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Audit, Governance & Standards
Committee

Mon 29 Jul 2019
7.00 pm

Committee Room Two
Town Hall
Redditch

REDDITCH BOROUGH COUNCIL
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Audit, Governance & Standards

Committee

Monday, 29th July, 2019

7.00 pm

Committee Room 2 - Town Hall Redditch

Agenda

Membership:

Cllrs:	John Fisher (Chair)	Ann Isherwood
	Mark Shurmer (Vice-Chair)	Nyear Nazir
	Salman Akbar	Yvonne Smith
	Tom Baker-Price	David Thain
	Michael Chalk	

8. External Audit - Audit Findings Report 2018/19 - To follow (Pages 1 - 42)

10. Audited Statement of Accounts 2018/19 - To follow (Pages 43 - 138)

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REDDITCH BOROUGH COUNCIL

AUDIT, GOVERNANCE & STANDARDS **29th July 2019**

GRANT THORNTON AUDIT FINDINGS REPORT 2018/19

Relevant Portfolio Holder	Councillor David Thain
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering – Exec Director Finance and Resources
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

1. SUMMARY OF PROPOSALS

1.1 To present Members with the Grant Thornton Audit Findings Report in relation to the final accounts 2018/19.

2. RECOMMENDATIONS

2.1 That the Committee APPROVE the Audit Findings Report 2018/19 as attached at Appendix 1.

2.2 That the Committee APPROVE the recommendation made under section 24 of the Local Audit and Accountability Act 2014 to include the following :

•A full assessment of the deliverability of the £1.13 million savings challenge for 2019/20 and the agreement and monitoring of actions by the Executive that either prevent or minimise the further use of both General Fund and HRA balances in 2019/20.

•A financial plan for 2020/21 that includes the identification of further deliverable savings and income generation schemes, cost base reductions and Council Tax increases that eliminates the planned £1.17 million use of General Fund balances and ensures there are no further calls on HRA balances. This will require Members to take difficult decisions about sustainable levels of service and increases in Council Tax.

•Agreement of a realistic financial plan for 2021/22 that has deliverable savings and seeks to ensure that there are no further planned uses of General Fund and HRA balances that would put them below a financial sustainable level.

2.3 That the Committee request officers to prepare a full and comprehensive response to Grant Thornton to detail actions to be taken to address the concerns raised

2.4. That the Committee APPROVE the draft letter of representation as included at Appendix 2.

3. KEY ISSUES

Financial Implications

3.1 The cost associated with the External Audit is funded from approved budgets. Due to a number of issues relating to the production of the Audit for 2018/19 there is a proposed additional charge of £13k. This will be met from savings within the finance team due to current vacancies.

Legal Implications

3.2 The Council has a statutory responsibility to comply with financial regulations. Included within the report is a recommendation to the Council under section 11(3) of the Audit Commission Act 1998.

3.3 Following the Audit for 2018/19 Grant Thornton have issued the Council with a Statutory recommendation made under section 24 of the Local Audit and Accountability Act 2014. Grant Thornton has powers and duties under this Act to include making written recommendations to the Council and the Council is required by the Act to hold a public meeting to consider such recommendations and publicly respond to them.

3.4 Grant Thornton have concluded that it is appropriate for them to use our powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position. Section two of Appendix 1 details their recommendation, the reasons why they are making the recommendation and what the Council needs to do to respond to the recommendation.

Service / Operational Implications

3.5 The report attached at Appendix 1 presents the Audit Findings Report in relation to the audit of the 2018/19 Statement of Accounts.

3.3 The accounts were submitted to the Auditors within the deadline on 30th May 2018. In relation to the Statement of Accounts there are 2 recommendations that have been raised in relation to quality of working papers and overall quality control of the statement and its contents. Officers will be working with Grant Thornton to ensure that the closedown of the accounts for 2019/20 is improved together with the work required for the audit process.

3.4 On completion of the audit, an unqualified opinion has been given on the accounts.

3.5 In relation to the Value for Money judgement, having taken into account the financial pressures facing the Council over the next 4 years, a qualified "adverse" opinion has been given due to uncertainty around the financial sustainability of the council.

3.6 In addition to the adverse Value for Money judgement the auditors have issued the Council with a Statutory recommendation made under section 24 of the Local Audit and Accountability Act 2014. This relates to concerns around the future financial pressures of the Council and the ability to act urgently to address these concerns.

3.7 The full details of the S24 recommendation are included in Appendix 1 together with the management responses in relation to addressing the financial gap the Council faces for 2020/21. The formal recommendation includes a requirement for the Council to deliver :

- A full assessment of the deliverability of the £1.13 million savings challenge for 2019/20 and the agreement and monitoring of actions by the Executive that either prevent or minimise the further use of both General Fund and HRA balances in 2019/20.
- A financial plan for 2020/21 that includes the identification of further deliverable savings and income generation schemes, cost base reductions and Council Tax increases that eliminates the planned £1.17 million use of General Fund balances and ensures there are no further calls on HRA balances. This will require Members to take difficult decisions about sustainable levels of service and increases in Council Tax.
- Agreement of a realistic financial plan for 2021/22 that has deliverable savings and seeks to ensure that there are no further planned uses of General Fund and HRA balances that would put them below a financial sustainable level.

3.8 Whilst a number of responses have been included in Appendix 1 a formal response has to be made to the Auditors in respect of the recommendations above. It is proposed that, subject to member approval of the recommendation, officers prepare a comprehensive response to ensure the concerns are addressed urgently. This response will then form an action plan that can be monitored on a regular basis by this Committee and also reported through Executive.

Customer / Equalities and Diversity Implications

3.9 There are no implications arising out of this report.

4. RISK MANAGEMENT

4.1 The recommendations from the External Auditors will be picked up within the financial services risk arrangements. The Section 24 recommendation will be included on the Corporate Risk Register to ensure it is given the highest priority for resolve over the next few months.

5. APPENDICES

Appendix 1 – Grant Thornton Audit Findings Letter 2018/19
Appendix 2 – Letter of Representation

AUTHOR OF REPORT

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Grant Thornton

The Audit Findings for Redditch Borough Council

Year ended 31 March 2019

29 July 2019

Contents

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

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Redditch Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	Our powers and duties under the Act include making written recommendations to the Council under section 24 of the Act. The Council is required by the Act to hold a public meeting to consider such recommendations and publicly respond to them. We have concluded that it is appropriate for us to use our powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position. Section one details our recommendation, the reasons why we are making the recommendation and what the Council needs to do to respond to the recommendation. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. Our findings are summarised on pages 7 to 18. We have identified five adjustments to the financial statements, one of which officers declined to make. During the audit an ongoing legal case around pensions was resolved, affecting all bodies admitted to the Local Government Pension Scheme (LGPS), and other public sector schemes. This required the Council to obtain a further actuarial report. At the same time the actuary took the opportunity to update the value of the pension fund assets for further information received. For Redditch Borough Council this has the effect of increasing the Council Gross Expenditure on Net Cost of Services by £974k. The Net Pension Fund Deficit increases by the same amount, but as the asset value has increased by £1,381k the overall effect is to reduce the deficit by £407k. There were two adjustments to the Property, Plant & Equipment note. These had the effect of reducing the Balance Sheet value and increasing total expenditure by £113k. Depreciation of buildings is understated by £68k. Officers declined to adjust for this on the basis that it is immaterial. This matter is included in our Letter of Representation, and the Audit, Governance and Standards Committee is asked to agree the non adjustment. Were the adjustment to be made the value of land and buildings would decrease by £68k, and total expenditure increase by the same amount. Audit adjustments are detailed in Appendix C. Our anticipated audit report opinion will be unmodified (Appendix E).

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Headlines

Financial Statements (cont.)		Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters; - final review of audit work by the Engagement Lead and consideration of the overall sufficiency of audit evidence; - update of our subsequent events review to the date of sign off; - receipt of management representation letter; and - review of the final set of financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. The Council is rapidly approaching an extremely serious financial situation. Urgent action is needed to ensure that the Council lives within its' financial means and continues to be financially viable. As things stand it is highly likely that in 18 months the Council will have exhausted its working balances of £1,200k. We have concluded that Redditch Borough Council does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources in regard to financial sustainability. We therefore anticipate issuing a qualified 'Adverse' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 19 to 26.

