | 0.000 | **(0.250)** | (0.250) | 0.000 | **(0.500)** |
| Smarter workplaces | 0.000 | (0.887) | 0.000 | **(0.887)** | (0.473) | 0.321 | **(1.039)** |
| Supporting people | (0.774) | 0.000 | 0.060 | **(0.714)** | 0.000 | 0.297 | **(0.417)** |
| TCTP | 0.000 | 0.000 | 0.000 | **0.000** | (2.934) | 1.757 | **(1.177)** |
| Pay & Grading Protection / Appeals | 0.000 | (4.196) | 0.000 | **(4.196)** | (2.500) | 0.751 | **(5.945)** |
| Transactional employment & pension costs | (15.631) | (0.380) | 0.634 | **(15.377)** | 0.000 | 0.000 | **(15.377)** |
| Walsall Adult Community College | (2.422) | (1.940) | 1.472 | **(2.890)** | (0.836) | 0.674 | **(3.052)** |
| Workforce planning | (0.626) | (3.008) | 1.950 | **(1.684)** | (3.000) | 2.925 | **(1.759)** |
| Worklessness agenda | (4.632) | 0.000 | 0.265 | **(4.367)** | 0.000 | 2.433 | **(1.934)** |
| Project reserve | 0.000 | 0.000 | 0.000 | **0.000** | (3.275) | 0.000 | **(3.275)** |
| Other earmarked reserves | (3.860) | (2.996) | 1.757 | **(5.099)** | (4.234) | 2.679 | **(6.654)** |
| **Earmarked general fund balances** | **(51.912)** | **(29.927)** | **12.587** | **(69.252)** | **(36.073)** | **19.431** | **(85.894)** |
| **Total** | **(61.415)** | **(41.062)** | **22.090** | **(80.387)** | **(187.575)** | **169.973** | **(97.989)** |

## 9. Other operating expenditure

The following table provides further information for other operating expenditure shown in the CIES on page 20.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 13.798 | Levies | 14.628 |
| 0.029 | Payments to the capital housing receipts pool | 0.030 |
| 189.389 | (Gains) and losses on the disposal of fixed assets | 34.698 |
| **203.216** | **Total** | **49.356** |

## 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 20.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 14.379 | Interest payable and similar charges | 19.218 |
| 48.372 | Pension interest cost (Note 42) | 44.422 |
| (32.262) | Expected return on pension assets (Note 42) | (31.553) |
| (3.251) | Interest income | (4.153) |
| (0.097) | Income, expenditure, depreciation and impairment of investment properties (Note 16) | (0.166) |
| 1.638 | (Surplus) or deficit on trading undertakings not included in net cost of services (Note 34) | 0.656 |
| (0.096) | Other investment income (Note 18) | (0.585) |
| **28.683** | **Total** | **27.839** |

## 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 20.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (108.323) | Council tax income | (109.080) |
| (119.841) | NNDR distribution | (104.733) |
| (38.299) | All capital grants and contributions (Note 45) | (20.847) |
| (45.157) | Non-ringfenced government grants (Note 45) | (38.435) |
| **(311.620)** | **Total** | **(273.095)** |

# 12. Property, plant and equipment

## Movement on balances

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

### 2011/12 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 2011 | 237.888 | 142.552 | 22.465 | 137.789 | 0.000 | 8.712 | 19.541 | **568.947** | 18.096 |
| Additions | 29.350 | 3.004 | 2.925 | 5.075 | 2.131 | 2.378 | 1.212 | **46.075** | 0.000 |
| Revaluation increases/ (decreases) recognised in the revaluation reserve | (2.383) | 17.677 | 0.000 | 0.000 | 0.000 | 0.000 | 1.026 | **16.320** | 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 |
| 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 | (24.617) | (6.500) | (1.620) | 0.000 | 0.000 | 0.000 | (0.203) | **(32.940)** | 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 | 7.754 | (1.319) | 0.000 | 0.000 | 0.000 | (7.900) | 1.465 | **0.000** | 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** | **139.102** | **23.254** | **138.288** | **0.000** | **3.179** | **16.791** | **546.463** | **18.096** |

| | 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** | **139.102** | **23.254** | **138.288** | **0.000** | **3.179** | **16.791** | **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) |
| Depreciation written out to the revaluation reserve | 7.696 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.233 | **7.929** | 0.000 |
| Depreciation written out to the surplus/(deficit) on the provision of services | 0.000 | 0.009 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | **0.009** | 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 | 0.403 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | (0.035) | **0.368** | 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** | **138.813** | **6.225** | **61.836** | **0.000** | **3.179** | **16.674** | **440.655** | **12.240** |

## 2010/11 Comparatives

| | 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 2010 | 289.934 | 325.798 | 20.140 | 147.413 | 0.000 | 7.268 | 19.750 | **810.303** | 18.096 |
| Additions | 15.824 | 0.130 | 2.810 | 9.961 | 0.749 | 6.540 | 0.321 | **36.335** | 0.000 |
| Revaluation increases/ (decreases) recognised in the revaluation reserve | 0.095 | (12.418) | 0.000 | 0.000 | 0.000 | 0.000 | (2.892) | **(15.215)** | 0.000 |
| Revaluation increases/ (decreases) recognised in the surplus/ (deficit) on the provision of services | 5.649 | (49.451) | 0.000 | 0.000 | 0.000 | 0.000 | (2.318) | **(46.120)** | 0.000 |
| Impairment losses / (reversals) recognised in the revaluation reserve | 6.305 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | **6.305** | 0.000 |
| Impairment losses / (reversals) recognised in the surplus / (deficit) on the provision of services | (2.211) | (0.120) | (0.144) | (9.961) | (0.749) | 0.000 | (0.254) | **(13.439)** | 0.000 |
| Derecognition - disposals | 0.000 | 0.000 | (0.044) | 0.000 | 0.000 | 0.000 | 0.000 | **(0.044)** | 0.000 |
| Derecognition - other | (72.855) | (118.564) | 0.000 | 0.000 | 0.000 | (5.096) | (0.111) | **(196.626)** | 0.000 |
| Assets reclassified (to)/ from held for sale | (0.028) | (0.784) | 0.000 | 0.000 | 0.000 | 0.000 | (1.130) | **(1.942)** | 0.000 |
| Other movements in cost of valuation | (4.825) | (2.039) | 0.001 | 0.001 | 0.000 | 0.000 | 6.864 | **0.002** | 0.000 |
| **Total cost movements in 2010/11** | **(52.046)** | **(183.246)** | **2.623** | **0.001** | **0.000** | **1.444** | **0.480** | **(230.744)** | **0.000** |
| **As at 31 March 2011** | **237.888** | **142.552** | **22.763** | **147.414** | **0.000** | **8.712** | **20.230** | **579.559** | **18.096** |

| | 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 2011** | **237.888** | **142.552** | **22.763** | **147.414** | **0.000** | **8.712** | **20.230** | **579.559** | **18.096** |
| **Depreciation** | | | | | | | | | |
| As at 31 March 2010 | (20.457) | (0.151) | (10.808) | (76.831) | 0.000 | 0.000 | (1.008) | **(109.255)** | (4.650) |
| Depreciation charge for the year | (8.404) | (0.075) | (4.234) | (4.615) | 0.000 | 0.000 | (0.087) | **(17.415)** | (0.603) |
| Depreciation written out to the revaluation reserve | 8.756 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.238 | **8.994** | 0.000 |
| Depreciation written out to the surplus/(deficit) on the provision of services | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | **0.000** | 0.000 |
| Derecognition - disposals | 0.000 | 0.000 | 0.034 | 0.000 | 0.000 | 0.000 | 0.000 | **0.034** | 0.000 |
| Derecognition - other | 6.502 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.005 | **6.507** | 0.000 |
| Other movements | 0.227 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | (0.117) | **0.110** | 0.000 |
| **Total depreciation movements in 2010/11** | **7.081** | **(0.075)** | **(4.200)** | **(4.615)** | **0.000** | **0.000** | **0.039** | **(1.770)** | **(0.603)** |
| **As at 31 March 2011** | **(13.376)** | **(0.226)** | **(15.008)** | **(81.446)** | **0.000** | **0.000** | **(0.969)** | **(111.025)** | **(5.253)** |
| **Net book value at 31 March 2011** | **224.512** | **142.326** | **7.755** | **65.968** | **0.000** | **8.712** | **19.261** | **468.534** | **12.843** |

## Depreciation

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

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

## Capital commitments

At 31 March 2012, the council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2012/13 and future years which are budgeted to cost £34.275m. Similar commitments at 31 March 2011 were £69.174m. The major commitments are shown in the following table:

| Projects | Council funded £m | Externally funded £m | Total 2011/12 £m |
|---|---|---|---|
| Academies | 0.000 | 18.561 | 18.561 |
| Investment in school buildings | 0.000 | 3.184 | 3.184 |
| Smarter Workplaces | 2.976 | 0.000 | 2.976 |
| Pelsall library, childrens centre and health centre | 0.000 | 1.800 | 1.800 |
| Barcroft school | 0.401 | 0.000 | 0.401 |
| Eldon House | 0.891 | 0.000 | 0.891 |
| Highways maintenance and improvements | 0.875 | 0.858 | 1.733 |
| Environmental regeneration schemes | 0.198 | 0.669 | 0.867 |
| Preventative adaptations & Supported independent living | 0.317 | 0.000 | 0.317 |
| Aids and adaptations | 0.509 | 0.187 | 0.696 |
| Investment in council assets | 0.146 | 0.004 | 0.150 |
| Walsall arboretum restoration project | 0.000 | 2.216 | 2.216 |
| Other | 0.258 | 0.225 | 0.483 |
| | **6.571** | **27.704** | **34.275** |

## 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 2011/12 was 31 March 2012. 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 2012
- 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:

2011/12 Actuals

| | 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 |

2010/11 Comparatives

| | Community | Voluntary Controlled | Voluntary Aided | Foundation |
|---|---|---|---|---|
| Number of schools, excluding PFI schools | 78 | 10 | 17 | 8 |
| Value of land and buildings at 31 March 2011 | £213.249m | £12.680m | £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 2011/12.

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 2012 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

**2011/12 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 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** |

**2010/11 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 2010 | 10.428 | 1.380 | - | - | 0.750 | 1.200 | 0.223 | 13.981 |
| Additions | - | - | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - | - | - |
| Revaluations | - | - | - | - | - | - | - | - |
| **Balance as at 31 March 2011** | **10.428** | **1.380** | **-** | **-** | **0.750** | **1.200** | **0.223** | **13.981** |

## 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' & '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 & Sons, auctioneers and valuers based in Birmingham.

## Additions of heritage assets
There were a number of additions of heritage assets during 2011/12 however individually none were significant.

## Disposal of heritage assets
There were no disposals of heritage assets during 2011/12.

## 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 & 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 & pebble composite sculpture of St George & 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. As at Feb 2012 a total of 28,000 object records had been loaded and 1,850 objects photographed. Funding has recently been secured to ensure the continuation of this work.

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:

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (0.107) | Rental income from investment properties | (0.175) |
| 0.009 | Direct operating expenses from investment properties generating rental income in period | 0.009 |
| 0.001 | Direct operating expenses from investment properties not generating income in period | 0.000 |
| **(0.097)** | **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:

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 1.752 | Balance at start of the year | 1.948 |
| | ***Additions*** | |
| 0.000 | Purchases | 0.000 |
| 0.002 | Subsequent capital expenditure | 0.681 |
| 0.081 | Other | 0.045 |
| (0.010) | Disposals | 0.000 |
| 0.125 | Net gains/(losses) from fair value adjustments | (0.835) |
| | ***Transfers*** | |
| 0.000 | (to)/from property, plant and equipment | 0.000 |
| (0.002) | Other changes | 0.000 |
| **0.196** | **Total movements in year** | **(0.109)** |
| **1.948** | **Balance at end of the year** | **1.839** |

## 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 IT 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 £0.336m charged to revenue in 2011/12 (£0.191m 2010/11) 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:

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| | Balance at start of year | |
| 0.728 | - Gross carrying amounts | 1.102 |
| (0.389) | - accumulated amortisation | (0.580) |
| | Additions | |
| 0.872 | - purchase | 0.886 |
| 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 |
| (0.498) | Impairment losses recognised in the surplus/deficit on the provision of services | (0.095) |
| 0.000 | Reversals of past impairment losses written back to the surplus/deficit on the provision of services | 0.000 |
| (0.191) | Amortisation for the year | (0.336) |
| 0.000 | Other movements | 0.000 |
| **0.183** | **Total movements in the year** | **0.455** |
| | | |
| **0.522** | **Net carrying amount at end of the year** | **0.977** |
| | | |
| | Comprising: | |
| 1.102 | - Gross carrying amounts | 1.893 |
| (0.580) | - accumulated amortisation | (0.916) |
| **0.522** | **Net book value at 31 March** | **0.977** |

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

| | Carrying amount 31 March 2011 £m | Carrying amount 31 March 2012 £m | Remaining Amortisation Period 31 March 2012 |
|---|---|---|---|
| Software licences | 0.000 | 0.000 | 0 years |
| Software licences | 0.000 | 0.088 | 1 years |
| Software licences | 0.178 | 0.026 | 2 years |
| Software licences | 0.043 | 0.228 | 3 years |
| Software licences | 0.299 | 0.634 | 4 years |
| Software licences | 0.000 | 0.000 | 5 years |
| Data base licences | 0.002 | 0.001 | 2 years |
| **Total** | **0.522** | **0.977** | |

## 18. Financial instruments

### Categories of financial instruments

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

| 2010/11 Long term £m | 2010/11 Current £m | | 2011/12 Long term £m | 2011/12 Current £m |
|---|---|---|---|---|
| | | **Investments** | | |
| 10.235 | 148.087 | Loans and receivables | 15.294 | 122.732 |
| 17.256 | 0.000 | Available for sale financial assets | 19.334 | 0.000 |
| **27.491** | **148.087** | **Total investments** | **34.628** | **122.732** |
| | | **Debtors** | | |
| 9.982 | 0.000 | Loans and receivables | 9.696 | 0.000 |
| 0.000 | 44.933 | Financial assets carried at contract amounts | 0.000 | 41.043 |
| **9.982** | **44.933** | **Total debtors** | **9.696** | **41.043** |
| | | **Borrowings** | | |
| (285.249) | (0.166) | Financial liabilities at amortised cost | (267.139) | (0.166) |
| **(285.249)** | **(0.166)** | **Total borrowings** | **(267.139)** | **(0.166)** |
| | | **Creditors** | | |
| 0.000 | 0.000 | Financial liabilities carried at amortised cost | 0.000 | 0.000 |
| 0.000 | (55.597) | Financial liabilities carried at contract cost | 0.000 | (46.482) |
| **0.000** | **(55.597)** | **Total creditors** | **0.000** | **(46.482)** |

The loans and receivables investments consist of the investments with commercial banks. Of the short term investments £120.602m consist of maturity investments and £2.130m are classed as cash equivalents (see note 21 pg 65).

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 share, 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 62.

## Income, expense, gains and losses

| 2010/11 Financial liabilities: measured at amortised cost £m | 2010/11 Financial assets: loans and receivables £m | 2010/11 Financial assets: available-for-sale assets £m | 2010/11 Total |  | 2011/12 Financial liabilities: measured at amortised cost £m | 2011/12 Financial assets: loans and receivables £m | 2011/12 Financial assets: available-for-sale assets £m | 2011/12 Total £m |
|---|---|---|---|---|---|---|---|---|
| (13.900) | 0.000 | 0.000 | (13.900) | Interest expense | (18.750) | 0.000 | 0.000 | (18.750) |
| **(13.900)** | **0.000** | **0.000** | **(13.900)** | **Total expense in surplus/deficit on the provision of services** | **(18.750)** | **0.000** | **0.000** | **(18.750)** |
| 0.000 | 3.240 | 0.096 | 3.336 | Interest income | 0.000 | 3.348 | 0.585 | 3.933 |
| **0.000** | **3.240** | **0.096** | **3.336** | **Total income in surplus/deficit on the provision of services** | **0.000** | **3.348** | **0.585** | **3.933** |
| 0.000 | 0.000 | 0.000 | 0.000 | Gains on revaluation | 0.000 | 0.000 | 2.078 | 2.078 |
| 0.000 | 0.000 | (0.237) | (0.237) | Losses on revaluation | 0.000 | 0.000 | 0.000 | 0.000 |
| **0.000** | **0.000** | **(0.237)** | **(0.237)** | **Surplus/ (deficit) arising on revaluation of financial assets in other comprehensive income and expenditure** | **0.000** | **0.000** | **2.078** | **2.078** |
| **(13.900)** | **3.240** | **(0.141)** | **(10.801)** | **Net gain/ (loss) in year** | **(18.750)** | **3.348** | **2.663** | **(12.739)** |

## 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 2012 of 0.23% to 5.27% for loans from the PWLB and 4.27% to 4.62% 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:

| 2010/11 Carrying Amount £m | 2010/11 Fair Value £m | | 2011/12 Carrying Amount £m | 2011/12 Fair Value £m |
|---|---|---|---|---|
| (133.405) | (129.945) | PWLB loans | (116.487) | (153.934) |
| (25.843) | (28.654) | Other local authority debt | (25.029) | (25.029) |
| (0.116) | (0.116) | Individuals | (0.095) | (0.095) |
| (122.166) | (145.472) | Private sector loans | (122.166) | (131.926) |
| **(281.530)** | **(304.187)** | **Financial liabilities** | **(263.777)** | **(310.984)** |

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 2012) arising from a commitment to pay interest to lenders above current market rates.

| 2010/11 Carrying Amount £m | 2010/11 Fair Value £m | | 2011/12 Carrying Amount £m | 2011/12 Fair Value £m |
|---|---|---|---|---|
| 10.000 | 10.388 | Long term investments | 15.000 | 15.613 |
| 146.635 | 148.378 | Short term investments | 121.380 | 123.334 |
| 17.256 | 17.256 | Available for sale financial assets | 19.334 | 19.334 |
| 9.982 | 9.982 | Long term debtors | 9.696 | 9.696 |
| **183.873** | **186.004** | **Financial assets** | **165.410** | **167.977** |

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 2012) 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.