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. We note however that the audit has been challenging to complete and further improvements are required to the quality of supporting information and to the timeliness and quality of responses to audit queries.

Statutory recommendation

Recommendation made under section 24 of the Local Audit and Accountability Act 2014

The Council needs to take urgent action to prevent both its General Fund and HRA balances being exhausted by the end of 2020/21. Failure to take effective action will put the Council at risk of breaching its statutory duty to set a balanced budget.

It must agree and implement an achievable financial strategy that ensures a sustainable level of General Fund and HRA balances is maintained in the medium term (at least the next three years up to and including 2021/22), taking into account the current uncertainties about future local authority funding.

This must include the following.

- A full assessment of the deliverability of the £1.13 million savings challenge for 2019/20 and the agreement and monitoring of actions by the Executive that either prevent or minimise the further use of both General Fund and HRA balances in 2019/20.
- A financial plan for 2020/21 that includes the identification of further deliverable savings and income generation schemes, cost base reductions and Council Tax increases that eliminates the planned £1.17 million use of General Fund balances and ensures there are no further calls on HRA balances. This will require Members to take difficult decisions about sustainable levels of service and increases in Council Tax.
- Agreement of a realistic financial plan for 2021/22 that has deliverable savings and seeks to ensure that there are no further planned uses of General Fund and HRA balances that would put them below a financial sustainable level.

Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Act. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have concluded that it is appropriate for us to use our powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position.

Reasons for making the recommendation

The scale of the Council's financial pressure and the savings delivery challenge is significant. We are concerned that if the Council does not take effective action to agreed and implement a balanced budget, without the need to use balances, there will be insufficient resources to manage its financial risks in 2020/21.

Savings delivery plan from 2020 onwards

As at the 31 March 2019 the Council had a General Fund balance of £1.22 million, a reduction of £800,00 since 31 March 2016. This reflects the failure to fully identify and deliver savings plans in previous years. The Medium-Term Financial Plan, approved in February 2019, identified a savings requirement of £1.13 million for 2019/20. Savings schemes totalling £949,000 are being implemented, but £181,000 of savings are currently unidentified. The Financial Plan also identified a £1.17 million financial gap in 2020/21, which if not addressed will leave £55,000 of General Fund balances available as a risk contingency.

Statutory recommendation

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In 2018/19 the Council used £0.56 million of balances, rather than the £89,000 planned. This was due to the decision to fund expenditure from balances, rather than identify further savings, and budget overspends in some areas. The budget included £1.50 million savings, of which £1.30 million was delivered. It is likely that some use of General Fund balances will be needed in 2019/20 to balance any under delivery of savings and budget pressures. The Council has not yet reported on the in-year financial position for 2019/20. The quarter one report is due to be reported to the Executive on 10 September 2019.

We have noted that:

- savings of £1.17 million still need to be identified for 2020/21, increasing to £1.52 million by 2022/23
- the budget gap in 2020/21, assuming cumulative savings delivery of £841,000, is £1.17 million which would exhaust the current General Fund balance
- although earmarked reserves are currently £5.12 million, we understand that these amounts are largely committed, in particular the £3.25 million Business Rate Retention Reserve, and therefore provide little scope to support the overall financial position if General Fund balances are exhausted
- from April 2021 the Council will, even if all of the forecast savings are achieved, be spending £30,000 a week more than it receives, with no balances left and the budget gap growing to £1.33 million in 2021/22
- the HRA balance has decreased from £1.48 million at 31 March 2018 to £0.77 million at 31 March 2019, with a further £0.4 million planned to be used in 2019/20. The balance remaining will then be around half of the £0.6 million minimum which the Council has itself set.

There is very limited capacity for the Council to use balances in future years and every effort needs to be made to ensure that savings of £1.13 million are delivered in full in 2019/20 and further savings are delivered to minimise the use of balances in 2020/21 and beyond.

Previous statutory recommendations

In 2015 we issued four recommendations under section 11 (3) of the Audit Commission Act 1998 (now superseded by section 24 of the Local Audit and Accountability Act). These recommendations concerned the Council's accounts production and budgeting process and have been addressed. It is both disappointing and concerning that we again find it necessary to take this unusual step to ensure that the Council takes appropriate action to manage its finances.

What does the Council need to do next?

Schedule 7 of the Local Audit and Accountability Act 2014 requires the following:

The local authority must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the authority

At that meeting the authority must decide

- whether the recommendation is to be accepted, and
- what, if any, action to take in response to the recommendation.

Schedule 7 specifies meeting publication requirements that the authority must comply with.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks; and
- Reviewing the figures and consolidation for Rubicon.

We have not had to alter or change our audit plan, as communicated to you on 25 April 2019.

Key messages

As reported last year, our audit identified a higher number of amendments than we would expect. Some of the working papers initially supplied did not provide the requisite assurance or could not be agreed to the financial statements. In many instances the initial response was inadequate and necessitated additional audit time in raising further questions. We discussed this with the Deputy and Executive Director, and the quality of responses improved towards the end of our audit.

As we reported last year, the Finance Team needs to ensure that next year enough time is allowed for a robust and thorough quality review of the accounts and working papers before they are presented for audit. The Finance Team also needs to quality review proposed responses to the audit team before they are sent to the audit team – a "right first time" approach.

Many of the changes we identified were repeated from last year. It is disappointing and time consuming to have to raise the same issues in successive years. The Finance Team needs to ensure that the template Statement of Accounts for 2019/20 start with the final audited 2018/19 Statement.

Recommendations for management as a result of our audit work are set out in Appendix A.

The other key messages arising from our audit of the Council's financial statements are as follows.

- there is one unadjusted misstatement relating to depreciation on buildings;
- there was one adjustment to your primary statements, in relation to the McCloud case impacting on the Net Cost of Services and LGPS deficit;
- there was one adjustment to your primary statements, in relation to updated pension fund asset values impacting on the Net Cost of Services and LGPS deficit; and
- there were two adjustments arising from incorrect accounting for asset valuations.

Summary

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan and are detailed below.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 29 July 2019, as detailed in Appendix E. These outstanding items include:

- final review of audit work by the Engagement Lead and consideration of the overall sufficiency of audit evidence;
- update of our subsequent events review to the date of sign off;
- receipt of management representation letter; and
- review of the final set of financial statements.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,300,000	• Business environment – the Council operates in a stable, publicly funded environment • Control environment – no significant deficiencies identified.
Performance materiality	800,000	• No history of significant deficiencies but high number of deficiencies • History of a large number of immaterial misstatements.
Trivial matters	65,000	• Matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.
Specific materiality: - Senior officer remuneration	100,000	• Public interest

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The revenue cycle includes fraudulent transactions (rebutted)**	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Redditch Borough Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Redditch Borough Council. Our audit work has not identified any issues in respect of revenue recognition.
2	**Management override of controls**	**Auditor commentary** To address this risk we have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Obtaining a journals listing which was complete and reconciled back to the financial statements took longer than planned and required officers to run a number of different reports. Our audit work has not identified any issues in respect of management override of controls.

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Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of land and buildings**	**Auditor commentary**

To address this risk we have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they have been input correctly into the Authority's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

We experienced significant difficulties in completing our work in this area. In particular:

- It was unclear how in-year depreciation had been calculated. When challenged, officers did not understand the workings either, and it took some time to resolve.
- A number of properties that the Council asked the Valuer to revalue in year were missed, and Officers did not ensure these valuations were obtained. It transpired that these properties were included in both the General Fund and HRA asset register, and some were shown as being sold. Resolving this issue took a lot of auditor and officer time.
- We challenged officers and the valuer on the valuation of Council Dwellings. A full valuation is conducted every five years. In line with DCLG guidance interim reviews are undertaken annually on a desktop basis to avoid major fluctuations between full valuations dates. We will compare the values used during the interim review with similar properties recently sold on the open market to obtain assurance that the interim valuation process prevents material misstatement in the balance sheet. At the time of writing this report we have yet to complete this work.
- We identified three free to use car parks which were incorrectly valued using the Fair Value Existing Use basis. The valuation should have been based on Depreciated Replacement Cost as there is no income, and it is amenity land.

Our audit work to date has not identified any other issues in respect of valuation of land and buildings. At the time of drafting this report, our audit work was subject to completion and final Engagement Lead review.

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Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
4 **Valuation of the pension fund net liability**	**Auditor commentary** To address this risk we have: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit to date has identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement. This is considered under section "Significant findings – other issues" on the next page. Our audit work has not identified any other issues in respect of valuation of the valuation of the pension fund liability. At the time of drafting this report our audit work was subject to completion and final Engagement Lead review.

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Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	Auditor view
1	**Impact of the McCloud judgement** The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. Our Grant Thornton view was that this gave rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation. The Government applied to the Supreme Court for leave to appeal this ruling, but this was rejected in late June 2019. The case will now be remitted back to employment tribunal for remedy. The legal ruling has implications for pension schemes where transitional arrangements have been implemented, including the Local Government Pension Scheme (LGPS). This was confirmed on 15 July 2019 in a statement released by The Chief Secretary to the Treasury. The quote below confirms that remedies will need to be applied to the LGPS and hence supports the Authority's stance in the recognition of increased liabilities: *"As 'transitional protection' was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. Continuing to resist the full implications of the judgment in Court would only add to the uncertainty experienced by members."*	The decision as to the appropriate accounting treatment is one for the Council. At the Council's request the actuary has re-run the valuation report with their best estimate of the impact re-McCloud. We have agreed with Officers that the financial statements will be amended to reflect the estimated decrease in the net deficit in the scheme for the Council from £73,337k to £72,930k. This is a function of an increase in the deficit due to the additional past service costs of £974k, and a decrease in the deficit of £1,381k due to the increase in asset values arising from better information since the earlier actuarial report.	We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable. Our audit procedures have confirmed the relevant adjustments have been made to the financial statements in regard to the LGPS.

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Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals	The Council is responsible for repaying successful rateable value appeals. The calculation of the provision required is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £560k from £2,630k in 2017/18 to £2,070k in 2018/19.	Our testing has confirmed the appropriateness of the underlying information used to determine the estimate. The estimate calculated is reasonable.	(Green)
Land and Buildings – Council Housing -	The Council owns 5,716 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The year end valuation of Council Housing was £279,599k, a net increase of £17,441k from 2017/18 (£262,158k).	We have set out our findings in relation to the valuation of land and buildings on page 10. In relation to Council Houses, we have tested that properties are included in the correct beacon, and that the valuations used are appropriate given the area and reduction for the social use factor. At the time of drafting this report our audit work was subject to completion and final Engagement Lead review. Based on the work completed, we are satisfied that the judgements and estimates used by management in determining the value of Council Housing are appropriate for the Council.	(Work is incomplete)

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other	The Authority revalues its land and buildings as a minimum on a rolling five-yearly basis with interim reviews. If the value of an asset class is projected to materially change during the period since the last valuation then further valuations are instructed. Some asset classes are currently valued annually.	We have set out our findings in relation to the valuation of other land and buildings on page 10. At the time of drafting this report our audit work was subject to completion and final Engagement Lead review. Based on the work completed, we are satisfied that the judgements and estimates used by management in determining the value of land and buildings are appropriate for the Council.	(Work is incomplete)
Net pension liability	A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	We have set out our findings in relation to the net pension liability on pages 11 and 12. We are satisfied that the judgements and estimates used by management in determining the pension fund asset and liability are consistent with those used by the actuary and appropriate for the Council. We have noted that the net liability has increased as a result of a legal case, which has national implications.	(Green)

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability	The Council's net pension liability at 31 March 2019 is £72.93m. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	See below	● (Green)

We have:

- Undertaken an assessment of management's expert
- Reviewed and assessed the actuary's roll forward approach taken,
- Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4% - 2.5%	● (green)
Pension increase rate	2.3%	2.4% - 2.5%	● (yellow)
Salary growth	3.7%	Scheme and employer specific	● (green)
Life expectancy – Males currently aged 45 / 65	25.1.1/ 22.8	23.7 – 24.4/ 21.5 – 22.8	● (yellow)
Life expectancy – Females currently aged 45 / 65	28.2/ 25.8	26.2 – 26.9/ 24.1 – 25.1	● (yellow)

We have reviewed:

- Completeness and accuracy of the underlying information used to determine the estimate
- Impact of any changes to valuation method
- Reasonableness of the Council's share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

In October 2018, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMPs) have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. Actuaries have taken differing approaches to this issue.
Mercer have not made any allowance for (GMPs). We have estimated an impact of 0.1% of gross pension liabilities. We do not consider this to be material.

Assessment

- ● (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● (green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings - Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management do not undertake a formal assessment of whether the Council is a going concern. The Council has a sound income stream through Council Tax (£6.1m) and Business Rates (£1.7m). It has delivered a balanced budget year on year and has a realistic Medium Term Financial Plan. The Council also has usable, non earmarked reserves of £1.2m.	This is reasonable as the Council has a realistic Medium Term Financial Plan and sufficient reserves to cover any unexpected need for the next 12 months. It would be considered a going concern even if it demised and the services transferred to another body. Our Informing the Audit Risk Assessment report, presented to Audit, Governance and Standards Committee on 25 April, shows on pages 15 to 16 the arrangements in place to demonstrate that the Council is a going concern.
Work performed	**Auditor commentary**
Our audit work, including our VFM work, has not raised any doubts around the going concern assumption. Also, in the public sector, going concern is taken to mean that the services are transferred / delivered by another body. As the Council services / functions would be delivered by any successor body, the threat of re-organisation does not apply.	Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption. The reported position of the Council at 31 March 2019 per the draft financial statements shows that they have total current assets of £14.7m compared to £16.7m current liabilities, £1.1m and £4.5m of total current assets are cash and short term investments respectively and are therefore highly liquid. The borrowings of the Council, while significant are almost entirely with PWLB and therefore low risk. The Council will not remain a going concern throughout the life of the current MTFP however as there are inadequate working balances to support the budget after 2020/21.
Concluding comments	We have concluded that it is appropriate for us to use our powers within the Local Audit and Accountability Act 2014 ('the Act') to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position. The detail is set out on pages 5 and 6. We are satisfied that the Council has sufficient financial reserves and resilience to be able to continue to deliver statutory services to 31 July 2020. Consequently, we do not have any concerns regarding going concern. We are satisfied that the preparation of the financial statements using the going concern principal is reasonable. Based on the above comments, we anticipate being able to issue an unmodified opinion.

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Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• Our letter of representation requested from the Council, includes the adjustments which officers have declined to make. The Audit, Governance and Standards Committee is asked to agree this approach.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to banks and councils with whom the Council had investments or borrowing. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6	**Disclosures**	• Our review found no material omissions in the financial statements. We identified changes to a number of disclosures in the Statement of Accounts which the Council has agreed to amend.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided. • We have reported the significant difficulties with accounts our audit of the draft accounts and working papers on page 7.

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Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have concluded that it is appropriate for us to use our powers within the Local Audit and Accountability Act 2014 ('the Act') to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position. The detail is set out on pages 5 and 6.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Work is not required as the Council does not exceed the threshold.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of Redditch Borough Council in the audit opinion, as detailed in Appendix E.

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Value for Money

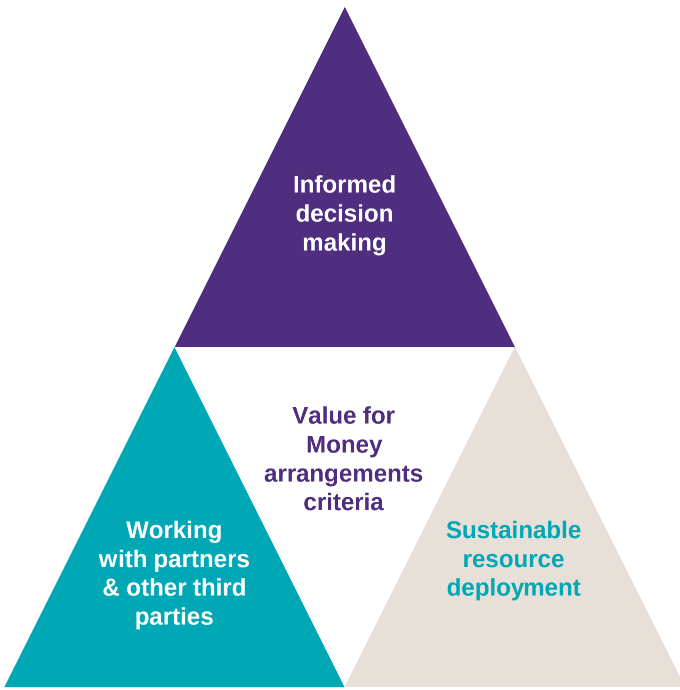
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December 2018 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 31 January 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the financial sustainability of the Council; and
- procurement and contract management in the housing department.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 21 to 26.