**2011/12 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 | 0.010 | 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** |

**2010/11 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 | 0.013 | 0.019 | 0.001 | 0.008 | 0.156 | 0.287 | **0.484** |
| Purchases | 0.011 | 0.100 | 0.004 | 0.011 | 1.899 | 2.185 | **4.210** |
| Recognised as expense during the year | (0.014) | (0.099) | 0.000 | (0.013) | (1.899) | (2.182) | **(4.207)** |
| Written off balances | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | **0.000** |
| 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** | **0.010** | **0.020** | **0.005** | **0.006** | **0.156** | **0.290** | **0.487** |

## 20. Debtors

This table shows the amounts owed to the council for which payments have not been received by 31 March 2012, but which should be paid within one year.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 2.101 | Capital debtors | 1.347 |
| 10.626 | Central government bodies | 4.998 |
| 0.286 | Other local authorities | 0.333 |
| 3.958 | NHS bodies | 3.500 |
| 0.000 | Public corporations and trading funds | 0.004 |
| 32.186 | Other entities and individuals | 35.002 |
| **49.157** | **Total** | **45.184** |
| (10.814) | Provision for bad and doubtful debts | (12.092) |
| **38.343** | **Total** | **33.092** |

Within other entities and individuals £1.306m (£1.335m in 2010/11) 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (5.896) | Council Tax | (6.581) |
| 0.000 | NNDR | 0.000 |
| (4.918) | Other debtors | (5.511) |
| **(10.814)** | **Total** | **(12.092)** |

## 21. Cash and cash equivalents

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

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 0.055 | Cash held by the council | 0.051 |
| (1.465) | Bank current accounts | (1.794) |
| 35.710 | Short term deposits | 2.130 |
| **34.300** | **Total** | **0.387** |

## 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.

| 2010/11 Non-current £m | 2010/11 Current £m | | 2011/12 Non-current £m | 2011/12 Current £m |
|---|---|---|---|---|
| **0.000** | **0.050** | **Balance outstanding at start of year** | **0.000** | **0.721** |
| | | ***Assets newly classified as held for sale:*** | | |
| 0.000 | 1.833 | Property, plant and equipment | 0.000 | 11.917 |
| | | ***Revaluations and impairments*** | | |
| 0.000 | (0.297) | Revaluation losses | 0.000 | (2.267) |
| 0.000 | 0.060 | Revaluation gains | 0.000 | 0.006 |
| 0.000 | (0.016) | Impairment losses | 0.000 | (0.029) |
| | | ***Other movements*** | | |
| 0.000 | (0.925) | Assets sold | 0.000 | (6.097) |
| 0.000 | 0.016 | Other movements | 0.000 | 0.029 |
| **0.000** | **0.721** | **Balance outstanding at year-end** | **0.000** | **4.280** |

## 23. Creditors

This table shows the amounts owed by the council for which payments have not been paid by 31 March 2012, but which should be paid within one year.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (9.266) | Central government bodies | (12.211) |
| (3.495) | Other local authorities | (2.825) |
| (1.221) | NHS bodies | (1.364) |
| (0.022) | Public corporations and trading funds | 0.000 |
| (40.435) | Other entities and individuals | (31.397) |
| (5.583) | Capital creditors | (2.739) |
| **(60.022)** | **Total** | **(50.536)** |

## 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 2011 | (20.344) | (0.358) | 0.000 | (1.473) | (0.756) | (0.381) | **(23.312)** |
| Additional provisions made in 2011/12 | (1.803) | 0.000 | (0.380) | (0.850) | 0.000 | (0.060) | **(3.093)** |
| Amounts used in 2011/12 | 9.722 | 0.008 | 0.000 | 0.978 | 0.738 | 0.000 | **11.446** |
| Unused amounts reversed in 2011/12 | 4.906 | 0.095 | 0.000 | 0.000 | 0.000 | 0.280 | **5.281** |
| **Balance at 31 March 2012** | **(7.519)** | **(0.255)** | **(0.380)** | **(1.345)** | **(0.018)** | **(0.161)** | **(9.678)** |

### Back pay

During 2011/12 Walsall has successfully settled a large number of equal pay claims, based on a memorandum of understanding reached at the end of 2010/11. Negotiation with the legal representatives of 211 new equal pay claimants, who raised claims during the year, is being progressed to obtain greater clarity around the level of any liability and timing of payments. As the council has only recently implemented its new pay structure there also still remains a small, though diminishing, risk of potential further equal pay claims.

Due to the complex nature of these claims, involving multiple parties on the subject matter of equal pay, further detail should not be disclosed as this may prejudice sensitive negotiations and the ultimate settlement of the claims in their entirety.

### 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, in a special report in 2003, advised that people who have paid for Section 117 aftercare are entitled to restitution with interest. In addition it advised local authorities to put mechanisms in place to identify those persons improperly charged, or improperly deprived of financial assistance, and to establish arrangements for reimbursing them or their estates. The council is experiencing difficulties in locating potential claimants, however is working towards identifying as many claimants as possible.

The Local Government Ombudsman guidance, although not law, should be followed. If it is not followed the council would be at risk of claims for which it has no defence. Should a successful complaint be filed against the council, the instruction would be to make restitution to the client in the form of repayment.

### Carbon reduction commitment (CRC) allowances

2011/12 is the first 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 of the allowances will take place from 1 June 2012 in relation to 2011/12 emissions. These will then need to be surrendered by last working day in July 2012. A provision has been created of £380,489 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 £4.616m 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 £1.345m (£1.473m 2010/11) for which a provision is held to cover this.

### Pensions and redundancy costs

The council has created a provision of £0.756m for pension and redundancy costs in relation to restructures undertaken during 2010/11. During 2011/12 £0.738m was charged against this provision with £0.018m carried forward to 2012/13 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 £0.161m (£0.381m 2010/11) 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 | (7.519) | (0.054) | (0.380) | 0.000 | (0.018) | (0.161) | **(8.132)** |
| 1-2 years | 0.000 | (0.201) | 0.000 | (1.345) | 0.000 | 0.000 | **(1.546)** |
| 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 2012** | **(7.519)** | **(0.255)** | **(0.380)** | **(1.345)** | **(0.018)** | **(0.161)** | **(9.678)** |

## 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (2.955) | Deferred liabilities - finance leases | (1.933) |
| (9.451) | Deferred liabilities - PFI | (8.736) |
| (349.454) | Net liability related to defined benefit pension scheme | (397.246) |
| **(361.860)** | **Total** | **(407.915)** |

## 26. Usable reserves

Movements in the council's usable reserves can be found in the movement in reserves statement (page 18) and note 7(page 41). Note 8 (page 45) shows the details for the council's earmarked reserves.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (13.748) | General fund reserve | (14.159) |
| (80.387) | Earmarked reserves | (97.989) |
| (29.727) | Capital grants unapplied account | (32.194) |
| (5.199) | Capital receipts reserve | (5.961) |
| **(129.061)** | **Total** | **(150.303)** |

### 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (24.141) | Balance brought forward | (29.727) |
| (23.155) | Current year capital grants unapplied credited from comprehensive income and expenditure statement | (15.623) |
| 17.235 | Prior year capital grants applied against capital expenditure | 13.156 |
| 0.334 | Transfer of prior year capital grant to capital receipts following review | 0.000 |
| **(29.727)** | **Total** | **(32.194)** |

### 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (5.303) | Balance brought forward | (5.199) |
| (1.584) | Capital receipts received during the year | (2.253) |
| (0.102) | Capital receipts released from deferred capital receipts | (0.100) |
| 2.095 | Capital receipts applied against capital expenditure | 1.561 |
| (0.334) | Transfer of prior year capital grant to capital receipts following review | 0.000 |
| 0.029 | Capital receipts paid to CLG for pooling of housing capital receipts | 0.030 |
| **(5.199)** | **Total** | **(5.961)** |

## 27. Unusable reserves

Movements in the council's unusable reserves can be found in the movement in reserves statement (page 18) and note 7 (page 41).

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (55.486) | Revaluation reserve | (81.660) |
| (10.551) | Available for sale financial instruments account | (12.629) |
| (137.976) | Capital adjustment account | (85.776) |
| (0.031) | Financial instruments adjustment account | 0.010 |
| (1.758) | Deferred capital receipts reserve | (1.753) |
| 349.455 | Pensions reserve | 397.246 |
| 0.627 | Collection fund adjustment account | 0.530 |
| 0.000 | Unequal pay back pay account | 0.000 |
| 6.704 | Accumulated absences account | 6.186 |
| **150.984** | **Total** | **222.154** |

## 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 balance in the capital adjustment account.

| 2009/10 £m | 2010/11 £m | | £m | 2011/12 £m |
|---|---|---|---|---|
| (113.322) | (119.846) | Balance at 1 April | | (55.486) |
| (9.232) | (17.547) | Upward revaluation of assets | (44.648) | |
| 0.610 | 23.598 | Downward revaluation of assets and impairment losses not charged to the surplus/(deficit) on the provision of services | 12.293 | |
| 1.328 | (6.305) | Impairment losses or (reversals) on non-current assets charged to the revaluation reserve | 2.035 | |
| **(7.294)** | **(0.254)** | **(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or (deficit) on the provision of services** | | **(30.320)** |
| 1.127 | 1.278 | Difference between fair value depreciation and historical cost depreciation | 1.197 | |
| (0.357) | 63.336 | Accumulated gains on assets sold or scrapped | 2.949 | |
| **0.770** | **64.614** | **Amount written off to the capital adjustment account** | | **4.146** |
| **(119.846)** | **(55.486)** | **Balance at 31 March** | | **(81.660)** |

## 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

| 2010/11 £m | | £m | 2011/12 £m |
|---|---|---|---|
| (10.788) | Balance at 1 April | | (10.551) |
| 0.000 | Upward revaluation of investments | (2.078) | |
| 0.237 | Downward revaluation of investments not charged to the surplus/deficit on the provision of services | 0.000 | |
| **0.237** | | | **(2.078)** |
| **(10.551)** | **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 for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the comprehensive income and expenditure statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the council.

The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the account, apart from those involving the revaluation reserve.

| 2010/11 £m | | £m | 2011/12 £m |
|---|---|---|---|
| (276.146) | Balance at 1 April | | (137.976) |
| | ***Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement*** | | |
| 29.592 | Charges for depreciation and impairment of non-current assets | 25.323 | |
| 46.832 | Revaluation losses on property, plant and equipment | 27.758 | |
| 0.689 | Amortisation and impairment of intangible assets | 0.431 | |
| (17.627) | Revenue expenditure funded from capital under statute | (1.439) | |
| 127.718 | 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 | 34.001 | |
| **187.204** | **Net written out amount of the cost of non-current assets consumed in the year** | | **86.074** |
| | ***Capital financing applied in the year*** | | |
| (2.095) | Use of capital receipts reserve to finance new capital expenditure | (1.561) | |
| (15.145) | Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital expenditure | (5.224) | |
| (17.235) | Application of grants to capital financing from the capital grants unapplied account | (13.156) | |
| (14.271) | Statutory provision for the financing of capital investment charged against the general fund | (14.107) | |
| (0.163) | Capital expenditure charged against the general fund | (0.616) | |
| **(48.909)** | **Total financing applied to capital expenditure in the year** | | **(34.664)** |
| (0.125) | Movement in the market value of investment properties debited or credited to the comprehensive income and expenditure statement | | 0.790 |
| **(137.976)** | **Balance at 31 March** | | **(85.776)** |

## 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.

| 2010/11 £m | | £m | 2011/12 £m |
|---|---|---|---|
| (0.076) | Balance at 1 April | | (0.031) |
| 0.000 | Premiums incurred in the year and charged to the comprehensive income and expenditure statement | 0.000 | |
| 0.000 | Difference between implied interest within the loan agreement and actual interest chargeable under agreement | 0.010 | |
| 0.045 | Proportion of premiums incurred in previous financial years to be charged against the general fund balance in accordance with statutory requirements | 0.031 | |
| **0.045** | **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** |
| **(0.031)** | **Balance at 31 March** | | **0.010** |

## 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (1.781) | **Balance at 1 April** | (1.758) |
| (0.081) | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement | 0.000 |
| 0.000 | Deferred soft loan receipts | (0.095) |
| 0.002 | Release of deferred capital receipts to revenue as per regulations | 0.002 |
| 0.102 | Transfer to the capital receipts reserve upon receipt of cash | 0.098 |
| **(1.758)** | **Balance at 31 March** | **(1.753)** |

## 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 392.396 | Balance at 1 April | 349.455 |
| (5.854) | Actuarial (gains) or losses on pensions assets and liabilities | 51.084 |
| (14.093) | 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 | 18.981 |
| (22.994) | Employer's pensions contributions and direct payments to pensioners payable in the year | (22.274) |
| **349.455** | **Balance at 31 March** | **397.246** |

## 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 0.696 | **Balance at 1 April** | 0.627 |
| (0.069) | 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 | (0.097) |
| **0.627** | **Balance at 31 March** | **0.530** |

## Unequal pay back pay account

The unequal pay back pay account compensates for the differences between the rate at which the council provides for the potential costs of back pay settlements in relation to equal pay cases and the ability under statutory provisions to defer the impact on the general fund balance until such time as cash might be paid out to claimants.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 0.489 | **Balance at 1 April** | 0.000 |
| (0.489) | Increase / (decrease) in provision for back pay in relation to equal pay cases | 0.000 |
| **0.000** | **Balance at 31 March** | **0.000** |

## 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 6.529 | **Balance at 1 April** | **6.704** |
| (6.529) | Settlement or cancellation of accrual made at the end of the preceding year | (6.704) |
| 6.704 | Amounts accrued at the end of the current year | 6.186 |
| **0.175** | **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** | **(0.518)** |
| **6.704** | **Balance at 31 March** | **6.186** |

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

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (30.870) | Depreciation | (26.520) |
| (46.832) | Impairments and revaluations | (27.758) |
| (0.689) | Amortisation | (0.431) |
| 1.503 | Increase/(decrease) in debtors | (4.282) |
| 1.003 | Increase/(decrease) in interest debtors | (0.041) |
| 3.246 | (Increase)/decrease in creditors | 5.754 |
| 0.053 | (Increase)/decrease in interest creditors | 0.357 |
| 0.003 | Increase/(decrease) in inventories | 0.215 |
| (37.087) | Movement in pension liability | (3.293) |
| (191.054) | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (36.950) |
| 61.292 | Other non-cash items charged to the net surplus/deficit on the provision of services | 17.061 |
| **(239.432)** | **Total** | **(75.888)** |

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

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 38.783 | Capital grants credited to surplus or deficit on the provision of services | 43.109 |
| (500.383) | Net adjustment from the sale of short and long term investments | (167.740) |
| 0.000 | Premiums or discounts on the repayment of financial liabilities | (4.404) |
| 1.665 | Proceeds from the sale of property plant and equipment, investment property and intangible assets | 2.348 |
| **(459.935)** | **Total** | **(126.687)** |

## 30. Cash flow statement – operating activities

The cash flows for operating activities include the following items:

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (6.380) | Interest received | (4.194) |
| 14.432 | Interest paid | 19.575 |
| (0.097) | Dividends received | (0.585) |
| **7.955** | **Total** | **14.796** |

## 31. Cash flow statement – investing activities

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 34.170 | Purchase of property, plant and equipment, investment property and intangible assets | 51.194 |
| 602.637 | Purchase of short-term and long-term investments | 181.065 |
| 0.000 | Other payments for investing activities | 0.000 |
| (1.704) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (2.353) |
| 0.000 | Proceeds from short-term and long-term investments | 0.000 |
| (39.060) | Other receipts from investing activities | (44.144) |
| **596.043** | **Net cash flows from investing activities** | **185.762** |

## 32. Cash flow statement – financing activities

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| (20.438) | Cash receipts of short- and long-term borrowing | 4.156 |
| 0.000 | Other receipts from financing activities | 0.000 |
| 1.212 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | 1.946 |
| 2.228 | Repayments of short- and long-term borrowing | 13.597 |
| (6.269) | Other payments for financing activities | (0.215) |
| **(23.267)** | **Net cash flows from financing activities** | **19.484** |