Overall conclusion

Because of the significance of the matters we identified in respect of financial sustainability, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.

The text of our proposed report can be found at Appendix E.

Owing to weaknesses in financial sustainability we have issued an “Except for” Value for Money Conclusion in previous years. In 2017/18 we reported “the Council is not in a financially sustainable long term position, and does not have sufficiently developed plans to address this. If the current MTFP is delivered the Council will have insufficient balances to be able to support spending at the proposed level beyond 2020/21.”

One year on and the Council finds itself in an even more challenging financial position. Short term decision making and an inability or unwillingness to take difficult decisions now means that the Council is likely to exhaust its available reserves by the end of March 2021, even if the extremely challenging savings targets are met in full.

In 2018/19 the Council had intended to use £85k of balances in year, but actually used £565k, an increase of £480k, in order to fund other pressures identified during the year. Savings of around £1.1m were delivered which included £700k as identified as part of the budget process and a further £400k towards the unidentified savings during the year. The General Fund balance has now decreased to £1,225k at 31 March 2019.

The table below summarises the financial challenge for the next four years:

Year	Savings required (£000)	Further gap (£000)	Net Revenue Budget (£000)
2019/20	1,127	0	9,543
2020/21	841	1,170	10,269
2021/22	846	1,332	10,469
2022/23	816	1,521	10,757
Total	**3,630**	**4,023**	**10,757**

We also note that the HRA balance reduced to £770k at 31 March 2019 (5% of expenditure excluding revaluation impact). This means there is now very little contingency to mange unforeseen expenditure.

Recommendation for improvement

We discussed findings arising from our work with management and have agreed one Statutory Recommendation as set out on pages 5 and 6. Management's response to this can be found in the Action Plan at Appendix A

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Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	**Financial sustainability** How robust is the MTFP and how well developed are savings plans? We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. 1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test. 2) We will assess the progress being made to put the Council on a long term financially viable footing. 3) We will monitor implementation of the Leisure LATC and the savings arising from it. 4) We will review the impact of the Commercialisation Programme Board. 5) We will monitor progress on the management restructure.	1) We tested a number of schemes, and found the majority of them to be based on reasonable assumptions. For example, a total of £120k additional income a year from the Lifeline contract with Cannock Chase District Council. Although at the time of our work the contract had not been signed. Also, £54k a year savings from a new printing contract. The robustness of unallocated savings of £181k a year is much less clear. This is comprised: • £95k Part year potential management restructure • £25k Investment income • £61k transformational service redesign The management restructure has been planned for several years, and progress has been slow. However, savings are being delivered from three vacant CMT posts and a part time interim arrangement in place for leisure services. Investment income and transformational service redesign savings are dependent on other factors - including purchasing property and service redesign. These savings are "at high risk" of delivery. 2) There is little evidence of members taking difficult decisions to secure the long term financial sustainability of the Council. For example, the S.151 Officer planned a council tax increase of 2.99%, but an increase of 2.2% was approved by Council. The council tax setting report shows a base number of properties of 26,096. Reducing the council tax increase has saved each property less than £2 a year, but cost the council £200k over the four years of the MTFP. Further, there is little evidence of services being re-designed in a way that will address the financial pressures. From April 2021 the Council will, even if all of the forecast savings are achieved, be spending £30k a week more than it receives, with no balances left.	**Auditor view** The Council is rapidly approaching an extremely serious financial situation. Urgent action is needed to ensure that the Council lives within its financial means and is financially viable. As things stand it is highly likely that in 18 months the Council will have exhausted its balances and still be spending £30k a week more than it receives. Short term decision making and the failure to take difficult decisions has left the Council finances in a precarious state. While most of the schemes we looked at were soundly based and should achieve the income generation or savings anticipated, they are not sufficient to address the financial challenge. The Council's primary source of income is Council Tax and the Council needs to ensure that it raises sufficient revenues to sustain its financial viability. It is noted that officers are fully aware of this situation and have recommended numerous ways to address the situation – including recommending the maximum council tax increase for 2019/20. Members now need to address the situation with some urgency.

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Key findings

	Significant risk	Conclusion
1	**Financial sustainability** How robust is the MTFP and how well developed are savings plans? We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. 1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test. 2) We will assess the progress being made to put the Council on a long term financially viable footing. 3) We will monitor implementation of the Leisure LATC and the savings arising from it. 4) We will review the impact of the Commercialisation Programme Board. 5) We will monitor progress on the management restructure.	**Management response** Officers and Members are fully committed to ensuring that robust plans for making savings and increasing income are put in place.. Whilst significant savings have been made over the last 5 years and the commercialisation agenda has commenced, it is appreciated that urgent reviews of costs and income need to be undertaken to give assurance that clear options can be provided to ensure financial stability There are a number of actions that have been put in place to address the projected financial position including: • Portfolio Holder and CMT workshop arranged to consider future direction (priorities and non-priorities) against the backdrop of the financial position to enable robust and deliverable saving proposals to be made • Present to members from September options for savings and additional income generation to be proposed for medium term financial plan • Delivery of financial strategy for October Executive to address concerns on financial sustainability • Detailed review of 2018/19 actual v 2019/20 budget to enable any additional budget allocated to be released for the period 2019/20-2021/23 • Immediate freeze on non essential spend to ensure the protection of the balances position for 2019/20 • Immediate recruitment freeze to all posts other than business critical posts. Consideration of all vacant posts by Head of Service and Strategic Lead to ensure any excess vacant posts are released for the period 2019/20-2021/23 • Review of costs associated with support services and robust estimates of savings realised from new systems and automation to be made • Full and detailed review of the Capital Programme to assess need of spend against projects and vehicles (including replacement period of vehicles) • Maximise asset sales to receive capital receipts where appropriate to balance revenue streams within the Council • Maximise rental income from assets • Consideration by budget scrutiny to enable challenge of savings proposed • Work with Grant Thornton and other Councils to identify best practice in the identification and monitoring of savings • Further review of use of agency staff to reduce spend

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Significant risk	Findings	Conclusion
Financial sustainability (cont.) How robust is the MTFP and how well developed are savings plans? We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. 1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test. 2) We will assess the progress being made to put the Council on a long term financially viable footing. 3) We will monitor implementation of the Leisure LATC and the savings arising from it. 4) We will review the impact of the Commercialisation Programme Board. 5) We will monitor progress on the management restructure.	3) A permanent Managing Director, the former Head of Leisure Services, started in post on 18 February, and another Countryside Centre has moved into Rubicon Leisure. Evidence presented to us indicates that savings of £346k will be achieved directly by the outsourcing, which is as expected. 4) Review of the Commercialisation Programme Board minutes shows that the core membership is all of the senior officers we would expect, plus a few others, with particular officers brought in when their areas are being discussed. The meetings cover a range of topics, including investment in commercial premises, possible new crematorium, fees & charges, working with other councils. The Board has recognised that, in some areas, for example marketing, external support may be required. Currently, there is little in the way of tangible outputs or changes arising from the work of the Board. 5) The Management Restructure is still in progress. One Head of Service has moved to Rubicon and two have left the Council.	**Auditor view** Rubicon is expected to deliver the savings forecast, but the Commercialisation Programme Board has so far had very little impact. Progress on the Management Restructure has been delayed due to a number of HR related issues which have now been resolved. Implementation now needs to be completed as a matter of urgency. .