## 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 2011/12 | 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) | (3.870) | (26.054) | (28.673) | (9.487) | (40.628) | (113.552) |
| Government grants | (4.525) | (235.059) | (8.319) | (2.792) | (139.015) | (6.671) | (396.381) |
| **Total Income** | **(9.365)** | **(238.929)** | **(34.373)** | **(31.465)** | **(148.502)** | **(47.299)** | **(509.933)** |
| **Expenditure** | | | | | | | |
| Employee expenses | 16.153 | 146.071 | 35.985 | 15.353 | 15.860 | 21.048 | 250.470 |
| Other Service Expenses | (11.731) | 170.485 | 61.760 | 27.730 | 151.323 | 93.891 | 493.458 |
| Support Services Recharges | 0.000 | 3.819 | 4.581 | 3.052 | (15.417) | 3.965 | 0.000 |
| **Total Expenditure** | **4.422** | **320.375** | **102.326** | **46.135** | **151.766** | **118.904** | **743.928** |
| 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** |

| Service income and expenditure 2010/11 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 | (3.931) | (5.814) | (21.290) | (23.316) | (8.440) | (36.742) | (99.533) |
| Government grants | (26.578) | (248.045) | (9.161) | (0.388) | (132.834) | (1.589) | (418.595) |
| **Total Income** | **(30.509)** | **(253.859)** | **(30.451)** | **(23.704)** | **(141.274)** | **(38.331)** | **(518.128)** |
| **Expenditure** | | | | | | | |
| Employee expenses | 56.960 | 151.927 | 37.916 | 17.598 | (19.927) | 23.112 | 267.586 |
| Other Service Expenses | (45.716) | 207.763 | 51.213 | 26.416 | 146.232 | 85.929 | 471.837 |
| Support Services Recharges | 0.155 | 3.654 | 4.758 | 3.557 | (18.204) | 6.079 | (0.001) |
| **Total Expenditure** | **11.399** | **363.344** | **93.887** | **47.571** | **108.101** | **115.120** | **739.422** |
| Transfer to/(from) reserves | 25.369 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 25.369 |
| **Net expenditure** | **6.259** | **109.485** | **63.436** | **23.867** | **(33.173)** | **76.789** | **246.663** |

## 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 246.663 | Costs of services in service analysis | 251.049 |
| (3.948) | Add amounts not reported to management | (0.089) |
| (27.548) | Remove amounts reported to management but not included in the comprehensive income and expenditure statement | (26.236) |
| 0.000 | Allocation of recharges | 2.418 |
| **215.167** | **Net cost of services in comprehensive income and expenditure statement** | **227.142** |

## 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.

| 2011/12 | Service Analysis £m | Not reported to management £m | Not included in I&E £m | Allocation of recharges £m | Net cost of services £m | Corporate amounts £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Expenditure** | | | | | | | |
| Employee services | 250.470 | 0.000 | (29.354) | 0.000 | 221.116 | 2.340 | 223.456 |
| Other service expenditure | 423.352 | (0.089) | (8.792) | (20.850) | 393.621 | 9.170 | 402.791 |
| Support service recharges | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Depreciation/amortisation/ impairment | 55.478 | 0.000 | 0.000 | 0.000 | 55.478 | 0.022 | 55.500 |
| Interest payments | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 63.640 | 63.640 |
| Precepts and levies | 14.628 | 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 | 0.030 | 0.030 |
| Gain or loss on disposal of fixed assets | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 34.698 | 34.698 |
| **Total expenditure** | **743.928** | **(0.089)** | **(52.774)** | **(20.850)** | **670.215** | **124.528** | **794.743** |
| **Income** | | | | | | | |
| Fees, charges and service income | (109.532) | 0.000 | 11.356 | 23.268 | (74.908) | (11.043) | (85.951) |
| Interest and investment income | (4.020) | 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 | (109.079) | (109.079) |
| Government grants and contributions | (396.381) | 0.000 | 28.216 | 0.000 | (368.165) | (164.015) | (532.180) |
| **Total income** | **(509.933)** | **0.000** | **43.592** | **23.268** | **(443.073)** | **(320.428)** | **(763.501)** |
| Transfer to / (from) reserves | 17.054 | 0.000 | (17.054) | 0.000 | 0.000 | 0.000 | 0.000 |
| **Surplus or deficit on the provision of services** | **251.049** | **(0.089)** | **(26.236)** | **2.418** | **227.142** | **(195.900)** | **31.242** |

| 2010/11 comparative figures | Service Analysis £m | Not reported to management £m | Not included in I&E £m | Allocation of recharges £m | Net cost of services £m | Corporate amounts £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Expenditure** | | | | | | | |
| Employee services | 267.586 | 0.000 | (63.783) | 0.000 | 203.803 | 0.000 | 203.803 |
| Other service expenditure | 365.725 | (2.329) | 51.786 | (9.987) | 405.195 | 16.517 | 421.712 |
| Support service recharges | (0.001) | 0.000 | 0.000 | 0.000 | (0.001) | 0.000 | (0.001) |
| Depreciation/amortisation/ impairment | 77.935 | 0.456 | 0.000 | 0.000 | 78.391 | 0.000 | 78.391 |
| Interest payments | 14.379 | 0.000 | (14.379) | 0.000 | 0.000 | 62.751 | 62.751 |
| Precepts and levies | 13.798 | 0.000 | (13.798) | 0.000 | 0.000 | 13.798 | 13.798 |
| Payments to housing capital receipts pool | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.029 | 0.029 |
| Gain or loss on disposal of fixed assets | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 189.389 | 189.389 |
| **Total expenditure** | **739.422** | **(1.873)** | **(40.174)** | **(9.987)** | **687.388** | **282.484** | **969.872** |
| **Income** | | | | | | | |
| Fees, charges and service income | (130.412) | 0.000 | 4.712 | 9.987 | (115.713) | (14.868) | (130.581) |
| Interest and investment income | (3.454) | 0.000 | 3.454 | 0.000 | 0.000 | (35.717) | (35.717) |
| Income from Council Tax | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | (108.322) | (108.322) |
| Government grants and contributions | (384.262) | 0.000 | 27.754 | 0.000 | (356.508) | (203.297) | (559.805) |
| **Total income** | **(518.128)** | **0.000** | **35.920** | **9.987** | **(472.221)** | **(362.204)** | **(834.425)** |
| Transfer to / (from) reserves | 25.369 | (2.075) | (23.294) | 0.000 | 0.000 | 0.000 | 0.000 |
| **Surplus or deficit on the provision of services** | **246.663** | **(3.948)** | **(27.548)** | **0.000** | **215.167** | **(79.720)** | **135.447** |

## 34. Trading operations

The council has established 5 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:

| 2010/11 Total £m | | 2011/12 Expenditure £m | Income £m | Total £m |
|---|---|---|---|---|
| 0.801 | Catering | 4.083 | (3.645) | 0.438 |
| 0.611 | Cleaning and caretaking | 4.078 | (4.248) | (0.170) |
| (0.157) | Markets | 1.492 | (1.456) | 0.036 |
| 0.383 | Internal support services | 1.880 | (1.528) | 0.352 |
| **1.638** | | **11.533** | **(10.877)** | **0.656** |

The internal support services represent traded services to schools and print and design services. 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).

Catering provide school meals to 73 schools within the borough and any 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.

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.

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.

## 35. Agency services

The council provides payroll services to a number of services involving the payment of around £46.239m in employee costs and salaries and £15.901m 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.

| | 2010/11 | | | | 2011/12 | |
|---|---|---|---|---|---|---|
| Payment for employees £m | Payment to HMRC £m | Payroll Charge £m | | Payment for employees £m | Payment to HMRC £m | Payroll Charge £m |
| 0.108 | 0.026 | 0.000 | Black Country Connexions | 0.000 | 0.000 | 0.000 |
| 1.068 | 0.228 | 0.004 | Black Country School Improvement Partnership | 0.840 | 0.178 | 0.004 |
| 0.244 | 0.077 | 0.001 | Chuckery TMO | 0.261 | 0.068 | 0.001 |
| 0.167 | 0.039 | 0.001 | Leamore TMO | 0.187 | 0.046 | 0.001 |
| 0.792 | 0.161 | 0.001 | Manor Primary | 0.781 | 0.153 | 0.004 |
| 0.199 | 0.047 | 0.001 | Sandbank TMO | 0.208 | 0.044 | 0.001 |
| 5.424 | 1.057 | 0.008 | Streetly School | 5.588 | 1.300 | 0.009 |
| 0.000 | 0.000 | 0.000 | Elections | 0.252 | 0.049 | 0.000 |
| 0.000 | 0.000 | 0.000 | Extra Care | 0.119 | 0.013 | 0.000 |
| 0.000 | 0.000 | 0.000 | Joseph Leckie Academy | 0.916 | 0.227 | 0.003 |
| 0.000 | 0.000 | 0.000 | Miras Academy | 1.386 | 0.326 | 0.005 |
| 0.000 | 0.000 | 0.000 | New Horizons Community Enterprise | 0.248 | 0.069 | 0.001 |
| 0.000 | 0.000 | 0.000 | Ryders Hayes Academy | 1.332 | 0.295 | 0.006 |
| 2.556 | 0.630 | 0.007 | Steps to Work | 2.155 | 0.588 | 0.007 |
| 0.000 | 0.000 | 0.000 | Walsall e-ACT Academy | 1.475 | 0.361 | 0.005 |
| 5.945 | 1.407 | 0.021 | St Thomas More School | 6.031 | 1.320 | 0.020 |
| 0.249 | 0.046 | 0.000 | Walsall Regeneration Company | 0.000 | 0.000 | 0.000 |
| 0.912 | 0.240 | 0.002 | WATMOS | 1.060 | 0.267 | 0.002 |
| 20.594 | 5.112 | 0.045 | Walsall Housing Group | 20.623 | 5.036 | 0.042 |
| 6.841 | 3.442 | 0.021 | Starting Point recruitment | 5.561 | 2.777 | 0.020 |
| **45.099** | **12.512** | **0.112** | | **49.023** | **13.117** | **0.131** |

## 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.

| 2010/11 Total £m | Pooled fund memorandum account – integrated health & social care for adults with learning difficulties | 2011/12 Cash £m | Grant £m | Total £m |
|---|---|---|---|---|
| | **Expenditure** | | | |
| 2.507 | Integrated team | 0.773 | 0.000 | 0.773 |
| 9.892 | Community support | 10.706 | 0.000 | 10.706 |
| 1.910 | Day care | 2.657 | 0.000 | 2.657 |
| 13.956 | Residential & Nursing | 6.034 | 6.459 | 12.493 |
| 0.811 | Supported employment | 0.390 | 0.000 | 0.390 |
| 2.178 | Psychiatric & medical | 0.000 | 0.000 | 0.000 |
| 0.373 | Management & administration | 2.700 | 0.000 | 2.700 |
| 0.000 | NHS Provider Contract | 3.422 | 0.000 | 3.422 |
| **31.627** | | **26.682** | **6.459** | **33.141** |
| | **Gross funding** | | | |
| (15.581) | NHS Walsall | (8.689) | 0.000 | (8.689) |
| (14.082) | Walsall Council | (15.008) | (6.459) | (21.467) |
| **(29.663)** | | **(23.697)** | **(6.459)** | **(30.156)** |
| **1.964** | **Net over/(under) spend** | **2.985** | **0.000** | **2.985** |
| | **Allocation of over/(under) spend** | | | |
| 0.539 | NHS Walsall | | | 0.833 |
| 1.425 | Walsall Council | | | 2.152 |
| **1.964** | | | | **2.985** |

| 2010/11 Total £m | Pooled fund memorandum account – integrated community equipment service | Cash £m | Grant £m | 2011/12 Total £m |
|---|---|---|---|---|
| | **Expenditure** | | | |
| 0.336 | Staffing costs | 0.367 | 0.000 | 0.367 |
| 0.130 | Premises/facilities/transport | 0.095 | 0.000 | 0.095 |
| 0.925 | Equipment – Walsall Council | 0.925 | 0.000 | 0.925 |
| 0.000 | NHS Walsall | 0.000 | 0.000 | 0.000 |
| **1.391** | | **1.387** | **0.000** | **1.387** |
| | **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)** |
| **(0.001)** | **Net over/(under) spend** | **(0.005)** | **0.000** | **(0.005)** |
| | **Allocation of over/(under) spend** | | | |
| 0.000 | NHS Walsall | | | (0.002) |
| (0.001) | Walsall Council | | | (0.003) |
| **(0.001)** | | | | **(0.005)** |

It was agreed by the Assistive Equipment and Telehealthcare Board to carry forward the underspend 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 0.707 | Basic allowances | 0.705 |
| 0.188 | Special responsibility | 0.184 |
| 0.895 | Total | 0.889 |

## 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) | 2011/12 | 189,533 | 10,860 | 1,263 | 0 | 23,446 | **225,102** |
| | 2010/11 | 189,533 | 11,201 | 1,358 | 0 | 24,490 | **226,582** |
| Executive Director - Resources | 2011/12 | 114,328 | 7,431 | 2,681 | 0 | 14,558 | **138,998** |
| | 2010/11 | 114,328 | 7,260 | 5,532 | 0 | 15,160 | **142,280** |
| Executive Director - Children's Services | 2011/12 | 114,328 | 5,739 | 2,670 | 0 | 14,360 | **137,097** |
| | 2010/11 | 114,328 | 5,887 | 2,692 | 0 | 14,992 | **137,899** |
| Executive Director 1 - Social Care | 2011/12 | 114,328 | 6,002 | 8,720 | 0 | 14,391 | **143,441** |
| | 2010/11 | 108,612 | 0 | 8,621 | 0 | 13,560 | **130,793** |
| Executive Director 2 - Social Care | 2011/12 | 0 | 0 | 0 | 0 | 0 | **0** |
| | 2010/11 | 0 | 3,859 | 0 | 0 | 471 | **4,330** |
| Acting Executive Director - Social Care | 2011/12 | 0 | 0 | 0 | 0 | 0 | **0** |
| | 2010/11 | 6,034 | 0 | 0 | 0 | 763 | **6,797** |
| Executive Director - Neighbourhood Services | 2011/12 | 114,328 | 7,431 | 2,703 | 0 | 14,558 | **139,020** |
| | 2010/11 | 114,328 | 0 | 2,571 | 0 | 14,274 | **131,173** |
| Executive Director - Regeneration Services | 2011/12 | 114,328 | 9,146 | 2,670 | 0 | 14,759 | **140,903** |
| | 2010/11 | 114,328 | 0 | 2,670 | 0 | 14,274 | **131,272** |
| Assistant Director - Finance - Section 151 officer | 2011/12 | 90,086 | 7,772 | 26 | 0 | 11,449 | **109,333** |
| | 2010/11 | 90,086 | 0 | 8 | 0 | 10,991 | **101,085** |
| Assistant Director 1 - Law & Constitutional Services - Monitoring Officer | 2011/12 | 953 | 0 | 48 | 131,669 | 112 | **132,782** |
| | 2010/11 | 90,086 | 7,878 | 30 | 0 | 11,952 | **109,946** |
| Acting Assistant Director - Law & Constitutional Services - Monitoring Officer | 2011/12 | 19,091 | 0 | 0 | 0 | 2,234 | **21,325** |
| | 2010/11 | 0 | 0 | 0 | 0 | 0 | **0** |
| Assistant Director 2- Law & Constitutional Services - Monitoring Officer | 2011/12 | 53,655 | 0 | 4 | 0 | 6,278 | **59,937** |
| | 2010/11 | 0 | 0 | 0 | 0 | 0 | **0** |

Please note that there is only one post for Assistant Director – Law & Constitutional Services, however due to changes this post was occupied by 2 individuals during the financial years 2010/11 and 2011/12. Assistant Director 1 – Law and Constitutional Services was in post until 4 April 2011.

The Acting Assistant Director – Law and Constitutional Services was in post for the period 13 April 2011 to 12 July 2011. Assistant Director 2 – Law and Constitutional Services was in post from 8 August 2011 to 31 March 2012.

There is only one post for Executive Director – Social Care, however due to changes in post holder this post was occupied by two individuals in 2010/11. Acting Executive Director covered the period 1 January 2010 to 18 April 2010. Executive Director 2 covered the period 19 April 2010 onwards.