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Significant risk	Conclusion
Financial sustainability (cont.)	**Management response**
How robust is the MTFP and how well developed are savings plans? We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. 1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test. 2) We will assess the progress being made to put the Council on a long term financially viable footing. 3) We will monitor implementation of the Leisure LATC and the savings arising from it. 4) We will review the impact of the Commercialisation Programme Board. 5) We will monitor progress on the management restructure.	The commercialisation programme board has only been in place for just over 18 months and it is clear that significant commercial opportunities have a longer lead in period to deliver savings. The Board has considered a number of key areas to include: • Income – full review of fees and charges to include cost recovery and how chargeable service meets the strategic priorities of the Council. This has led to better information in relation to setting of fees and charges to both budget scrutiny and Council • Assets & Investments – considered a number of investment opportunities including one that has recently secured a successful bid (subject to member decision and due diligence). In addition the Board has considered the development on housing land and the sale of land should this be of best value for the Council • Contracts – consideration of training to improve efficiency of managers letting contracts which in turn leads to further savings. Agreement on changes to the use of agency staff to reduce costs and to protect staff employed by the Council • Savings achieved through improved procurement and better contracts • Improving the branding and marketing of Council income opportunities • Consideration of further solar panel installations on council buildings to generate income • Procured support via the LGA Productivity Expert Programme • Procured Aylesbury Vale DC to carry out commercialism training with all managers • Procured external support to look at business opportunities in Our Bereavement Services including Redditch Crematorium • Successfully bid to deliver lifeline and out of hours service for another Local Authority • Procured external commercialism support on a 1 plus 1 contract which will start in August 2019

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Significant risk	Findings	Conclusion
2 **Procurement and contract management in the housing department** Are planned changes to the housing department being made? 1) We will review progress against the Strategic Improvement / Action Plan. 2) We will review progress to deliver savings and ensure the HRA is not reporting a deficit each year.	The Council is making adequate progress in turning around the housing department. 1) The HRA Progress report was presented to Executive in February 2019. It sets out the significant improvement in reducing the number of void properties, and provides an update on progress against the action plan. A Stock Condition survey is in progress in order to allow a fully developed capital programme to be developed. The Council has identified 10 surplus sites, and work is beginning on obtaining planning permission for two of these for new homes. Internal service staffing structures have been developed and are being costed. 2) The HRA balance is now approaching the £600k minimum level having decreased from £1,475k at 31 March 2018 to £770k at 31 March 2019. The budget set for 2019/20 anticipates the use of £400k reserves in order to achieve balance. This will reduce the HRA balance to £370k – well below the minimum amount the Council has set. From 2020/21 rent will start increasing again at CPI plus 1% which will help bring the account back into balance without the reliance on the use of balances. Progress is being made to turn void properties around sooner.	**Auditor view** The Council has made reasonable progress in addressing the challenges presented by the housing department. The sheer scale of those challenges means that it will take time for the reforms and improvements to embed and have an impact. HRA balances are now very low, and anticipated to fall below the Council's own recommended minimum balance by 31 March 2020. There is a low level of financial resilience in the HRA in the short-term. The Council needs to manage HRA budgets effectively to ensure the minimum level of balances is maintained.

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Significant risk	Conclusion
② **Procurement and contract management in the housing department (cont.)** Are planned changes to the housing department being made? 1) We will review progress against the Strategic Improvement / Action Plan. 2) We will review progress to deliver savings and ensure the HRA is not reporting a deficit each year.	**Management response** The Council is committed to ensuring that the HRA is financially resilient to address the costs that have been associated with the many challenges the service has been addressing over the last few years. The Housing Strategic Improvement / Action Plan was originally endorsed by Members in September 2018 and included a number of actions aimed at addressing the financial position of the HRA. The current position on the actions includes: • All budgets are reviewed on a monthly basis with the departmental management team to ensure that overspends are captured quickly and actions put in place to address • The senior service structures have been completed to enable a robust structure for the future delivery of the services • A short to medium term budget has been created incorporating feedback from CMT, removing budgets no longer required. Agreement by Executive to charge affordable rents on acquisitions and new build given the primary focus is revenue. The capital programme has been scaled back pending outcomes from the stock condition survey. Future modelling around repairs & maintenance will also then be undertaken • Officers reviewing & updating recharges and tenant service charges to ensure income is generated where relevant and appropriate • A full review of the repairs and maintenance service is scheduled to look at how the efficiency of the in house work force can be improved alongside the use of contractors therefore reducing overall spend significantly • A new Housing Management System is being procured that will in the longer term achieve efficiency savings • Maximise asset sales to receive capital receipts where appropriate to balance revenue streams within the Council • A refresh of the 30 year HRA Business Plan

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,250	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,250 in comparison to the total fee for the audit of £44,629 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of 2018/19 Housing Benefit subsidy claim	24,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £24,000 in comparison to the total fee for the audit of £44,629 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. This work will be completed after we issue our opinion on the financial statements.
Non-audit related			
None			

None of the services provided are subject to contingent fees.

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Action plan

We have identified two recommendations for the Council, arising from our work on the Statement of Accounts, as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	● (Red)	**Statement of Accounts production** Many of the changes we identified as a result of our audit were repeated from last year. It is disappointing and time consuming to have to raise the same amendments in successive years. The Council needs to ensure that the template Statement of Accounts for 2019/20 start with the final audited 2018/19 Statement.	The Council needs to ensure that amendments to the structure of the Statement of Accounts for 2019/20 and the titles and headings used therein reflects the changes agreed this year. **Management response** The Council will ensure that in future years a greater amount of time will be allocated to quality checking at a senior level.
2	● (Red)	**Quality of working papers and responses** We noted some improvement in the quality of the working papers initially provided to us. However, those improvements were insufficient to avoid a very high number of questions being raised. For the majority of our audit the responses we received were frequently inadequate, necessitating further questions. Officers need to properly address the recommendation made last year and to ensure that responses to audit questions are “Right first time”.	Officers need to properly address the recommendation made last year and to ensure that responses to audit questions are “Right first time”. **Management response** A training plan will be put in place to address improvements in working papers and responses to audit queries. This will be developed in consultation with Grant Thornton.

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Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Redditch Borough Council's 2017/18 financial statements, which resulted in two recommendations being reported in our 2017/18 Audit Findings report. Our work this year has identified that neither of these has been addressed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	While the financial statements were presented for audit by 31 May, there is scope to improve the quality of the statements and the supporting working papers. **Recommendation** Officers should ensure that sufficient time is built into the financial statements production process to allow for a robust and thorough quality review of both the statements and supporting working papers.	We noted some improvement in the quality of the working papers initially provided to us. However, those improvements were insufficient to avoid a very high number of questions being raised. For the majority of our audit the responses we received were frequently inadequate, necessitating further questions. Officers need to properly address the recommendation made last year and to ensure that responses to audit questions are "Right first time".
2	X	The Council is not in a financially sustainable long term position, and does not have sufficiently developed plans to address this. If the current MTFP is delivered the Council will have insufficient balances to be able to support spending at the proposed level beyond 2020/21. **Recommendation** Officers and Members need to avoid having too many priorities, and to adopt a clear approach on de-prioritisation. The Council needs to make some difficult and challenging decisions in order to ensure it can live within its means in the longer term.	Our Value for Money Conclusion work this year has identified inadequate progress in developing a financially sustainable long term position. The financial position is now even more challenging than it was last year. We have therefore issued an "Adverse" VFM Conclusion concluded that it is appropriate for us to use our powers within the Local Audit and Accountability Act 2014 ('the Act') to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position.

Assessment
✓ Action completed
X Not yet addressed

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Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	Increase in the Council pension fund deficit arising from the McCloud ruling. Cr. Net Pensions Liability Dr. Cost of Services	974	(974)	974
2	Decrease in the Council pension fund deficit arising from the updated return on assets. Cr. Remeasurement of the net defined benefit liability in the CIES Dr. Net Pensions Liability	(1,381)	1,381	(1,381)
	Overall impact of McCloud	**(407)**	**407**	**(407)**
3	Three free to use car parks were incorrectly valued using Fair Value Existing Use basis, instead of Depreciated Replacement Cost (as there is no income, and it is amenity land). Values overstated by £165k. Cr. PPE Operational Assets Dr. Revaluation Reserve Dr. CIES	33	(165) 132	33
4	Two general fund properties included in the HRA asset register as well in error. They should only be in the General Fund. Cr. HRA Dwellings Dr. CIES	80	(80)	80
	Overall impact of other adjustments	**113**	**(113)**	**113**

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Audit Adjustments

Misclassification and disclosure changes

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

- Enhancements to the Narrative Report, including to properly reflect the significant financial challenge the Council faces;
- Changes to the Annual Governance Statement in order to comply with requirements and also to properly reflect the issues in the Housing Department (these were also reported last year);
- Changes to some Headings and Statement Titles to comply with requirements (these were also reported last year);
- Five adjustments to the prior year financial statement figures as the final audited version was not used.

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit, Governance and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	General Fund assets included in Operational Land & Buildings are under depreciated by £68k. If adjusted this would reduce the Balance Sheet value and increase expenditure by £68k. Dr. CIES Cr. Operational Land & Buildings	 68	 (68)	 68	The amount is immaterial.
	Overall impact	**68**	**(68)**	**68**	

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee (£)	Final fee (£)
Council Audit	44,629	TBC
Total audit fees (excluding VAT)	**£44,629**	**TBC**

The final audit fee is to be confirmed, pending discussions with Officers and PSAA regarding additional fee as a result of:

- the significant extra work required to reach a Value For Money Conclusion and issue a Statutory Recommendation (estimated £4,000);
- the extra work required arising from the McCloud case (estimated £2,000);
- the additional work required to form a conclusion on the valuation of council dwellings (estimated £1,000);
- the additional work required to form a conclusion on the valuation of other land and buildings (estimated £1,500); and
- the additional work required to resolve the very high number of questions we raised, inadequate explanations to our questions, and the number of amendments required to the Statement of Accounts (estimated £4,500).

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
Certification of Housing capital receipts grant	2,250
Certification of 2018/19 Housing Benefit subsidy claim	24,000
	£26,250

Audit opinion

We anticipate we will provide the Group with a modified audit report

Independent auditor's report to the members of Redditch Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Redditch Borough Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement for the Council and Group, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account ,the Movement on the HRA Statement the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Core Financial Statements, Notes to the Housing Revenue Account and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance and Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Executive Director of Finance and Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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Audit opinion

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters, except on 29 July we made written recommendations to the Authority under section 24 of the Local Audit and Accountability Act 2014 in relation to financial sustainability. The Council needs to take urgent action to prevent both its General Fund and HRA balances being exhausted by the end of 2020/21. Failure to take effective action will put the Council at risk of breaching its statutory duty to set a balanced budget.

Responsibilities of the Authority, the Executive Director of Finance and Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 11 to 12, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Finance and Resources. The Executive Director of Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as

Audit opinion

the Executive Director of Finance and Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Finance and Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit, Governance & Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Adverse Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, because of the significance of the matters described in the basis for adverse conclusion section of our report, we are not satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for adverse conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness in its use of resources we identified the following matters:

The Authority's medium-term financial plan was updated in February 2019 and covers the period to 31 March 2023. Over this period, the plan forecasts that expenditure will exceed income by £4.0 million, with a further £3.6 million of savings to be achieved. As at 31 March 2019 the Council had a General Fund reserves balance of £1.225 million. The Medium Term Financial Plan, approved in February 2019, identified a £1.17 million financial gap in 2020/21, which if not addressed will leave £55,000 of General Fund balances available as a risk contingency.

In 2018/19 the Council used £0.56 million of balances, rather than the £89,000 planned. This was due to the decision to fund expenditure from balances, rather than identify further savings, and budget overspends in some areas. The budget included £1.50 million savings, of which £1.30 million was delivered. It is likely that some use of General Fund balances will be needed in 2019/20 to balance any under delivery of savings and budget pressures. The Medium-Term Financial Plan, approved in February 2019, identified a savings requirement of £1.13 million for 2019/20. Savings schemes totalling £949,000 are being implemented, but £181,000 of savings are currently unidentified. The Council has not yet reported on the in-year financial position for 2019/20. The quarter one report is due to be reported to the Executive on 10 September 2019.

Audit opinion

From April 2021 the Authority will, even if all of the forecast savings are achieved, be spending £30,000 a week more than it receives, with no reserves balance left based on its existing Medium-Term Financial Plan. There are currently no plans to bridge the gap on a sustainable basis.

Additionally, the HRA reserves balance has decreased from £1.475 million at 31 March 2018 to £0.770 million at 31 March 2019, with a further £0.400 million of reserves planned to be utilised in 2019/20. The balance remaining will then be approximately half of the £0.600 million minimum reserves policy which the Authority has set.

These matters identify weaknesses in the Authority's arrangements for setting sustainable budgets. Failure to take effective action will put the Council at risk of breaching its statutory duty to set a balanced budget.

They are evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Redditch Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Richard Percival, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

[Date]

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Agenda Item 10

REDDITCH BOROUGH COUNCIL

AUDIT, GOVERNANCE & STANDARDS **29th July 2019**

STATEMENT OF ACCOUNTS 2018/19

Relevant Portfolio Holder	Cllr David Thain
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering (Exec Director)
Wards Affected	**All**
Ward Councillor Consulted	None specific

1. SUMMARY OF PROPOSALS

1.1 To enable Members to consider the Statement of Accounts 2018/19 and to recommend to Council their approval.

2. RECOMMENDATIONS

2.1 That Audit, Governance and Standards considers and approves the Statement of Accounts 2018/19 as attached at Appendix 1.

3. KEY ISSUES

Financial Implications

3.1 None other than those included in this report.

Legal Implications

3.2 The Accounts and Audit Regulations 2015 require that the Council complies with statutory accounting legislation and changes.

Service / Operational Implications

3.3 The Statement of Accounts were approved by the Executive Director of Finance and Resources by 30th May 2019 and submitted to the External Auditors Grant Thornton on the same day.

3.4 The Grant Thornton audit opinion is included as an agenda item to this meeting. A copy of the Financial Statements is provided as Appendix 1.

3.5 Included within the Statement of Accounts there are a number of core financial statements that provide a summary of the financial position of the Council. These are:

3.6.1 Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes..

3.6.2 Comprehensive Income and Expenditure Statement

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

3.6.3 The Balance Sheet

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

3.6.4 The Cash Flow Statement

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

3.7 The Supplementary Financial Statements:

The Collection Fund

The Collection Fund shows the transactions of the Council in relation to the collection of Council Tax, and National Non-Domestic Rates and the way in which these have been distributed to the preceptors (the police, fire authority, county council and parishes). It is a statutory requirement for billing authorities to maintain this account.

Customer / Equalities and Diversity Implications

3.8 None as a direct result of this report.

4. RISK MANAGEMENT

4.1 The risks associated with the effective and timely delivery of the Statement of Accounts are to be developed further to ensure that a robust plan is in place to address the concerns raised during this Audit.

5. APPENDICES

Appendix 1 – RBC Statement of Accounts 2018/19

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AUTHOR OF REPORT

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Redditch Borough Council

Statement of Accounts for the year ended 31 March 2019

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Redditch Borough Council

Statement of Accounts for the year ended 31 March 2019

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Redditch Borough Council

Financial Statements for the year ended 31 March 2019

Narrative Report

Narrative Report

Introduction

Redditch Borough Council's financial performance for the year ended 31 March 2019 is as set out in the Comprehensive Income & Expenditure Summary and its financial position is as set out in the Balance Sheet and Cash Flow Statement.

These financial statements have been prepared in line with the Code of Practice on Local Authority in Accounting the United Kingdom 2018/19 (the Code). It is the purpose of this report to explain, in an easily understandable way, the financial facts and performance in relation to Redditch.

Overview

Redditch has faced a difficult time with regards to financial funding arrangements, as funding received from the Government has reduced from £1,578k in 2015/16 to £946k in 2016/17 and then further reduced to £407k in 2017/18. In 2018/19 it received £35k and from 2019/20 the Council will receive no Revenue Support Grant. The Council has sought to balance the budget through savings whilst attempting to protect the services that are most important to the community.

The budgets set for 2018/19 were challenging due to anticipated reductions in income. At year end the council was required to draw down greater general fund working balances, £183k, than budgeted as there was an overspend on services delivered. The council is aware that it needs to take significant and urgent action to close the forecast financial gap from 2020/21 as reserves are forecast to be insufficient to bridge this gap. With this in mind the council is aware of the need for additional savings in future years, and a prudent approach to spending and a commercial outlook to attracting income has been and will continue to be adopted to manage this gap.

Strategic Purposes

Redditch Borough Council is committed to providing residents with effective and efficient services that not only meet their needs but understand them too. We have listened to demand from our customers in order to understand what goes on in our communities and considered how we work with partners to support the issues within those communities.

Through considering what really matters to our residents we produced a set of six strategic purposes to guide us; they are based on customer demands and data and evidence about the needs of and issues affecting the people of Redditch Borough Council.