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.

| | 2011/12 post numbers | | | |
|---|---|---|---|---|
| **Remuneration band** | **Council officers** | **Teachers - community/ VC schools** | **Teachers - foundation/ VA schools** | **Total** |
| £50,000 - £54,999 | 27 | 31 | 15 | **73** |
| £55,000 - £59,999 | 7 | 37 | 13 | **57** |
| £60,000 - £64,999 | 3 | 21 | 7 | **31** |
| £65,000 - £69,999 | 5 | 17 | 3 | **25** |
| £70,000 - £74,999 | 18 | 6 | 0 | **24** |
| £75,000 - £79,999 | 2 | 2 | 0 | **4** |
| £80,000 - £84,999 | 0 | 3 | 0 | **3** |
| £85,000 - £89,999 | 0 | 0 | 1 | **1** |
| £90,000 - £94,999 | 0 | 0 | 1 | **1** |
| £95,000 - £99,999 | 1 | 1 | 0 | **2** |
| £100,000 - £104,999 | 0 | 0 | 1 | **1** |
| £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** |
| £125,000 - £129,999 | 0 | 0 | 0 | **0** |
| £130,000 - £134,999 | 0 | 0 | 0 | **0** |
| £135,000 - £139,999 | 0 | 0 | 0 | **0** |
| £140,000 - £144,999 | 0 | 0 | 0 | **0** |
| £145,000 - £149,999 | 0 | 0 | 0 | **0** |
| £150,000 - £154,999 | 0 | 0 | 0 | **0** |
| **Total** | **63** | **119** | **42** | **224** |

| Remuneration band | 2010/11 comparative post numbers | | | |
|---|---|---|---|---|
| | Council officers | Teachers - community/ VC schools | Teachers - foundation/ VA schools | Total |
| £50,000 - £54,999 | 33 | 39 | 33 | **105** |
| £55,000 - £59,999 | 14 | 27 | 27 | **68** |
| £60,000 - £64,999 | 7 | 19 | 15 | **41** |
| £65,000 - £69,999 | 5 | 15 | 3 | **23** |
| £70,000 - £74,999 | 18 | 4 | 4 | **26** |
| £75,000 - £79,999 | 2 | 7 | 2 | **11** |
| £80,000 - £84,999 | 3 | 2 | 3 | **8** |
| £85,000 - £89,999 | 1 | 1 | 2 | **4** |
| £90,000 - £94,999 | 2 | 1 | 1 | **4** |
| £95,000 - £99,999 | 1 | 0 | 0 | **1** |
| £100,000 - £104,999 | 0 | 0 | 3 | **3** |
| £105,000 - £109,999 | 0 | 0 | 0 | **0** |
| £110,000 - £114,999 | 0 | 0 | 1 | **1** |
| £115,000 - £119,999 | 0 | 0 | 0 | **0** |
| £120,000 - £124,999 | 0 | 0 | 0 | **0** |
| £125,000 - £129,999 | 0 | 0 | 0 | **0** |
| £130,000 - £134,999 | 0 | 0 | 1 | **1** |
| £135,000 - £139,999 | 0 | 0 | 0 | **0** |
| £140,000 - £144,999 | 0 | 1 | 0 | **1** |
| £145,000 - £149,999 | 0 | 0 | 0 | **0** |
| £150,000 - £154,999 | 0 | 0 | 0 | **0** |
| **Total** | **86** | **116** | **95** | **297** |

## 39. Termination benefits

The council terminated the contracts of a number of employees in 2011/12, incurring liabilities of £1.802m (£3.938m in 2010/11). 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 | |
|---|---|---|---|---|---|---|---|---|
| £ | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 £m | 2011/12 £m |
| 0 - 20,000 | 68 | 39 | 121 | 56 | 189 | 95 | 1.643 | 0.635 |
| 20,001 - 40,000 | 11 | 5 | 38 | 18 | 49 | 23 | 1.387 | 0.628 |
| 40,001 - 60,000 | 4 | 2 | 12 | 4 | 16 | 6 | 0.768 | 0.307 |
| 60,001 - 80,000 | - | - | 3 | 3 | 3 | 3 | 0.213 | 0.195 |
| 80,001 - 100,000 | - | 1 | - | 2 | - | 3 | - | 0.264 |
| 100,001 - 150,000 | - | - | 2 | - | 2 | - | 0.277 | - |
| **TOTAL** | **83** | **47** | **176** | **83** | **259** | **130** | **4.288** | **2.029** |

## 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 2011/12, the council paid £10.882m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/11 were £12.853m 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 that needs to be disclosed 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.

| 2010/11 | | | | 2011/12 | | |
|---|---|---|---|---|---|---|
| Local Government Pension Scheme | | Unfunded teachers | | Local Government Pension Scheme | | Unfunded teachers |
| Funded £m | Unfunded £m | £m | | Funded £m | Unfunded £m | £m |
| | | | **Comprehensive income and expenditure statement** | | | |
| | | | *Cost of service:* | | | |
| 19.650 | 0.000 | 0.000 | Current service cost | 16.243 | 0.000 | 0.000 |
| (47.958) | (1.563) | (0.905) | Past service costs | 0.128 | 0.000 | 0.000 |
| 0.124 | 0.000 | 0.449 | Settlements and curtailments | (10.867) | 0.000 | 0.608 |
| | | | *Financing and investment income and expenditure:* | | | |
| 45.769 | 1.840 | 0.763 | Interest cost | 42.116 | 1.504 | 0.802 |
| (32.262) | 0.000 | 0.000 | Expected return on scheme assets | (31.553) | 0.000 | 0.000 |
| **(14.677)** | **0.277** | **0.307** | **Total post employment benefit charged to the surplus or deficit on the provision of services** | **16.067** | **1.504** | **1.410** |
| | | | *Other post employment benefit charged to the comprehensive income and expenditure statement* | | | |
| (4.120) | (3.719) | 1.985 | Actuarial (gains) and losses | 49.929 | 0.637 | 0.518 |
| **(18.797)** | **(3.442)** | **2.292** | **Total post employment benefit charged to the comprehensive income and expenditure statement** | **65.996** | **2.141** | **1.928** |
| | | | **Movement in reserves statement** | | | |
| 34.322 | 1.785 | 0.980 | Reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the Code | 2.803 | 0.570 | (0.080) |
| | | | ***Actual amount charged against the general fund balance for pensions in the year:*** | | | |
| **19.645** | | | Employers' contributions payable to scheme | **18.870** | | |
| | **2.062** | **1.287** | Retirement benefits payable to pensioners | | **2.074** | **1.330** |

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 2012 is a loss of £186.918m (£178.454m in 2010/11).

## Assets and liabilities in relation to post employment benefits

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

| 2010/11 Local Government Pension Scheme Funded £m | 2010/11 Local Government Pension Scheme Unfunded £m | 2010/11 Unfunded teachers £m | | 2011/12 Local Government Pension Scheme Funded £m | 2011/12 Local Government Pension Scheme Unfunded £m | 2011/12 Unfunded teachers £m |
|---|---|---|---|---|---|---|
| (816.332) | (33.882) | (14.514) | Opening balance at 1 April | (777.248) | (28.377) | (15.519) |
| (19.650) | 0.000 | 0.000 | Current service cost | (16.243) | 0.000 | 0.000 |
| (45.769) | (1.840) | (0.763) | Interest cost | (42.116) | (1.504) | (0.802) |
| (6.896) | 0.000 | 0.000 | Contributions by scheme participants | (6.282) | 0.000 | 0.000 |
| 38.974 | 3.719 | (1.985) | Actuarial gains and (losses) | (28.619) | (0.637) | (0.518) |
| 24.591 | 2.063 | 1.287 | Benefits paid | 27.937 | 2.074 | 1.330 |
| 47.958 | 1.563 | 0.905 | Past service costs | (0.128) | 0.000 | 0.000 |
| 0.000 | 0.000 | 0.000 | Entity combinations | 0.000 | 0.000 | 0.000 |
| (0.124) | 0.000 | (0.449) | Curtailments | 15.562 | 0.000 | (0.608) |
| 0.000 | 0.000 | 0.000 | Settlements | (1.766) | 0.000 | 0.000 |
| **(777.248)** | **(28.377)** | **(15.519)** | **Closing balance at 31 March** | **(828.903)** | **(28.444)** | **(16.117)** |

Reconciliation of fair value of the scheme assets:

| Local Government Pension Scheme 2010/11 £m | | Local Government Pension Scheme 2011/12 £m |
|---|---|---|
| 472.332 | Opening balance at 1 April | 471.690 |
| 32.262 | Expected rate of return | 31.553 |
| (34.854) | Actuarial gains and (losses) | (21.310) |
| 21.708 | Employer contributions | 20.944 |
| 6.896 | Contributions by scheme participants | 6.282 |
| (26.654) | Benefits paid | (30.011) |
| 0.000 | Entity combinations | 0.000 |
| 0.000 | Settlements | (2.929) |
| **471.690** | **Closing balance at 31 March** | **476.219** |

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 £10.244m (2010/11: £30.385m).

## Scheme history

| | 2007/08 £m | 2008/09 £m | 2009/10 £m | 2010/11 £m | 2011/12 £m |
|---|---|---|---|---|---|
| **Present value of liabilities:** | | | | | |
| Funded LGPS | (694.557) | (590.286) | (816.332) | (777.248) | (828.903) |
| Unfunded LGPS | (33.295) | (28.393) | (33.882) | (28.377) | (28.444) |
| Unfunded teachers | (14.838) | (12.528) | (14.514) | (15.519) | (16.117) |
| **Total present value of scheme liabilities** | **(742.690)** | **(631.207)** | **(864.728)** | **(821.144)** | **(873.464)** |
| **Fair value of assets in the Local Government Pension Scheme** | **451.723** | **363.102** | **472.332** | **471.690** | **476.219** |
| **Surplus/(deficit) in the scheme:** | | | | | |
| Funded LGPS | (242.834) | (227.184) | (344.000) | (305.558) | (352.684) |
| Unfunded LGPS | (33.295) | (28.393) | (33.882) | (28.377) | (28.444) |
| Unfunded teachers | (14.838) | (12.528) | (14.514) | (15.519) | (16.117) |
| **Total** | **(290.967)** | **(268.105)** | **(392.396)** | **(349.454)** | **(397.245)** |

The liabilities show the underlying commitments that the council has in the long term to pay retirement benefits. The total liability of £397.245m has a substantial impact on the net worth of the council. It reduces the overall net worth to -£71.851m. 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 2008, and employer contributions also increased 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 2012/13 by the council is £21.253m.

### 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 2.23% (6.42% in 2010/11). Consistent with the prior year, this has been calculated from the actual investment return for the nine months to 31 December 2011, multiplied by the market index returns for the three months to 31 March 2012, less an allowance for expenses.

The following actuarial assumptions have been made:

| | Local Government Pension Scheme | | | | Unfunded teachers pensions | |
|---|---|---|---|---|---|---|
| | Funded | | Unfunded | | | |
| | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 | 2011/12 |
| **Long-term expected rate of return on assets in the scheme:** | | | | | | |
| Equity investments | 7.5% | 7.0% | n/a | n/a | n/a | n/a |
| Government bonds | 4.4% | 3.1% | n/a | n/a | n/a | n/a |
| Other bonds | 5.1% | 4.1% | n/a | n/a | n/a | n/a |
| Property | 6.5% | 6.0% | n/a | n/a | n/a | n/a |
| Cash/liquidity | 0.5% | 0.5% | n/a | n/a | n/a | n/a |
| Other | 7.5% | 7.0% | n/a | n/a | n/a | n/a |
| Expenses deduction | 0.1% | 0.1% | n/a | n/a | n/a | n/a |
| **Mortality assumptions:** | | | | | | |
| <u>Longevity at 65 for current pensioners:</u> | | | | | | |
| - Men | 21.6 | 21.7 | 21.6 | 21.7 | 21.6 | 21.7 |
| - Women | 24.2 | 24.3 | 24.2 | 24.3 | 24.2 | 24.3 |
| <u>Longevity at 65 for future pensioners:</u> | | | | | | |
| - Men | 23.0 | 23.1 | n/a | n/a | n/a | n/a |
| - Women | 25.8 | 25.9 | n/a | n/a | n/a | n/a |
| Rate of inflation | 2.90% | 2.50% | 2.90% | 2.50% | 2.80% | 2.30% |
| Rate of increase in salaries | 4.65% | 4.25% | n/a | n/a | n/a | n/a |
| Rate of increase in pensions | 2.90% | 2.50% | 2.90% | 2.50% | 2.80% | 2.30% |
| Rate for discounting scheme liabilities | 5.50% | 4.90% | 5.50% | 4.90% | 5.40% | 4.60% |
| 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:

| | 2010/11 % | 2010/11 £m | 2011/12 % | 2011/12 £m |
|---|---|---|---|---|
| Equity investments | 59.10% | 278.768 | 54.80% | 260.968 |
| Government bonds | 8.20% | 38.679 | 10.50% | 50.003 |
| Other bonds | 5.90% | 27.830 | 8.20% | 39.050 |
| Property | 8.50% | 40.094 | 10.00% | 47.622 |
| Cash/liquidity | 2.10% | 9.905 | 1.40% | 6.667 |
| Other | 16.20% | 76.414 | 15.10% | 71.909 |
| | **100.00%** | **471.690** | **100.00%** | **476.219** |

### History of experience gains and losses

The actuarial gains and losses identified as movements on the pensions reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

| | 2007/08 % | 2008/09 % | 2009/10 % | 2010/11 % | 2011/12 % |
|---|---|---|---|---|---|
| **Differences between the expected and actual return on assets** | | | | | |
| West Midlands Authorities Pension Fund | (7.7) | (33.4) | 18.7 | (7.4) | (4.5) |
| **Experience gains and losses on liabilities** | | | | | |
| West Midlands Authorities Pension Fund | (0.2) | 0.0 | 0.0 | 3.8 | 0.0 |
| Unfunded teachers pensions | (3.5) | 0.0 | 0.0 | (13.1) | 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:

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 0.342 | Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year | 0.315 |
| 0.058 | Fees payable to Grant Thornton for the certification of grant claims and returns for the year | 0.052 |
| 0.008 | Fees payable in respect of other services provided by Grant Thornton during the year | 0.000 |
| **0.408** | **Total** | **0.367** |

## 44. Dedicated schools grant

The council's expenditure on schools is funded by grant monies provided by Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the schools budget. The schools budget includes elements for a restricted range of services provided on a council wide basis and for 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 2011/12 which has been deployed in accordance with the Schools Standard and Framework Act (1998 14) are shown in the following table:

| 2010/11 | | | Dedicated Schools Grant (DSG) | 2011/12 | | |
|---|---|---|---|---|---|---|
| Central Expenditure £m | ISB £m | Total £m | | Central Expenditure £m | ISB £m | Total £m |
| (17.467) | (157.541) | (175.008) | Final DSG for year | (17.801) | (166.052) | (183.853) |
| (1.103) | 0.000 | (1.103) | Plus brought forward from previous year | (0.476) | 0.000 | (0.476) |
| 0.000 | 0.000 | 0.000 | Less carry forward to next year agreed In advance | 0.000 | 0.000 | 0.000 |
| **(18.570)** | **(157.541)** | **(176.111)** | **Agreed budgeted distribution in year** | **(18.277)** | **(166.052)** | **(184.329)** |
| 18.094 | 0.000 | 18.094 | Less actual central expenditure | 14.190 | 0.000 | 14.190 |
| 0.000 | 157.541 | 157.541 | Less actual ISB deployed to schools | 0.000 | 166.052 | 166.052 |
| 0.000 | 0.000 | 0.000 | Plus local authority contribution in year | 0.000 | 0.000 | 0.000 |
| **(0.476)** | **0.000** | **(0.476)** | **Carry forward to next year** | **(4.087)** | **0.000** | **(4.087)** |

## 45. Grant income

The council credited the following grants, contributions and donations to the comprehensive income and expenditure statement in 2011/12:

| 2010/11 £m | Revenue grants | 2011/12 £m |
|---|---|---|
| | **Credited to taxation and non specific grant income** | |
| (17.402) | Revenue support grant | (32.373) |
| 0.000 | Local Services Support Grant | (0.667) |
| (25.985) | Area based grant | 0.000 |
| (0.175) | Local authority business growth incentive | 0.000 |
| (1.595) | Street Lighting PFI grant | (1.595) |
| 0.000 | Council Tax Freeze Grant | (2.725) |
| 0.000 | New Homes Bonus | (1.075) |
| **(45.157)** | **Total** | **(38.435)** |
| | | |
| | **Credited to services** | |
| (0.958) | ACE - annual funding agreement | (0.876) |
| (4.352) | Skills funding agency - Walsall Adult and Community College (WACC) | (3.948) |
| 0.000 | Music Support Grant | (0.764) |
| (1.466) | Future Jobs Fund (FJF) | 0.000 |
| (3.127) | Housing benefits administration subsidy grant | (3.259) |
| (96.017) | Housing benefits rent allowances grant | (104.409) |
| (29.841) | Council Tax benefit subsidy grant | (29.872) |
| (0.915) | Housing benefit non HRA rebates | (0.754) |
| (0.722) | Learning disabilities - campus closure programme revenue grant | 0.000 |
| 0.000 | Learning Disabilities - main grant | (6.459) |
| (1.106) | Social care reform grant (transforming adult social care) | 0.000 |
| (9.317) | School standards grant (SSG & SSGP) | 0.000 |
| (176.111) | Dedicated Schools Grant | (184.330) |
| (11.610) | General sure start grant | 0.000 |
| (16.468) | LSC sixth form funding grant (YPLA from 2011/12) | (10.955) |
| (6.591) | LSC contracts | 0.000 |
| (26.887) | Standards fund | 0.000 |
| 0.000 | Pupil Premium | (4.271) |
| 0.000 | Group Funding to prevent homelessness | (1.074) |
| (1.053) | WNF contractor projects - NEET/childcare | 0.000 |
| 0.000 | EIG | (14.844) |
| 0.000 | Pothole Grant | (0.522) |
| (8.661) | Other | (4.963) |
| **(395.202)** | **Total** | **(371.300)** |
| | | |
| **(440.359)** | **Total Revenue Grants** | **(409.735)** |

| 2010/11 £m | Capital grants | 2011/12 £m |
|---|---|---|
| | **Credited to taxation and non specific grant income** | |
| (23.324) | Schools standards fund | (8.113) |
| (1.921) | PCT Walsall | (0.088) |
| (1.052) | Sure start | 0.000 |
| (0.713) | Lottery | (1.525) |
| (0.091) | Youth | (1.044) |
| (0.375) | Department for Education | (6.478) |
| (3.203) | CENTRO | (0.312) |
| (1.565) | Housing specific | 0.000 |
| (0.267) | DEFRA | 0.000 |
| (0.352) | Town centre transport package | 0.000 |
| (0.216) | Local area agreement | 0.000 |
| (2.509) | Local transport plan | (2.949) |
| 0.000 | Department for Health | (0.528) |
| (0.858) | s106 contributions | 0.429 |
| (1.853) | Other | (0.239) |
| **(38.299)** | **Total** | **(20.847)** |
| | | |
| | **Credited to services** | |
| (8.827) | Schools standards fund | (17.562) |
| (0.289) | Sure start | 0.000 |
| (0.306) | Lottery | (0.107) |
| 0.000 | Department for Education | (0.943) |
| (0.019) | DEFRA | (0.042) |
| 0.000 | Department for Health | (0.212) |
| 0.000 | Local area agreement | (0.015) |
| 0.000 | Local transport plan | (0.749) |
| 0.000 | CENTRO | (0.110) |
| (2.751) | Housing specific | (1.613) |
| 0.000 | s106 contributions | (0.731) |
| (0.058) | Other | (0.297) |
| **(12.250)** | **Total** | **(22.381)** |
| | | |
| **(50.549)** | **Total capital grants** | **(43.228)** |

## 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 2012 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 2011/12 is shown in note 37. During 2011/12, no works and services were commissioned from companies in which members had an interest. In addition, the council paid grants totalling £2.006m 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 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 322.468 | Opening capital financing requirement | 294.629 |
| | **Capital investment** | |
| 36.351 | Property, plant and equipment | 39.350 |
| 0.002 | Investment property | 0.681 |
| (5.138) | Revenue expenditure funded from capital under statute | 20.951 |
| 0.872 | Intangible assets | 0.886 |
| **32.087** | | **61.868** |
| | **Sources of finance** | |
| (2.095) | Capital receipts | (1.561) |
| (43.397) | Government grants and contributions | (40.761) |
| | *Sums set aside from revenue* | |
| (0.163) | Direct revenue contributions | (0.616) |
| (14.271) | Minimum revenue provision | (14.107) |
| **(59.926)** | | **(57.045)** |
| **294.629** | **Closing capital financing requirement** | **299.452** |
| | **Explanation of movements in year** | |
| (9.397) | Increase/(decrease) in underlying need to borrow (supported by government financial assistance) | (14.107) |
| (19.007) | Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance) | 18.760 |
| 0.565 | Assets acquired under finance lease | 0.170 |
| **(27.839)** | **Increase/(decrease) in capital financing requirement** | **4.823** |

The opening balance for 2010/11 has been adjusted by £13.788m. This adjustment has been made following a review of the information used in 2010/11 showed inconstancies to that being used in 2011/12. Therefore an adjustment has been made to ensure the disclosure across the two accounting periods is comparable. This adjustment has not impacted on the council's accounting statements.