Strategic purpose: Help me run a successful business

How we achieve this:

- Nurture existing businesses and encourage a future generation of entrepreneurs
- Enhance the retail, leisure and residential offer
- Positively promote Redditch as a place to live, work, invest and visit and encourage new inward investment
- Work with partners to improve the aspirations of our younger population and develop skills to meet the future demands of employers
    - ❖ Average weekly earnings for full time employees by residences increased from £456.30 (2017/18) to £483.50 (2018/19)

Strategic purpose: Help me to be financially independent (including education and skills)

How we achieve this:

- Develop education and skills to sustain financial independence
- Support communities during changes to welfare and benefits
- Support residents to reduce levels of individual debt

Strategic purpose: Help me to live my life independently (including health and activity)

How we achieve this:

- Understand and support the additional needs of our residents
- Promote independence and reduce social isolation
- Help people to have active bodies and active minds
- Strengthening and supporting families and individuals
    - ❖ Spend on disabled facilities grants has decreased from £767k (2017/18) to £575k (2018/19) this decrease is due to a delay in referrals from occupational therapists
    - ❖ 1,837 (2018/19) vulnerable or elderly residents are being supported by a Lifeline unit in their homes 2,036 (2017/18)

Strategic purpose: Help me to find somewhere to live in my locality

How we achieve this:

- Support the development of appropriate and affordable housing in the Borough
- Raise housing standards and the quality of the local environment across the Borough
- Greater involvement and empowerment of tenants and residents in service delivery and reform
- Identify and support vulnerable people to prevent homelessness
- Build sustainable communities and neighbourhoods

Strategic purpose: Keep my place safe and looking good

How we achieve this:

- Participate in the creation of safe and well maintained places
- Demonstrate concern and care for the environments
- Create a sense of belonging and pride in our neighbourhoods

Strategic purpose: Provide good things for me to see, do and visit

How we achieve this:

- Help create flourishing town and district centres
- Support the provision of leisure opportunities for the whole Borough
- Provide well maintained community parks and green spaces
- Provide and support high quality, culturally diverse events and arts activities
    - ❖ Redditch has hosted the Pearl Izumi Tour Series cycle race for the last 7 years and it attracts over 10,000 visitors each year with an estimated income of around £120k for the Worcestershire economy

Financial Outlook

The Medium Term Financial Plan 2019/20 to 2022/23 was approved by Council on 25th February 2019 and provides the framework within spending decisions can be made. The plan addresses how the Council will provide financial funding to the Strategic Priorities and ensure residents receive quality services to meet their needs in the

When reviewing the budget projections consideration is made of the impact of demand on service and the costs associated with this demand. This may result in additional costs (associated with maintaining current service delivery) or reductions in anticipated income revenue over the next 4 years.

There continues to be considerable pressure facing the Council over the next 4 years as a result of a number of issues including:

- Budgetary pressures such as pay inflation (2%), revised pay structure, increased contract costs, funding the capital Programme
- Potential further reductions in New Homes Bonus Grant
- Impact of the Localisation of Business Rates scheme which is now deferred to 2020/21
- Impact of the fair funding review which is due to be implemented in 2020/21

National pay agreements are now running at 2% and this has been applied in 2019/20, future years have been assumed at 1%.The medium term financial plan also includes implementation of a local pay structure which harmonises the terms and conditions across Redditch and Bromsgrove and is consistant with the new national pay spines. There is also increased contract prices, unavoidable cost pressures and the impact of the capital programme that have been added to the plan.

The new homes bonus for 2019/20 has been confirmed at £754k which was £49k lower than the amount anticipated. Maintaining the new homes bonus income is dependent upon the number of new homes built in Redditch and possible changes to the formula by the Government.
Redditch in common with virtually every other Council in the country signed up to the Government offer of a four year funding settlement. This brought more certainty to the funding figures but not complete certainty or protection from changes to the funding levels. The medium term financial plan excludes any negative revenue support grant.

In 2020/21 it is anticipated that there will be a reset of business rates. Since 2013/14 Redditch has been able to retain a proportion of the local business rate growth. The impact of the reset is uncertain as it will depend on the level of growth in Redditch compared with the national position. It is anticipated that an average growth would result in a neutral impact but further details are still to be received on this.

Fair funding formula will also be introduced in 2020/21. This will attempt to calculate the amount the Council needs to spend. It is important because the amount of tariff adjustment the Council will be required to pay to the Government will be based on this formula.

The main source of income continues to be Council tax and the Government continue to allow Councils to increase Council Tax 2.99% without a referendum. In 2019/20 the Council tax increased from £234.00 to £239.15, £5.15 (2.2%) below the permitted increase and inline with the consumer price index . The medium term financial plan assumes a further 2.99% increase in future years.

In 2017/18 the Council approved an Acquisition and Investment Strategy which combines the ambition for economic development in the District with the potential to generate income through an Investment Portfolio Fund. At present the MTFP assumes a break even position for investments, with income generated being equal to the cost of making the investment. The financial returns from this strategy have been built into the plan and are anticipated to be £329k in 2020/21 and increase to £726k in 2021/22 and £1,050k in 2022/23, and all offset by the cost of making the investment to have a net nil impact on the bottom line. Any returns greater than the forecast investment costs will help to reduce the budget gap.

A summary of the approved Medium Term Financial Plan is provided below and shows that the Council has a balanced budget in 2019/20 but need to address a shortfall in future years ranging from £1,170k in 2020/21 to £1,521k in 2022/23.

REDDITCH PROPOSED REVENUE BUDGET 2019/20 - 2022/23

	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
Departmental base budget	9,116	9,173	9,387	9,388
Incremental Progression/Inflation on Utilities	132	206	281	483
Unavoidable Pressures	373	287	227	255
Revenue Bids/Revenue impact of capital bids	193	173	165	165
Savings and Additional income	-1,127	-841	-846	-816
Reserve release	-262	0	0	0
Efficiency savings rolled forwards	1,117	1,271	1,282	1,282
Net Revenue Budget Requirement	**9,543**	**10,269**	**10,496**	**10,757**
FINANCING				
Contribution to Worcestershire County Business Rate Pool	-2,855	-2,899	-2,941	-2,986
Council Tax	-6,241	-6,524	-6,857	-7,178
New Homes Bonus	-754	-430	-231	-209
Collection Fund Surplus (Council Tax)	-14	0	0	0
Parish Precept	8	8	8	8
Parish Precept income	-8	-8	-8	-8
Bad Debt Provision	50	50	50	50
Investment Income	-661	-952	-1,349	-1,673
MRP (Principal)	1,004	1,159	1,249	1,610
Interest payable	158	584	1,002	1,237
Recharge to Capital Programme	-38	-38	-38	-38
Discount on advanced pension payment	-193	-50	-50	-50
Funding Total	**-9,543**	**-9,099**	**-9,164**	**-9,237**
General Balances				
Opening Balances	**1,401**	**1,401**	**231**	**-1,102**
Contribution (from) / to General Balances	-0	-1,170	-1,332	-1,521
Agreed in year release of balances				
Closing Balances	**1,401**	**231**	**-1,102**	**-2,622**

Page 1

The minimum level of balances recommended is £750k. It is clear that further savings and/or additional income, including investment income is required to ensure a balanced budget is approved each financial year.

Governance

Redditch Borough Council recognises that it is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Governance is about how the Council ensures that it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. The Council has in place a Governance Framework which is detailed on page 11 and includes the following key elements:-

- A Council Constitution which clearly sets out the roles and responsibilities for Councillors and Officers and the rules that must be followed.
- A transparent decision making process through Council, Executive, Planning Committee and Audit Governance & Standards Committee.
- Review and scrutiny of decision through the Overview and Scrutiny Committee
- Behaving with integrity supported through a Code of Conduct
- Managing risk though the Corporate Management Team and Audit Governance & Standards Committee
- Clear strategic priorities linked to the needs of our communities and customers

- Regular performance management linked to strategic priorities and managed through a dashboard which is easily accessed and updated.
- Having robust and regular financial management
- Having good communication with Councillors, employees and the Community

The Council undertakes an annual review of its governance arrangements and this is summarised in the Annual Governance Statement on page 11.

Risks and Opportunities

The Council recognises that it has a responsibility to manage risks effectively in order to control its assets and liabilities, protect its employees and community against potential losses, minimise uncertainty in achieving its goals and objectives, and to maximise the opportunities to achieve its vision.