# 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 2011 £m | | 31 March 2012 £m |
|---|---|---|
| 0.000 | Other land and buildings | 0.000 |
| 3.687 | Vehicles, plant, furniture and equipment | 2.344 |
| **3.687** | **Total** | **2.344** |

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): | |
| 1.413 | - current | 1.152 |
| 1.977 | - non-current | 0.929 |
| 0.916 | Finance costs payable in future years | 0.396 |
| **4.306** | **Minimum lease payments** | **2.477** |

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

| | Minimum lease payments | | Finance lease liabilities | |
|---|---|---|---|---|
| | 31 March 2011 £m | 31 March 2012 £m | 31 March 2011 £m | 31 March 2012 £m |
| Not later than one year | 1.804 | 1.374 | 1.413 | 1.152 |
| Later than one year and not later than five years | 2.415 | 1.060 | 1.901 | 0.892 |
| Later than five years | 0.087 | 0.043 | 0.076 | 0.037 |
| | **4.306** | **2.477** | **3.390** | **2.081** |

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 2011/12 no contingent rents were payable by the council (2010/11 £nil).

The council has sub-let some of the vehicles held under these finance leases. At 31 March 2012 the minimum payments expected to be received under non-cancellable sub-leases was £nil (£nil at 31 March 2011).

***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 2011 £m | | 31 March 2012 £m |
|---|---|---|
| 0.851 | Not later than one year | 1.011 |
| 1.926 | Later than one year and not later than five years | 2.101 |
| 2.809 | Later than five years | 2.706 |
| **5.586** | **Total** | **5.818** |

The council has sub-let some of the vehicles held under these operating leases. At 31 March 2012 the minimum payments expected to be received under non-cancellable sub-leases was £0.112m (£0.051m at 31 March 2011).

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:

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 1.097 | Minimum lease payments | 1.008 |
| 0.291 | Contingent rents | 0.504 |
| (0.051) | Sublease payments received | (0.112) |
| **1.337** | **Total** | **1.400** |

## 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 2011 £m | | 31 March 2012 £m |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments): | |
| 0.003 | - current | 0.004 |
| 0.045 | - non-current | 0.054 |
| | | |
| 0.087 | Unearned finance income | 0.079 |
| 0.044 | Unguaranteed residual value of the property | 0.044 |
| **0.179** | **Gross investment in leases** | **0.181** |

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 2011 £m | 31 March 2012 £m | 31 March 2011 £m | 31 March 2012 £m |
| Not later than one year | 0.013 | 0.013 | 0.013 | 0.013 |
| Later than one year and not later than five years | 0.052 | 0.075 | 0.052 | 0.060 |
| Later than five years | 0.114 | 0.092 | 0.070 | 0.063 |
| | **0.179** | **0.180** | **0.135** | **0.136** |

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 2011/12 £0.002m contingent rents were receivable by the council (2010/11 £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 2011 £m | | 31 March 2012 £m |
|---|---|---|
| 0.462 | Not later than one year | 0.423 |
| 1.402 | Later than one year and not later than five years | 1.087 |
| 7.484 | Later than five years | 7.373 |
| **9.348** | **Total** | **8.883** |

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 2011/12 £0.019m contingent rents were receivable by the council (2010/11 £0.017m).

# 49. Private finance initiatives and similar contracts

## St Thomas More School

2011/12 was the eighth 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 2012/13 | 2.128 |
| Payable within two to five years | 8.944 |
| Payable within six to ten years | 12.224 |
| Payable within eleven to fifteen years | 13.496 |
| Payable within sixteen | 2.863 |
| **Total** | **39.655** |

## Public street lighting

2011/12 was the tenth 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 2012 (excluding any estimation of inflation and availability/ performance deductions) are as follows:

| | Payment for service | Reimbursement of capital expenditure | Interest | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Payable in 2012/13 | 2.119 | 0.715 | 0.119 | 2.953 |
| Payable within two to five years | 9.314 | 2.587 | 0.388 | 12.289 |
| Payable within six to ten years | 13.544 | 2.635 | 0.322 | 16.501 |
| Payable within eleven to fifteen years | 14.811 | 2.904 | 0.148 | 17.863 |
| Payable within sixteen to seventeen years | 3.437 | 0.61 | 0.008 | 4.055 |
| **Total** | **43.225** | **9.451** | **0.985** | **53.661** |

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:

| 2010/11 | | 2011/12 |
|---|---|---|
| £m | | £m |
| (10.919) | Balance outstanding at start of year | (10.179) |
| 0.740 | Payments during the year | 0.728 |
| 0.000 | Capital expenditure incurred in the year | 0.000 |
| **(10.179)** | **Balance outstanding at year-end** | **(9.451)** |

### Housing 21

2011/12 was the fourth 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
- 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 does revert back to council ownership at the end of the 30 year period. The council therefore needs to keep accounting for this asset on its balance sheet (current value £0.324 million).

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

| | £m |
|---|---|
| Payable in 2012/13 | 9.652 |
| Payable within two to five years | 41.083 |
| Payable within six to ten years | 57.402 |
| Payable within eleven to fifteen years | 64.945 |
| Payable within sixteen to twenty years | 73.479 |
| Payable within twenty one to twenty six years | 101.029 |
| **Total** | **347.590** |

## 50. Impairment losses

During 2011/12, the council has recognised an impairment loss of £5.244m in relation to its operational land and buildings, £0.516m in relation to vehicles, plant and equipment, £0.029m in relation to assets held for sale, £0.250m in relation to surplus assets, £4.576m in relation to infrastructure assets and £2.131m 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.

## 51. Contingent liabilities

**Statutory fees for personal searches re Environmental Information Regulations**

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

If the council receives claims then it is reasonable to predict that the costs of settling these claims will be between £0 and £150k.

**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 at this stage this could seriously prejudice the position of the council should any liability accrue

**Equal pay**

During 2011/12 Walsall has successfully settled a large number of equal pay claims, based on a memorandum of understanding reached at the end of 2010/11. Negotiation with the legal representatives of 211 new equal pay claimants, who raised claims during the year, is being progressed to obtain greater clarity around the level of any liability and timing of payments. As the council has only recently implemented its new pay structure there also still remains a small, though diminishing, risk of potential further equal pay claims.

Due to the complex nature of these claims, involving multiple parties on the subject matter of equal pay, further detail should not be disclosed as this may prejudice sensitive negotiations and the ultimate settlement of the claims in their entirety.

**Bryntysilio Outdoor Education Centre**

There is currently a dispute with the Walsall School Holiday Camp Trust regarding the cost of dilapidations on the Bryntysilio Outdoor Education Centre. Both the council and the trust have employed surveyors and estimated costs range upto £0.600m which form the basis of the dispute.

**Walsall Arboretum**

The council is currently investigating remedial works for previous building works which do not have planning approval on land adjacent to the Walsall Arboretum by a resident. Currently the structures are unsafe and are delaying works within the Arboretum. Cost estimates to make the site safe are £0.500m however it is not certain whether the council will incur these costs.

**Section 117 of the Mental Health Act**

Due to the difficulty in establishing the level of payments made by Section 117 users in receipt of care, the authority has estimated the amount of provision required based on settlements made to date. However, contingent on future events and the number of cases coming forward, the council may have to account for further liabilities relating to Section 117 claimants. Further information regarding the Section 117 provision can be found in note 24.

## 52. Contingent assets

The council has no contingent assets to disclose as at 31 March 2012.

## 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 24 February 2011 and is available on the council website. The key issues within the strategy were:

- The authorised limit for the 2011/12 was set at £373.730m. This is the maximum limit of external borrowings or other long term liabilities
- The operational boundary was expected to be £315.044m. 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 111

These policies are implemented by a central 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. They were last approved by Audit Committee on 26 September 2011.

## 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. 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
- 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 and Moodys
- 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 £136.380m 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 2012 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 (if applicable – as this does not now cover normal money market deposits).

| Bonds rated: | Amount as at 31 March 2012<br>£m | Historical experience of default as at 31 March 2012<br>% | Adjustment for market conditions as at 31 March 2012<br>% | Estimated maximum exposure to default as at 31 March 2012<br>£m | Estimated maximum exposure to default as at 31 March 2011<br>£m |
|---|---|---|---|---|---|
| AAA | 5.130 | 0.00% | 0.00% | 0.000 | 0.000 |
| AA | 17.000 | 0.02% | 0.03% | 0.003 | 0.025 |
| A | 48.250 | 0.09% | 0.08% | 0.043 | 0.004 |
| BBB | 10.000 | 0.23% | 0.24% | 0.023 | 0.002 |
| Unrated Building Societies | 56.000 | | | | |
| Trade debtors | 17.645 | Local experience | Local experience | Local experience | Local experience |
| **Total** | **154.025** | | | | |

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 £3.753m of the £7.059m balance is past its due date for payment. The past due amount can be analysed by age as follows:

| | As at 31 March 2011<br>£m | As at 31 March 2012<br>£m |
|---|---|---|
| Less than three months | 0.311 | 1.771 |
| Three to six months | 1.381 | 0.175 |
| Six months to one year | 0.474 | 0.351 |
| More then one year | 1.969 | 1.456 |
| **Total** | **4.135** | **3.753** |

## Liquidity risk

The council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management 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 provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets is as follows:

| | 2010/11 £m | 2011/12 £m |
|---|---|---|
| Less than one year | 191.568 | 121.380 |
| Between one and two years | 10.000 | 9.000 |
| Between two and five years | 0.000 | 6.000 |
| More than five years | 27.238 | 29.303 |
| **Total** | **228.806** | **165.683** |

## 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 central treasury team address the operational risks within the approved parameters. This includes:

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

The maturity analysis of financial liabilities 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 107):

| | Approved minimum limits £m | Approved maximum limits £m | Actual 31 March 2012 £m | Actual 31 March 2011 £m |
|---|---|---|---|---|
| Less than 1 year | 0.000 | 39.504 | 35.261 | 24.585 |
| Between 1 and 2 years | 0.000 | 52.672 | 25.000 | 38.243 |
| Between 2 and 5 years | 0.000 | 65.840 | 65.557 | 32.780 |
| Between 5 and 10 years | 26.336 | 131.680 | 29.541 | 32.780 |
| More than 10 years | 108.418 | 210.688 | 108.418 | 153.143 |
| **Total** | **134.754** | **500.384** | **263.777** | **281.530** |

The opening balance for 2010/11 has been adjusted by £6.326m. This adjustment has been made following a review of the information used in 2010/11 showed inconstancies to that being used in 2011/12. Therefore an adjustment has been made to ensure the disclosure across the two accounting periods is comparable. This adjustment has not impacted on the council's accounting statements.

## 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 central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

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 | 0.350 |
| Increase in interest receivable on variable rate investments | 0.021 |
| Increase in government grant receivable for financing costs | 0.012 |
| Impact on surplus or deficit on the provision of services | 0.384 |
| 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 the 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

| 2010/11 £m | | 2011/12 £m | Note |
|---|---|---|---|
| | **Income** | | |
| (64.085) | Income collectable from business ratepayers | (65.822) | 3 |
| (91.109) | Income from council tax | (91.847) | 5 |
| (29.637) | Benefits | (29.522) | 5 |
| **(184.831)** | **Total income** | **(187.191)** | |
| | **Expenditure** | | |
| | ***Precepts and demands*** | | |
| 108.200 | Walsall Metropolitan Borough Council | 108.982 | 6 |
| 7.771 | Police | 7.827 | 6 |
| 3.738 | Fire and Civil Defence | 3.765 | 6 |
| **119.709** | | **120.574** | |
| | ***Business rates*** | | |
| 63.735 | Payment to national pool | 65.475 | 3 |
| 0.350 | Cost of collection | 0.347 | 3 |
| | ***Bad and doubtful debts*** | | |
| 0.150 | Write-offs | (0.005) | |
| 0.750 | Provisions | 0.691 | |
| **184.694** | **Total expenditure** | **187.082** | |
| **(0.137)** | **(Surplus)/deficit for year** | **(0.109)** | |
| 0.696 | (Surplus)/deficit brought forward - Walsall | 0.627 | 2 |
| 0.075 | Brought forward debtor/(creditor) | 0.065 | 2 |
| 0.006 | Transfer to precepting authorities | 0.000 | 2 |
| (0.065) | Precepting authorities (debtor)/creditor | (0.053) | 2 |
| 0.052 | Transfer to general fund | 0.000 | 2 |
| **0.627** | **Collection fund balance carried forward (surplus) / deficit** | **0.530** | **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

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 0.696 | (Surplus)/deficit brought forward - Walsall | 0.627 |
| 0.075 | Brought forward debtor/(creditor) | 0.065 |
| (0.137) | (Surplus)/deficit for year | (0.109) |
| | Precepting authorities (debtor)/creditor | |
| (0.044) | - Police | (0.036) |
| (0.021) | - Fire and civil defence | (0.017) |
| 0.006 | Transfer to precepting authorities | 0.000 |
| 0.052 | Transfer to general fund - prior years surplus/(deficit) | 0.000 |
| **0.627** | **Collection fund balance** | **0.530** |

## 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 2012 was £181.124 million (£182.127 million in 2010/11). 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| | **Gross amount payable to the NNDR pool** | |
| (74.146) | Non-domestic rates | (77.501) |
| | (Add)/deduct | |
| (2.077) | Transitional relief | (0.887) |
| | Less | |
| 0.890 | Bad debts written off / Provision for bad debts | 1.055 |
| 11.248 | Allowances and other adjustments | 11.511 |
| **(64.085)** | **Income from business ratepayers** | **(65.822)** |
| 0.350 | Less costs of collection allowance | 0.347 |
| **(63.735)** | **Net income payable to national pool** | **(65.475)** |

### 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 2011/12 the multiplier was £0.433 (£0.414 in 2010/11). The small business multiplier for 2011/12 was £0.426 (£0.407 in 2010/11).

## 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 2011/12 was as follows.

| Band | Weighting | Number of dwellings on valuation list | Discounted value for council tax purposes | Band D equivalent | Band D equivalent for 2010/11 |
|---|---|---|---|---|---|
| A | 6/9 | 48,257 | 42,690 | 28,452 | 28,321 |
| B | 7/9 | 25,207 | 22,998 | 17,888 | 17,536 |
| C | 8/9 | 16,980 | 15,730 | 13,982 | 13,922 |
| D | 9/9 | 9,701 | 9,160 | 9,160 | 9,164 |
| E | 11/9 | 5,305 | 5,015 | 6,129 | 6,072 |
| F | 13/9 | 2,281 | 2,165 | 3,127 | 3,119 |
| G | 15/9 | 716 | 660 | 1,100 | 1,132 |
| H | 18/9 | 53 | 34 | 68 | 68 |
| | | **108,500** | **98,452** | **79,906** | **79,334** |

## 5. Income due from council tax

The council set a council tax of £1,531.92 for 2011/12 (£1,531.92 for 2010/11). This included the precepts for the police authority and fire and civil defence authority. It is based upon a tax base of 79,906 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 120.746 | Gross council tax due (adjusted for changes in banding) | 121.369 |
| (29.637) | Less benefit awarded | (29.522) |
| **91.109** | **Total** | **91.847** |

## 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.

| 2010/11 £m | | 2011/12 £m |
|---|---|---|
| 108.200 | Walsall Metropolitan Borough Council | 108.982 |
| 7.771 | Police | 7.827 |
| 3.738 | Fire and civil defence | 3.765 |
| **119.709** | **Total** | **120.574** |

# 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
- Bloxwich and Leamore Recreation Ground
- Bloxwich Community Partnership Trust (BCP)
- Cannock Chase and Pelsall District Miners Recreation and Pleasure Ground
- CC Walker Playing Fields
- Fishley
- Merrions Wood
- Recreation and pleasure ground, Short Heath
- Shelfield Playing Field
- The Memorial Park (Willenhall)
- Walsall Corporation Almshouses formerly Moseley's Dole
- Walsall School Holiday Camp
- Walsall Wood Allotment
- WJ Croft

## 1. Income and expenditure account

| Net expenditure 2010/11 £ | | Expenditure £ | Income £ | Net Expenditure 2011/12 £ |
|---|---|---|---|---|
| | **Education and Children's Services** | | | |
| (6) | S W Tame | 0 | (6) | (6) |
| (302) | Joseph Leckie Memorial | 0 | (310) | (310) |
| 10,846 | Barr Beacon Trust | 2,509 | (11,177) | (8,668) |
| | **Resources** | | | |
| (21) | Walsall Agricultural Fund | 0 | (5) | (5) |
| **10,517** | **Total** | **2,509** | **(11,498)** | **(8,989)** |

## 2. Valuation of trust fund assets

| | Capital Element | Revenue Accumu-lation | Revaluation Reserve | Total | | Market value | |
|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2010/11 | 2011/12 | 2010/11 |
| | £ | £ | £ | £ | £ | £ | £ |
| **Education and Children's Services** | | | | | | | |
| S W Tame | 0 | 556 | 0 | 556 | 544 | 556 | 544 |
| Joseph Leckie Memorial | 1,518 | 26,645 | 0 | 28,163 | 27,853 | 28,163 | 27,853 |
| Barr Beacon Trust | 0 | 268,861 | 26,001 | 294,862 | 290,971 | 294,862 | 290,971 |
| **Resources** | | | | | | | |
| Walsall Agricultural Fund | 330 | 420 | 0 | 750 | 746 | 750 | 746 |
| **Total** | **1,848** | **296,482** | **26,001** | **324,331** | **320,114** | **324,331** | **320,114** |

### Monies for residents in council care homes

| 2010/11 £ | | 2011/12 £ |
|---|---|---|
| 1,839,612 | Balance at 1 April | 1,437,854 |
| (401,758) | Net deposits/ (withdrawals) in year | 720,282 |
| **1,437,854** | **Total** | **2,158,136** |

## 3. Trusts balance sheet

| 2010/11 £ | | 2011/12 £ |
|---|---|---|
| 23,001 | Land & buildings | 22,001 |
| 1,686,824 | Investment trust fund | 2,402,328 |
| (149) | Creditors | 0 |
| 8 | Debtors | 176 |
| 48,289 | Cash | 57,961 |
| **1,757,973** | **Total assets less liabilities** | **2,482,466** |
| (1,730,124) | Revenue fund balances | (2,454,617) |
| (1,848) | Capital account | (1,848) |
| (26,001) | Revaluation reserve | (26,001) |
| **(1,757,973)** | **Total net worth** | **(2,482,466)** |

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# Section B – Annual Governance Statement

# Annual Governance Statement

## 1. Scope of responsibility

This statement is given in respect of the 2011/12 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 2012 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 with 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
- 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 of the Authority
- Programme and project management
- Incorporating good governance arrangements in respect of partnerships and other group working.

The internal control environment and governance framework is an integral part of the council's Walsall Performance Framework (WPF). The WPF (diagram 1 overleaf) sets out how the various planning processes interlink and jointly demonstrate how services and resources are managed. It is the framework within which the council operates and is underpinned by functional frameworks that provide guidance and protocols, comprising financial, performance, risk, communication and political management processes. The WPF exists to embed performance management and continuous improvement into our normal business activities and shows how services and activities are regularly measured and monitored to enable effective decision making, helping to ensure the council delivers efficient, customer focussed services that provide value for money.

It connects the following:

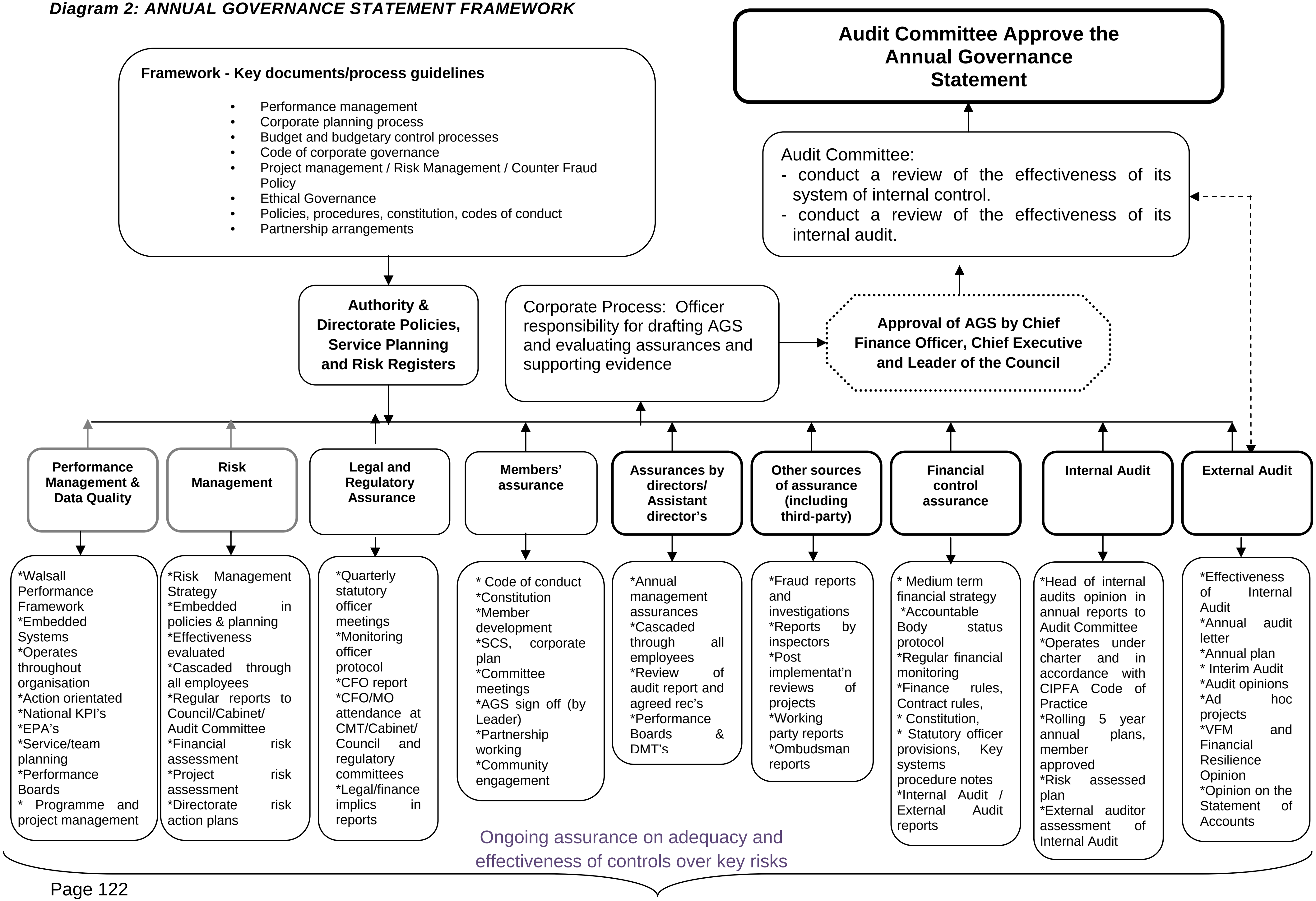
- Sustainable Community Strategy
- Corporate Plan, vision, pledges and values
- Service planning (of all levels) of the council and its partners
- Financial planning (of all levels)
- Local Area Plans
- Individual Employee performance assessment (EPA)

All of which take place in an environment of stakeholder influence, audit and inspection, internal control and monitoring in order to develop continuously improving services.

**Diagram 1: The WPF**


The governance framework consists of regular 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 2 shows the overall governance framework which is discussed in more detail in this section.

***Diagram 2: 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 extensive consultation with the community and stakeholders – linked to corporate and service planning.
- A comprehensive risk management strategy and framework, operating at both strategic and operational levels;
- A comprehensive programme and project management approach;
- 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;
- A comprehensive financial strategy, including budget management and control framework, supported by financial procedures and guidelines underpinning sound financial management, reporting and standing;
- An approved Constitution, including financial and contract rules and a scheme of delegation and decision making processes of the council;
- Clear measures of financial and other performance through a comprehensive performance management framework, linked to service planning and the corporate plan;
- The preparation of regular performance and financial 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;
- Project management principles adopted as the methodology for projects, requiring projects to be managed using the same underlying principles and regular reporting of progress to CMT and directorate teams;
- Use of an accountable body status protocol 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;
- Performance boards (in most directorates) which receive, consider and assess service planning and performance measures, financial planning and project management processes to influence and drive continuous improvement;
- 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;
- Standards Committee, Audit Committee, scrutiny function and other regulatory committees;
- Member and officer development strategy and individual development planning processes;
- Statutory Monitoring and Chief Finance Officers ensuring the council operates within existing legislation and statutory guidance;
- Comprehensive communication and consultation arrangements both internally and externally.

For 2011/12, the AGS is required to contain a statement on whether the authority's financial management arrangements conform with 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 access to and meets frequently with the Chief Executive, and has direct access to members, including Cabinet and Audit Committee.

There are a number of key elements of the governance framework and internal control environment which ensures the council is able to monitor and manage 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, vision and key pledges. They are supported by directorate plans, which contain measures designed to support the achievement of council objectives.

The council is committed to continuous improvement but recognises that it cannot achieve this without community and partner engagement. It is committed to working with partners through the Walsall Borough Strategic Partnership (our Local Strategic Partnership), and with the community and partners, through the Area Partnerships.

During 2011/12, the Council continued to implement the "systems thinking" methodology within services and develop its Working Smarter review programme, aimed at delivering customer service improvements, financial savings and improved staff morale. 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.

A large number of reviews have now been completed and a number of officers have been trained in the intervention methodology. In June 2011, a lessons learned event was held where representatives from all of the reviews were asked to identify "what has worked well" and "what hasn't worked so well". The feedback from the event demonstrated the Council has yet to reach a tipping point in changing its culture from pre-dominantly command and control to one based on system thinking principles. Following the workshop and our learning from reviews undertaken to date, a revised system intervention methodology has been developed.

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.

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.

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. In 2009/10, a review of the effectiveness of Audit Committee was undertaken by Grant Thornton, an action plan is in place to address their recommendations, and progress against this is reported to Audit Committee.

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.

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 are required to provide annual assurance statements 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. They are also required to provide an annual assurance statement to acknowledge that internal controls were in place and operating effectively for the financial year; and that where weaknesses were in place, corrective action was being actively and effectively taken and managed.

The Audit Committee receives 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 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 regular monitoring reports on performance management, financial management, programme and project 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.

- Annual changes made to the framework or reporting therefore, approved by Audit Committee. On the 27 October 2011, CMT approved changes to the means by which Internal Audit report to Audit Committee to strengthen governance arrangements and to ensure that the information presented to Audit Committee better assists the Committee in discharging its duties, as follows:

  - A 6 monthly Internal Audit progress report with the emphasis on assurance with a summary of work finalised during the period; themes identified during the course of audit work undertaken; and resultant organisational health measures.
  - Routine reporting of audit reports which receive a no and limited assurance opinion, where accountable executive directors and their managers are asked to attend Audit Committee to give members of the Committee the necessary assurance that concerns identified are being addressed. With the emphasis focused on ‘assurance’, this ensures that those reports warranting attention are appropriately directed to those charged with governance.

- The work of the executive directors and managers within the authority who have responsibility for the development and maintenance of the governance environment. For example, in order to support more effective governance, CMT on 22 September 2011 approved a new audit reporting regime. The key approved changes were as follows:

  - A new audit report format was introduced with the emphasis on assurance.
  - Problems / weaknesses which remained unaddressed from the last audit are now categorised as ‘prior audit open findings’. The emphasis is no longer on the implementation of agreed actions but on whether the problems / weaknesses still exist.
  - Attached to the terms of reference issued to accountable managers prior to the commencement of each audit is the previous audit report. This acts as an aide memoir to managers of the areas identified during the last audit. This way, managers are reminded of what may potentially be an ‘open’ problem or weakness, on which they need to focus their attention.
  - Quarterly summary reports of audit actions confirmed by managers as being implemented are no longer sent to executive directors, and follow up memos seeking managers’ ‘self certification’ of audit report actions are no longer issued. Executive directors and their accountable managers are now responsible for addressing issues identified within audit reports. With the emphasis focused on ‘assurance’, the current practice of no and limited assurance audit reports presented to Audit Committee ensures that those reports warranting attention are appropriately directed to those charged with governance. A standard early audit follow up process of all no and limited assurance audit reports issued, strengthens governance arrangements further in ensuring weak areas identified are promptly addressed by accountable managers.

- In addition, CMT, the Leader and elected members, via the Audit Committee formally consider and approve the Annual Governance Statement (AGS) annually.

Head of Internal Audit Assessment of Governance and Internal Control Effectiveness during 2011/12

The review of the effectiveness of the system of internal control and internal audit 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 2011/12:*

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 2011/12 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 2011/12, 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 2011/12 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 2011/12.*

*All audit work is subject to agreed terms of reference, objectives and resources allocated by the council for that purpose."*

Executive Director Assurance

Executive directors each provide an assurance statement that, for AGS purposes, they are satisfied that appropriate action has been taken by managers to implement the agreed recommendations / actions arising from audits in 2011/12. In addition, they provide assurance that controls were in place and operating effectively.

One area was identified in the annual assurance statement from the Executive Director – Resources of control weakness. This relates to an Internal Audit investigation identified below relating to anonymous allegations received concerning practices within human resources. The matter has been reported to Audit Committee and actions put in place to address the findings.

Statutory Officer Assurances

Both the Monitoring and Chief Finance officers provide assurance statements on the governance and internal control environment. Other than the matter mentioned above, no other items of concern or internal control weakness were raised in respect of the internal control or internal audit environment.

Effectiveness Review 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 recent CIPFA guidance. The self-assessment is reviewed independently.

In addition, the council's external auditors, Grant Thornton have undertaken a review of internal audit. In their interim report dated June 2012, they concluded that "*the 'service continues to provide an independent and satisfactory service to the council and 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 quarterly reports. Additionally, Audit Committee receive all internal audit reports receiving a 'no' or 'limited' assurance opinion. A sample of these reports were chosen by Committee for further detailed review and scrutiny during 2011/12; and accountable officers together with their executive directors were called before the Audit Committee to provide necessary assurances.

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. Implementation of this is ongoing and progress was reported to Audit Committee during 2011/12. Seven recommendations were made by Grant Thornton, all of which have been implemented.

The system of Internal Audit is assessed as satisfactory overall.

Regulatory Committee - Standards

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. In 2011/12, statutory officer's meetings were held to review and oversee and ensure statutory provisions were being adhered to.

The Localism Act 2011 requires 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.

Other Supporting Evidence

The effectiveness of the council's governance framework can further be evidenced by the:

- External auditors' annual Interim Audit which includes a review of the council's overarching entity level controls, with three recommendations arising, two relating to the operation of manual journals and one relating to members statements.
- 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;
- A high performance and achievement level against targets, including a 99% delivery of the annual audit plan in 2011/12.

The review of effectiveness is also informed and evidenced by the following;

- The Interim Audit report from Grant Thornton contains an interim update on the annual value for money assessment. 3 out of 6 risk areas were assessed as Green (no cause for concern). 3 areas were assessed as Amber (potential risks and/or weaknesses in this area). No areas were assessed as Red (high risk area). The council is confident the 3 Ambers – strategic financial planning (year end outturn position, and delivery of 2011/12 savings, and the risk of legal proceedings impacting on the council's financial stability); financial control (year end outturn and impact on financial control arrangements if the outturn is adverse); and improving efficiency and productivity (in relation to reduction targets for use of natural resources) will move to Green once the final assessment has been made. Indeed the outturn for 2011/12 pre-audit is favourable with a small underspend overall. We are expecting an unqualified VFM opinion.
- The work of the council's external auditors with the 2010/11 Annual Audit letter, published December 2011, including the provision of an unqualified opinion on both the 2010/11 accounts and the council's use of resources (value for money).
- The council has introduced 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.

- The Code is reviewed annually by the Chief Finance Officer and the Monitoring officer. The Code will be strengthened further during 2012/13 to include the governance requirements to support the principles in the CFO Statement.

2010/11 Identified Control Weaknesses

The review of effectiveness also covered the work undertaken in 2011/12 to address the control weaknesses identified in the 2010/11 AGS. Payroll and capital programme / project management both received borderline significant opinions. This position has not changed. See below.

Regarding 2010/11 fraud and irregularity cases, 3 in particular gave cause for concern in the 2010/11 AGS, regarding 2 potential frauds / thefts by officers and 1 creditor payment fraud. Of the 2 frauds, both were proven and the individuals involved have received custodial sentences of 40 months and 12 months (with the option to extend for a further 6 months if the money was not paid back), respectively. Appropriate action to recover losses has taken place in both cases. With regard to the creditor payment fraud, the individual involved was found guilty and received a Community Order with 180 hours of unpaid work.

Controls within these areas have been subject to review and action taken to strengthen them as appropriate.

Internal Audit 2011/12 Identified Control Weaknesses

During 2011/12, Internal Audit reviews were undertaken of the fundamental financial systems. Internal Audit has acknowledged that these key financial systems are operating satisfactorily, all receiving a significant assurance audit opinion. Areas for improvement were noted within the reviews of payroll, accounts payable (creditors), capital programme & project management which required management attention to resolve to ensure that the control environment is fully sufficient and effective within these areas. A borderline significant assurance opinion is given in these areas.

With regard to the 'payroll' review, the summary audit opinion states:

- Generally, the design of work within the payroll service is both sufficient and effective. However with regard to management of work 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. It was disappointing to note that there are a number of prior audit findings which remain unaddressed at the time of this audit.
- Areas of good practice noted include; the continuous development and improvement of HR Direct including the sickness absence reporting centre; and a segregation of duties across individual teams such as the HR payroll and training support team and transactional recruitment team.

With regard to the 'accounts payable' review, the summary audit opinion states:

- Generally, the design and management of work in operation within accounts payable is sufficient and effective, although some improvement is required. This is 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.

- Some good practices were noted during the audit, including; robust processes and controls in place for the operation of BACS controls, reconciliations to the general ledger and system interfaces.

With regard to the ‘capital programme and project management’ review, the summary audit opinion states:

- Generally, the design (sufficiency of controls) of work in operation within capital programme and project management is sufficient. Management attention is, however, 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.
- Some good practices were noted during the audit including robust processes and controls in place for the approval of the capital programme, contingency and carry forwards.

In addition to fundamental financial systems, audits 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, with the exception of the review of pay and grading which received a limited assurance opinion. The summary audit opinion for this review states:

- Generally, weaknesses have been identified in both the design (sufficiency of control) and management (effectiveness of controls) of work in operation within pay and grading, which require management attention to address. Most notably, controls require strengthening in relation to project management, ensuring that day to day procedures exist and have been appropriately communicated to relevant staff; that job evaluation and appeals procedures are strengthened with a sufficient audit trail in place; that sufficient and timely management information is in place on which informed decision making can be made; that performance management arrangements are strengthened and that robust arrangements are in place for the mainstreaming of pay and grading.

Internal audit’s work identified that although in most audit assignments the processes examined were generally working satisfactorily, system weaknesses were identified in a number of areas as shown in those awarded a limited assurance opinion. Audits awarded a limited assurance opinion are routinely reported to Audit Committee and are subject to an audit follow up review. No audit reviews were awarded a no assurance opinion this year. A number of high priority suggested improvements were made during the year to address control weaknesses and all were or are being agreed for implementation by managers.

Overall 100 specific planned audit reviews were undertaken, excluding unplanned irregularity and consultancy work. Of these:

- 1 review (1%) received a full assurance opinion;
- 91 reviews (91%) received a significant assurance opinion, 9 of these were borderline;
- 8 reviews (8%) received a limited assurance opinion; and
- No reviews received a no assurance opinion.

The limited assurance opinion audits are as follows:

- Children's Fund (Exit Arrangements)
- Children's Centres
- Coroner
- Pay and Grading
- Skip Permit Income
- Kings Hill School
- Millfield JMI School
- Rough Hay School

In addition, fraud and irregularity work was undertaken by the Internal Audit service during the year. A summary of the audit inquiry work undertaken is routinely reported to Audit Committee. While most cases were not material in the context of the Annual Governance Statement, 3 cases in particular, have given cause for concern this year, namely:

- Weaknesses in grant funding arrangements within the Walsall Arboretum restoration programme;
- Whistle blowing allegations received in respect of procurement practices within social care and inclusion; and
- Anonymous allegations received concerning financial mismanagement within a Children's Centre.
- Controls within these areas have been subject to review and action is or has been taken as appropriate. Action plans are in place for all of these audits and all will be formally followed up during 2012/13.

Two significant governance issues have been identified which are outlined in section 5 relating to whistle-blowing allegations in respect of recruitment and grading practices in HR and the outcome of the OFSTED inspection of safeguarding and looked after children services.

*We have been advised on the implications of the result of the review of the effectiveness of the governance arrangement, and a plan to address weaknesses and ensure continuous improvement of the system is in place.*

## 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.

The officers who drafted this AGS, evaluated assurances and supporting evidence, concluded the effectiveness of the governance framework, including the system of internal control and system of internal audit is satisfactory overall, however, in undertaking the annual review of effectiveness, two significant governance issues have been identified. Further detail is provided below. Other areas of concern in relation to fraud and irregularity, whilst not material for the purposes of the Annual Governance Statement, have been identified and included within the previous section of this statement and action taken as appropriate.

Human Resources

An audit investigation into irregularities was undertaken during the year which concerned practices within human resources. This was concluded and reported to Audit Committee, along with an action plan, on 23rd July 2012 to address a number of significant control weaknesses in recruitment and selection, procurement, and grading practices within human resources.

An action plan to address these issues is in place and progress in implementing the actions will be reported to Audit Committee to ensure the committee has the necessary assurance that the weaknesses are being addressed in full.

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.

Inspection of Safeguarding and Looked After Children Services

An inspection of safeguarding and looked after children services was undertaken in June and the findings published on 31 July 2012. The purpose of the inspection is to evaluate the contribution made by relevant services in the local area towards ensuring that children and young people are properly safeguarded and to determine the quality of service provision for looked after children and carers.

Ofsted concluded that Walsall was inadequate in 8 out of the 22 inspection areas, adequate in 12 and good in 2 areas. Services for Looked After Children were judged adequate overall with adequate capacity for Improvement. Safeguarding Services were judged as inadequate for overall effectiveness with inadequate capacity for improvement.

The report can be accessed at http://www.ofsted.gov.uk/local-authorities/walsall

A draft improvement plan has been produced to implement the actions outlined in the report and an independently chaired Improvement Board established to oversee the improvement plan. The first meeting of the Board is on 17th September. Progress on improvement plan actions will be reported to Audit Committee.

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Paul Sheehan
Chief Executive
Xx September 2012

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.

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Councillor Mike Bird
Leader of the Council
Xx September 2012

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.

..................................

James T. Walsh
Chief Finance Officer
Xx September 2012

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**

**ABG**: Area Based Grant

**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.

**Area based grant**: A central Government grant formerly paid to each local authority to help finance its general expenditure

**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 & 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

**Chartered Institute of Public Finance and Accountancy**: The professional body that oversees accounting practice within public bodies.

**Chief financial officer**: Corporate 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 & 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.

**CSR**: Comprehensive Spending Review

**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**: 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

**Democratic representation & management**: All aspects of members' activities including service policy making and more general activities relating to governance and representing local interests.

**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.

**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.

**Diocese**: An administrative territorial unit administered by a bishop i.e. Bishop of Lichfield.

**DSG**: Dedicated Schools Grant

**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.

**F**

**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**

**ICT**: Information and communication technology

**IFRIC**: International financial reporting interpretations committee.

**IFRS**: International financial reporting standard

**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**: 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-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.

**PWLB**: Public Works Loan Board

**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.

**SORP**: Statement of Recommended Practice applicable to preparing the accounts. This usually pays reference to accounting standards (FRS, SSAP UITF) and modifies them for a particular industry.

**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 a SORP 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

Enquiries or comments about this publication should be made to:

Head of Finance
Walsall Council
PO Box 23
The Council House
Lichfield Street
Walsall
West Midlands WS1 1TW
Telephone: 01922 652470

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 2011/12

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 2011/12 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 146 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 2011/12.

## Financial review

In the financial year ended 31 March 2012, the total cost of services provided to the people of Walsall was £227.142 million. The total net expenditure shown on the comprehensive income and expenditure statement (CIES) was a deficit of £31.242 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 £0.411 million for the year. After taking into account a planned use of general reserves of £0.787 million and additional transfers of £0.619 million arising from unspent earmarked reserve allocations, the net position for the council is an underspend of £0.580 million.

Capital investment in 2011/12 totalled £61.868 million (£32.087 million in 2010/11). 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 £2.253 million was received during the year from the sale of assets (£1.584 million in 2010/11). 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 | Revenue support grant | 32.373 | 4% |
| Government | Dedicated schools grant | 184.330 | 24% |
| Government | Non domestic rates | 104.733 | 14% |
| Citizen | Council tax | 109.080 | 14% |
| Citizen | Other income (rents, fees and charges, specific grants) | 332.988 | 44% |
| | **Total** | **763.504** | **100%** |

What we spend it on

| Cash? | Type of expenditure | £m | % |
|---|---|---|---|
| Cash | Employees | (223.456) | 28% |
| Non cash | Depreciation, impairment and disposal of assets | (90.198) | 11% |
| Cash | Supplies and service | (55.912) | 7% |
| Cash | Housing benefits | (135.646) | 17% |
| Cash | Precepts/Levies | (14.628) | 2% |
| Cash and Non cash | Other running costs | (274.903) | 35% |
| | **Total** | **(794.743)** | **100%** |

| Service | £m | % |
|---|---:|---:|
| Education | (309.645) | 39% |
| Social services | (110.957) | 14% |
| Highways/transport | (27.911) | 3% |
| Cultural and related services | (22.596) | 3% |
| Environmental and regulatory services | (28.383) | 3% |
| Planning services | (14.411) | 2% |
| Housing | (148.597) | 19% |
| Precept/Levies (Centro) | (14.628) | 2% |
| Other | (117.618) | 15% |
| **Total** | **(794.746)** | **100%** |

And the services it provides

| Revenue summary | £m |
|---|---:|
| Income | 763.504 |
| Expenditure | (794.746) |
| **Net revenue expenditure** | **31.242** |

Revenue summary

| Category | £m |
|---|---:|
| Charges for depreciation and impairment | (26.520) |
| Revaluations losses | (27.758) |
| Capital grants and contributions | 20.847 |
| Disposal of fixed assets | (34.697) |
| Pension costs | 3.293 |
| Other statutory movements | 15.580 |
| **Total** | **(49.255)** |

Adjustment for costs not to be included within council tax

| | £m |
|---|---:|
| Net revenue expenditure | 31.242 |
| Adjustments for costs (as above) | (49.255) |
| Transfers to earmarked reserves | 17.602 |
| **Increase in general fund balance** | **(0.411)** |

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 2010/11 a total of £32 million was spent on capital investment. This was split as follows:

What we spend it on

| Capital expenditure<br>Type of asset | 2011/12<br>£m |
|---|---|
| Land and buildings | 25.975 |
| Vehicles and equipment | 2.925 |
| Infrastructure | 5.075 |
| Community assets | 2.131 |
| Non operational assets | 3.925 |
| **Subtotal** | **40.031** |
| Intangible assets | 0.886 |
| Revenue expenditure funded from capital | 20.951 |
| **Total** | **61.868** |

The following chart shows how Walsall Council has paid for capital expenditure this year.

| Capital Financing<br>Source | 2011/12<br>£m |
|---|---|
| Unsupported borrowing | 18.760 |
| Capital receipts | 1.561 |
| Capital grants and contributions | 40.761 |
| Revenue | 0.616 |
| Acquired under finance lease | 0.170 |
| **Subtotal** | **61.868** |

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 2012.

| Balance sheet category | £m | Explanation |
|---|---|---|
| Fixed assets | 464.476 | Property, equipment |
| Other long term assets | 44.324 | Investments and long term debtors |
| Stock | 0.702 | Value of goods held such as food |
| Money owed to the council | 33.092 | By citizens and businesses |
| Investments | 120.602 | Short term cash deposits |
| Cash and cash equivalents | 0.387 | Cash in bank |
| **Assets – owned by council** | **663.583** | |
| Money owed by the council | -60.380 | To businesses for goods purchased |
| Borrowing by the council | -267.139 | To fund capital expenditure |
| Pensions liability | -397.246 | Total pension liability |
| Other long term liabilities | -10.669 | Finance leases and PFI |
| **Liabilities – owed by the council** | **-735.434** | |
| | | |
| **Total assets less liabilities** | **-71.851** | |
| **Financed by:** | | |
| Distributable reserves | -150.303 | Can be used to fund future years |
| Non redistributable reserves | -175.092 | Accounting balances mainly for financing |
| Pensions reserve | 397.246 | Total pension assets |
| | **71.851** | |

As at 31 March 2012 Walsall council's balance sheet shows a negative net worth of £71.851m. 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 2012/13. The negative net worth position at 31 March 2012 has been caused by holding a pension liability of £349.454m. 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 | 34.300 |
| Cash inflows | 940.115 |
| Cash outflows | (974.028) |
| **Cash and cash equivalents at the end of the year** | **0.387** |

£725.663m from revenue activities
£214.237m from investing activities
£0.215m from financing activities

£722.070 from revenue activities
£232.259m from investing activities
£19.699m 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 2011/12 accounts have been audited by Grant Thornton, who have issued an unqualified opinion on the council's full accounts.

A full copy of the council's accounts is available at www.walsall.gov.uk. Alternatively call 01922 650708 to obtain a copy.

Walsall Council

**Finance**

Grant Thornton UK LLP
Enterprise House
115 Edmund Street
BIRMINGHAM
B3 2HJ

25 September 2012

**LETTER OF REPRESENTATION 2011/12**

Dear Sirs

**Walsall Metropolitan Borough Council**
**Financial Statements for the Year Ended 31 March 2012**

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 2012 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 Standards as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, both issued by CIPFA / LASAAC.

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 acknowledge, as Senior Officers / Council Members our responsibilities for preparing financial statements which give a true and fair view and for making accurate representations to you
ii 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 the United Kingdom (the Code); in particular the financial statements give a true and fair view in accordance therewith.
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.

Finance
Walsall Metropolitan Borough Council,
The Council House, Lichfield Street, Walsall WS1 1TW
Tel:01922 650000 Fax:01922 647922
Textphone: 0845 111 2910 Email:

v Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

vi All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

vii We have adjusted the misstatements brought to our attention on the audit differences and adjustments summary. The financial statements are free of material misstatements, including omissions.

viii 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**

ix 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 entity from whom you determined it necessary to obtain audit evidence.

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

xi 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.

xii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity 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.

xiii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

xiv 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.

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

**Annual Governance Statement**

xvi The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with the requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

xvii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance 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 2012.

Paul Sheehan
Chief Executive

James T Walsh
Chief Finance Officer

Grant Thornton

Walsall Metropolitan Borough Council

# Annual report to those charged with governance

For the year ended 31 March 2012

13 September 2012

# Contents

# 1 Executive summary

### 1.1 Introduction

This report has been prepared for Walsall Metropolitan Borough Council (the Council) to meet the objectives of the Audit Commission's Code of Audit Practice and the mandatory requirements of International Standard on Auditing (UK & Ireland) 260. Further details on the background to this report are set out at Appendix A.

### 1.2 Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the Chief Finance Officer and his finance team during the course of our audit. In particular, the support provided from Vicky Buckley, Richard Walley, Robert Page and Dan Mortiboys. We also recognise the professionalism of the finance team in meeting the Council's earlier deadline for the preparation of the financial statements, which is a significant achievement.

### 1.3 Key audit and financial reporting issues

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 its financial position.

Our audit is substantially complete, although the following procedures remain outstanding:

- completing testing on schools' journals and confirming authorisation on a number of journals posted during the year
- awaiting outstanding information on the valuation of Birmingham airport
- reviewing the final version of the financial statements
- completing our work on the Whole of Government (WGA) accounts for the National Audit Office
- updating our post balance sheet events review, to the date of signing the accounts.

Subject to no further issues arising from our work, we anticipate issuing an unqualified opinion on the Council's 2011/12 annual accounts.

We received the draft financial statements prior to the commencement of our audit fieldwork, in accordance with the earlier timetable agreed with the Council. Supporting working papers were made available at the start of the audit, and requests for information were acted upon promptly enabling a smooth audit process. We are pleased to report that the working papers presented were of a high quality and Officers dealt promptly with the queries we raised.

#### Financial statements opinion

We identified one audit adjustment that impacted on the Council's reported income and expenditure position (statement of comprehensive income). This related to a missing accrual and increased the expenditure on the provision of services by £850,000.

In addition, an adjustment was also required to the Council's balance sheet to reflect the increase in the value of ordinary and preference shares at Birmingham Airport of £2,078,000. This adjustment does not impact on the Council's income and expenditure position.

Further adjustments were made to figures presented in disclosure notes, but were not significant in isolation, or in aggregate.

### Value for money

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).

Following formal consideration by our national consistency panel, we are pleased to report that, based on our review of the Council's arrangements; we propose to give an unqualified opinion.

Further details are set out in section 5 and we will issue a separate report on financial resilience to the Audit Committee.

## 1.4 Controls

### Roles and responsibilities

The Council's management is responsible for the identification, assessment, and 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.

### Findings

Our work has not identified any further significant weaknesses that we wish to highlight for your attention.

Whilst we have made one recommendation to strengthen controls over the ATAR clocking in system, a recommendation to further improve the fair value calculation of long term investments and a recommendation on grouping assets into classes, these do not represent a significant control risk to the Council.

## 1.5 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 Chief Finance Officer.

We have made a small number of recommendations, which are set out in the action plan at Appendix D. Recommendations have been discussed and agreed with the Chief Finance Officer and his Finance Team.

### Actions required

1. The Audit Committee is required to review the proposed management representation letter (Appendix C) and formally record whether, to the best of the Members' knowledge, it is satisfied that the letter may be signed in good faith.
2. Subsequently, the Audit Committee is required to use the findings and recommendations arising from our work to inform its opinion on the overall effectiveness of the Council's financial reporting arrangements and consider whether there are specific matters that prevent the formal adoption of the financial statements.

Once the Audit Committee has formally minuted its conclusions on the above, and we have completed the work set out in Section 1.3, we will be able to confirm our proposed audit opinion.

**Grant Thornton UK LLP**
**13 September 2012**

# 2 Key audit issues

## 2.1 Status of audit

Our audit is substantially complete, with only the following areas outstanding:

- completing testing on schools' journals and confirming authorisation on a number of journals posted during the year
- awaiting outstanding information on the valuation of Birmingham airport
- reviewing the final version of the financial statements
- completing our work on the Whole of Government (WGA) accounts for the National Audit Office
- updating our post balance sheet events review, to the date of signing the accounts.

## 2.2 Qualitative aspects of financial reporting

The qualitative aspects of our audit of your financial statements include us considering the selection of appropriate accounting policies and the appropriateness of significant estimates and judgments made by officers in compiling the accounts.

### Accounting policies

The Council's accounting policies are in accordance with International Financial Reporting Standards, as adapted through the Code of Practice on Local Authority Accounting for 2011/12. We are also able to confirm the accounting policies were consistently applied to the material transactions in the Council's financial statements.

### Significant estimates and judgements

We evaluated the underlying assumptions and reasonableness of the significant estimates and judgements made by your finance team in preparing the financial statements. These mainly affected the accounting for property, plant and equipment assets and the uncertainty over future Government funding. We are satisfied that a reasonable approach was taken and that these balances are free from material misstatement.

### Accounting for schools

This is an area of emerging guidance and, as CIPFA is carrying out a consultation exercise to bring consistency to local government accounting, a clearer view is expected later this year. In addition, in our view, accounting for schools will be subject to close scrutiny in the near future.

The two key areas for our 2011/12 audit were:

1. The key judgement as to which classes of schools are controlled by the Council and therefore held on the balance sheet
2. Accounting for the one voluntary aided PFI school.

In reviewing the Council's key judgements, we considered the Council's approach to accounting for schools, focusing on the key judgment for which schools should be on and off balance sheet. We are satisfied that the Council's current arrangements are clearly and satisfactorily explained in the Statement of Accounts.

Impact of PFI

When a school, previously controlled by the Council, converts to academy status, the asset is written off the balance sheet. For PFI schools, the

Council must continue to recognise the PFI liability on its balance sheet. This has been clearly explained in Note 13 to the Statement of Accounts.

### Going concern

#### Introduction

Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, a council is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Council's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business. A key consideration of going concern is that the Council has the cash resources and reserves to meet its obligations as they fall due in the foreseeable future.

International Financial Reporting Standards (IFRS) require an organisation's directors to assess and satisfy themselves that it is appropriate to prepare financial statements on a going concern basis.

The Code of Practice on Local Authority Accounting for 2011/12 sets out the following interpretation of going concern in the public sector context:

"An authority shall prepare its financial statements on a going concern basis unless there is an intention by government that the services provided by the authority will no longer be provided. An intention by government to transfer services from one authority to another (for example, as part of local government reorganisation) does not negate the presumption that the authority is a going concern"

The auditor's responsibility is to consider the appropriateness of the use of the going concern assumption in preparing the financial statements and to consider if there are material uncertainties about Walsall Metropolitan Borough Council's ability to continue as a going concern that need to be disclosed in the financial statements.

#### Our conclusion

Overall, we believe there are no matters that cast significant doubt to the going concern assertion. Further consideration on the Council's financial resilience is considered through our value for money conclusion.

## 2.3 Resolution of audit and accounting issues

We have not had to alter or change our audit plan, which we communicated to you in our Annual Audit Plan dated March 2012.

Our responses to the matters identified at the different stages of our audit are detailed in the following table.

**Audit and accounting issues identified at the planning stage**

| Issue | Audit Areas affected | Work completed | Assurances gained and issues arising |
|---|---|---|---|
| Accounting for schools | Property, plant and equipment | • We have reviewed the Council's accounting treatment of its schools against available guidance. There are currently no schools in the process of converting to Academy status which impact on 2011/12. | • Following our review, we are satisfied that the entries recorded in the financial statements for schools' assets appear reasonable and are not materially misstated. |
| Accounting for heritage assets | Property, plant and equipment | • We have considered the Council's treatment of heritage assets in the 2011/12 financial statements, including the prior year comparatives, against the Code of Practice. | • We are satisfied that the Council has followed the accounting guidance set out in the Code for the treatment of this class of assets. |
| Back pay arising from unequal pay claims | Provision and reserves | • We have reviewed the Council's assessment of the provision to be recorded in the 2011/12 financial statements.<br>• We have considered the related disclosures to ensure that these are sufficient to meet accounting standard requirements. | • We are satisfied that the Council has reasonably reflected the equal pay provision in the financial statements and that appropriate disclosures have been made. |

| Issue | Audit Areas affected | Work completed | Assurances gained and issues arising |
|---|---|---|---|
| Financial performance pressures | All areas of the financial statements | • We have reviewed the Council's financial performance for the financial year against its agreed budget.<br>• We have considered the use of general reserves and the adequacy of these for the future. | • The Council's performance against budget and adequacy of reserves has been considered as part of our Value for Money review and used to inform the opinion proposed. |
| Shares in Birmingham airport | Investments | • We have considered whether the shareholding in Birmingham Airport is accounted for appropriately at fair value.<br>• We also considered whether the Council's approach complies with IFRS accounting standards and is consistent with the other member authorities. | • We have reviewed the fair value calculations provided by Solihull Council on behalf of the consortia to ensure that the shareholding in the airport is accounted for appropriately at fair value. The valuation as at 31 March 2012 has led to an adjustment to the carrying amount of the investment, which is discussed in further detail at Section 3. |
| Follow up of 2010/11 findings | All areas of the financial statements | • We have reviewed the Council's progress in implementing the recommendations from our 2010/11 audit. | • We are satisfied that all recommendations made have either been implemented or are in progress. |

**Update on issues identified during our 2011/12 audit programme**

| Issue | Audit Areas affected | Work completed | Assurances gained |
|---|---|---|---|
| Reasonably possible risks | Council Tax, NNDR, grant revenues, financial instruments, property, plant and equipment, employee remuneration and operating expenses | • We identified six systems where we believed there was a risk of material misstatement arising.<br>• For each system, we performed walkthroughs to identify and verify activity level controls. We also tested key controls within the property, plant and equipment and operating expenses cycles.<br>• We performed further testing on the significant balances and transactions resulting from these financial systems. | • Our work in these areas has not identified any control weaknesses not previously reported to you by internal or external audit.<br>• Our further work during the substantive testing stage of our audit concluded that there were no material misstatements in these areas.<br>• Details of our main audit adjustments are recorded in section 3 of this report. |

# 3 Audit adjustments

### 3.1 Introduction

A number of adjustments to the draft accounts have been identified during the audit. We are required to report all misstatements to those charged with governance (the Audit Committee, in this case), whether or not the accounts have been adjusted by management.

A detailed schedule of adjusted misstatements is set out at Appendix B.

### 3.2 Adjusted misstatements

**Adjustments identified through our audit work**

Our audit identified two adjustments, one which impacts on the Statement of Comprehensive Income and Expenditure, and one which impacts on the Balance Sheet as follows:

- Income and Expenditure – an invoice for £850,000 had not been accrued in the Council's accounts resulting in overall expenditure increasing
- Balance Sheet – the value of ordinary and preference shares at Birmingham Airport increased by £2,078,000 following receipt of late valuation information from Solihull Council increasing the balance sheet valuation for investments.

Both of these adjustments have been processed by management.

**Disclosure omissions**

We identified several changes to disclosures presented in the accounts, which have been discussed with, and processed by, management. The most significant of these were:

- applying the correct interest accruals to both short term and long term balances in the notes to the accounts
- correctly classifying the maturity of financial assets within financial instruments
- reconciling exit package disclosures included within the accounts.

### 3.3 Impact of adjusted misstatements

The impact of the adjusted misstatements is set out below. There is a reduction of £850k in the reported position for the year.

| **Statement of comprehensive income** | **(Increase)/ Decrease in surplus** |
|---|---|
| | **£'000** |
| (Surplus)/deficit on provision of services | 30,392 |
| Auditor-proposed adjustments posted | |
| • Correction to include missing accrual | 850 |
| Final surplus/(deficit) on provision of services | **31,242** |

# 4 Design effectiveness of internal controls

### 4.1 Accounting system and internal control
Our audit is not designed to identify all significant weaknesses in the Council's internal controls but is designed primarily for the purpose of expressing our opinion on the financial statements of the Council. However, where, as part of our testing, we identify control weaknesses, we report these to you.

In consequence, our work did not encompass a detailed review of all aspects of the internal controls and cannot be relied upon necessarily to disclose all defalcations or other irregularities, or to include all possible improvements in internal control.

Our review of the Council's fair value calculations for long term investments provided by Sector identified some minor discrepancies. To further strengthen existing arrangements, we recommend that the Council re-performs its fair valuation calculations in future years on a sample basis, to provide assurance on the accuracy of the figures reported.

As part of our review of employee remuneration, we identified that the ATAR clocking in system could be used by ATAR administrators to manually adjust previous clocking in and out times. We recommended that the Council reviews the system parameters and limits access to approved personnel.

Our review of the Council's valuation of property, plant and equipment identified that the Council does not group assets into classes of assets for those not valued under Depreciated Replacement Cost (DRC). It is recommended that the Council group these assets and value them in their entirety as part of the Council's rolling programme, to ensure compliance with the accounting standards

These recommendations are reported at Appendix D.

### 4.2 Management of the risk of fraud
We have considered the processes in place to identify and respond to the risk of fraud at the Council. The Council considers that there are adequate processes in place to mitigate against the risk of fraud and that those charged with governance have sufficient oversight over these processes to give them the assurances they require in this area.

There are no issues noted by the Internal Audit that present a material risk to the accuracy of the financial statements.

### 4.3 Review of information technology controls
Our information systems specialist performed a high level review of the general IT control environment, as part of our overall review of the internal controls system.  There are no material weaknesses to report.

### 4.4 Review of journal postings
Due to the absence of school finance staff during the school holiday and the earlier timetable for the approval of the Council's accounts, we have been unable to complete our testing of the Council's journal entries as at the date of this report, as outlined in section 2.1. We expect to complete this work during early September 2012 and will report to the Audit Committee if this work identifies any areas of significant concern.

# 5 Value for money conclusion

## 5.1 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; and
- review regularly the adequacy and effectiveness of these arrangements.

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

**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.

## 5.2 Key findings

### Securing financial resilience

To support our conclusion against this criterion we have completed a detailed risk assessment which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- strategic financial planning;
- financial governance; and
- financial control.

We concluded that the Council has proper arrangements in place for each of the three characteristics.

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

### Challenging economy, efficiency and effectiveness

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.

## 5.3 Overall conclusion

### Respective responsibilities of the audited body and auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

### 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 October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

### Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, 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 ending 31 March 2012.

# 6 Other reporting matters

### 6.1 Annual Governance Statement

Councils are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA and SOLACE. The AGS is published alongside the financial statements.

We have reviewed the Council's arrangements and processes for compiling the AGS and considered whether it is either misleading or inconsistent with other information known to us from our audit work. We have identified a small number of areas for improvement and have shared these with the Council. We will review the final document before concluding our 2011/12 audit.

### 6.2 Whole of Government Accounts

We are required to report on the Council's consolidation schedules to provide assurance to the National Audit Office (NAO) for its work on the Whole of Government Accounts.

The deadline for the completion of our work on the consolidation schedules is 5 October 2012 and we will complete this review upon receipt of the final amended financial statements.

### 6.3 Public questions and objections

We did not receive any formal questions or objections from the public or other interested parties in respect of the financial statements for the year ended 31 March 2012.

# A Background to the report

ISAUK 260 requires communication of:
- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

**Purpose of report**
This report has been prepared for the benefit of discussions between Grant Thornton, the Audit Committee of Walsall Metropolitan Borough Council.

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2012.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report 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 of the Council.

Although this report has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed to third parties without our prior written consent.

**Responsibilities of the directors and auditors**
The directors are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

**Clarification of roles and responsibilities with respect to internal controls**
The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Council that it has done so.

The Audit Committee is required to review the Council's internal financial controls. In addition, the Audit Committee is required to review wider internal controls and the management of risk.

The Audit Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we 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 would be pleased to discuss any further work in this regard with the Audit Committee.

**Independence**
Ethical standards require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:
- the appointed engagement lead and audit manager are subject to rotation every five years, although this may be extended by two further years with the Audit Commission's agreement;
- Grant Thornton, its partners and directors and the audit team have no family, financial

employment, investment or business relationship with the Council; and

- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual engagement lead.

In accordance with best practice, we analyse our fees below:

| | £ |
|---|---|
| Code of Practice Audit Fee | 315,000 |
| Certification of grant claims (estimate) | 55,000 |
| Other fees | 0 |
| **Total** | **370,000** |

**Audit quality assurance**
Grant Thornton's audit and assurance practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council, which has responsibility for monitoring the firm's public interest audit engagements and its Audit Commission audit appointments.

The audit and assurance practice is also monitored by the Quality Assurance Directorate of the ICAEW and Grant Thornton conducts internal quality reviews of engagements.

# B Audit Adjustments

The table below lists all significant audit adjustments which have been processed and agreed with the Chief Finance Officer. The overall impact of these adjustments is a £850,000 reduction in the reported surplus in 2011/12 (item 1), no other adjustment affects the reported income and expenditure position of the Council for 2011/12.

**Adjustment Type:**
**Misstatement** - A change to the value of a balance presented in the financial statements.
**Classification** - The movement of a balance from one location in the accounts to another.
**Disclosure** - A change to the way in which a balance is disclosed or presented in an explanatory note.

**Adjustments identified through our audit work**

| | Type | Detail | Balance sheet £'000 | Income statement £'000 |
|---|---|---|---|---|
| 1 | Misstatement | The Council omitted to accrue for an invoice relating to 2011/12 amounting to £850,000. | -850 | 850 |
| 2 | Misstatement | The value of ordinary and preference shares at Birmingham Airport increased by £2,078,000 following late receipt of valuation information from Solihull Council increasing the balance sheet valuation for investments. | 2,078 | - |
| 3 | Classification | Accrued interest of £236k was misclassified between short term and long term investments. The disclosure in the Statement of Accounts has been updated for this. | - | - |
| 4 | Disclosure | The Council's supporting working papers did not agree with the disclosure in the Statement of Accounts. The disclosure has therefore been updated with the evidence provided. | - | - |
| | | **Overall value of adjustments processed** | **1,228** | **850** |

# C Letter of representation

Dear Sirs

## Walsall Metropolitan Borough Council
## Financial Statements for the Year Ended 31 March 2012

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 2012 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 Standards as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, both issued by CIPFA / LASAAC.

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 acknowledge, as Senior Officers / Council Members our responsibilities for preparing financial statements which give a true and fair view and for making accurate representations to you

ii 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 the United Kingdom (the Code); in particular the financial statements give a true and fair view in accordance therewith.

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 Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

vi All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

vii We have adjusted the misstatements brought to our attention on the audit differences and adjustments summary. The financial statements are free of material misstatements, including omissions.

viii 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

ix 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 entity from whom you determined it necessary to obtain audit evidence.

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

xi 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.

xii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity 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.

xiii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

xiv 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.

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

### Annual Governance Statement

i The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with the requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

ii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance 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 2012.

# D Recommendations and action plan

| Report reference | Recommendation | Responsibility and due date |
|---|---|---|
| Section 1.5 | The Audit Committee is required to review the proposed management representation letter (Appendix C) and formally record whether, to the best of the Members' knowledge, it is satisfied that the letter may be signed in good faith. | Audit Committee, 25 September 2012 |
| Section 1.5 | Subsequently, the Audit Committee is required to use the findings and recommendations arising from our work to inform its opinion on the overall effectiveness of the Council's financial reporting arrangements and consider whether there are specific matters that prevent the formal adoption of the financial statements. | Audit Committee, 25 September 2012 |
| Section 4.1 | To further strengthen existing controls, we recommend that the Council performs a sample test of fair value calculations supplied by Sector Treasury Management as part of its final accounts process. | Financial Systems and Treasury Manager, March 2013 |
| Section 4.1 | As part of our review of employee remuneration, we identified that the ATAR clocking in system could be used by ATAR administrators to manually adjust previous clocking in and out times. We recommended that the Council reviews the system parameters and limits access to approved personnel. | Head of Finance, 30 November 2012 |
| Section 4.1 | It is recommended that the Council group its none depreciated replacement cost assets into classes, value them in their entirety as part of the Council's rolling programme, to ensure compliance with accounting standards. | Lead Accountant Financial Reporting, March 2013 |

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