Risk management is managed through the Corporate Management Team and Audit Governance & Standards Committee and the current risk register has five significant risks:-

- Failure to manage the financial and service based impacts of the county council commissioning on the council.
- Council do not respond to financial constraints effectively.
- LEP's (and interactions with them) fail to operate effectively.
- Partners are unable (or unwilling) to change how they do things (transformation).
- Political changes at a local or national level.

Expenditure and Funding Analysis

The Expenditure and Funding Analysis is set out on page 38. The objective is to demonstrate to council tax payers and housing rent payers how the funding available to the Authority (i.e. Government grants, council tax, rents and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision-making purposes between the Council's strategic purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

A summary of the net expenditure as reported through the management accounts compared with the budget for 2018/19 is shown below:-

Strategic Purpose	Budget £'000	Actuals £'000	Variance £'000
Keep my place safe and looking good	3,996	4,086	90
Help me run a successful business	132	74	(58)
Help me be financially independent	146	428	282
Help me to live my life independently	73	29	(44)
Help me find somewhere to live in my locality	710	517	(193)
Provide Good things for me to see, do and visit	1,341	1,279	(62)
Enable others to work/do what they need to do (to meet their purpose)	2,933	3,100	167
Totals	**9,330**	**9,512**	**182**
Corporate Financing	(12,747)	(12,453)	294
General Fund Total	**(3,417)**	**(2,941)**	**476**
Planned Use of Balances	(89)	(565)	(476)
Contribution to reserves	3,506	3,506	-
Net General Fund	**-**	**-**	**-**

The actuals reported above are based on the management accounts for the authority. The management accounts are prepared on controllable budgets and there is a difference to the definitions used in the comprehensive income and expenditure statement (CIES) and the expenditure and funding analysis (EFA).
As an example the management accounts would record and manage any direct revenue financing of capital expenditure within the strategic priority but this would be recorded as other income and expenditure in the EFA.

Keep my place safe and looking good

These budgets include those relating mainly to environmental services, planning, lifeline, CCTV and other activities to deliver against the purpose to ensuring an area is a safe and attractive place for the community.

There have been a shortfall in income received within Bereavement services and additional costs due to cremator repairs needed.

Help me run a successful business

The budgets within the strategic purpose include economic development, all licenses and costs associated with the town and other Properties within the Borough.

There are savings on NNDR and utility budgets for leased buildings and also additional income that has been received.

Help me be financially independent

The strategic purpose includes all costs relating to the support of benefits and the administration and delivery of Council Tax services in the Borough.

There has been an increase in local authority error where no grant is received and an increase in overpayments where only 40% grant is received thus causing most of the variance for 2018/19.There is an action plan to ensure improvement in the benefit processing service.

Help me to live my life independently

There are a number of budgets relating to the delivery of the strategic purpose including; Lifeline and Community Transport.

There has been additional income received within the Lifeline service due a new contract that has been procured with Cannock Chase District Council. This has been reflected in 2019/20 budgets.

Help me find somewhere to live in my locality

The costs associated with homeless prevention, housing strategy and land charges are all included in this strategic purpose. It is worth noting that these costs solely relate to those charged to the General Fund not the Housing Revenue Account.

The variance shown in this strategic purpose is due to salary savings as a consequence of posts not being filled. It is anticipated that this will be addressed in the full housing review.

Provide Good things for me to see, do and visit

The majority of budgets within this purpose relate to leisure and culture services.

The variance shown is mainly to do with temporary salary savings due to the change of service delivery and new staff structure implementation.

Enable others to work/do what they need to do (to meet their purpose)

All support services and corporate overheads are held within the enabling purpose. These include; IT, HR, Finance, Management team and other support costs.

Heads of Service have worked throughout the financial year to identify savings and additional income from 2017/18 that can be delivered in 2018/19 along with additional savings and income to offset the unidentified corporate savings. There are also been some savings on repairs and maintenance in 2018/19, along with salary vacancies.

Corporate Financing

Various transfers to reserves to enable specific projects to be undertaken in the future have been made within corporate along with a planned use of reserves. The reserves position is outlined in note 10 of the Financial Statement.

Capital

Project	Budget £'000	Actuals £'000	Variance £'000
Housing Revenue Account (HRA)	6,323	4,761	(1,562)
Public Buildings	360	160	(200)
Improved Parking scheme	334	296	(38)
Disabled Facilities Grants (DFG's)	1,116	575	(541)
Fleet Improvements	1,496	898	(598)
Enterprise System	455	0	(455)
Locality Capital projects	534	19	(515)
s106 Community schemes	159	11	(148)
Other capital projects	996	494	(502)
Total	**11,773**	**7,214**	**(4,559)**

The projects within the HRA form the basis of the 30 year capital plan and are currently moving forward inline with the plan. The plan is currently being reviewed to ensure the correct budgets are in place to meet the improvement plan targets. There are underspends on majority of the capital projects. This is due to delays in consulting and working through priority projects. The request will be made to roll the underspend forward into 2019/20. The outturn postion has been reported to members on the 9th July 2019 and will go to full council on the 22nd July 2019 for approval. Actions will be put in place to address the variance for 2018/19 to ensure this is not repeated in 2019/20.

Housing Revenue Account (HRA)

Overall, the HRA balances have reduced by £705k this was driven by increased expenditure and a reduction in income. The reduction in rent income was mainly due to increased right-to-buy and the national policy requiring 1% rent reduction. Expenditure on repairs and maintenance was higher than budgeted due to demand for ad hoc repairs and an increased number of voids requiring major works.

The Movement in Reserves Statement

This Statement, often referred to as MiRS shows movement in the year on the different reserves held by Redditch, 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 our services, more details of which are shown in the Comprehensive Income and Expenditure statement (CIES). These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent 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 Redditch.

Comprehensive Income and Expenditure Statement

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

The Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of our assets and liabilities. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services on the disposal of the asset.

The main changes to the Balance Sheet in 2018/19 are:-

Non-current Assets have increased from £318,907k to £337,480k and this mainly relates to revaluation of Council dwellings. The valuation of Council dwelling is based on the market value of the Council dwellings reduced by a social housing factor of 40% and the increase reflects house price increases with the social housing factor remaining unchanged.

There has been an increase in the pension deficit, increasing from £60,041k to £72,930k. Note 37 provides a detailed analysis of the pension changes but the main reasons for the change is actuarial losses from changes in financial assumptions.

Group Accounts

The Code requires Local Authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. Redditch has a 100% interest in Rubicon Leisure Limited which commneced trading on the 1st December 2018 and this has been incorporated as a group interest.

The Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of Redditch during the reporting period. The statement shows how we generate and use 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 are funded by way of taxation and grant income or from the recipients of services provided by Redditch. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to our 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.

Redditch Borough Council

Financial Statements
FOR THE YEAR ENDED 31ST MARCH 2019

Statement of the Authority's and Chief Financial Officer's Responsibilities for the Statement of Accounts

The Authority's Responsibilities

Redditch Borough Council is required to:

- make arrangements for the proper administration of its financial affairs
- secure that one of its officers has the responsibility for the administration of those affairs
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts.

In this Authority, that officer is the Executive Director of Finance and Resources;

The Executive Director of Finance and Resources is responsible for the preparation of Redditch Borough Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Executive Director of Finance and Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Executive Director of Finance and Resources has also:

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

The Accounts present a true and fair view of the financial position of Redditch Borough Council at 31 March 2019 and its income and expenditure for the year ended on that date.

SIGNED .... **Date:**

Certificate of the Chief Financial Officer

I certify that:

(a)
the Statement of Accounts for the year ended 31 March 2019 has been prepared in the form directed by the Code and under the accounting policies set out on pages 26 to 34.

(b)
in my opinion the Statement of Accounts gives a true and fair view of the income and expenditure and cash flows for the financial year and the financial position as at the end of the financial year.

…………………………………………………..
Chief Financial Officer

………………………………………….
Date

Authority Approval of Statement of Accounts

These accounts were approved by resolution of the Council on __________________.

…………………………………………………..
Chairman

………………………………………….
Date

ANNUAL GOVERNANCE STATEMENT 2018/19

Scope of Responsibility

Redditch Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Redditch Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Purpose of the Governance Framework

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

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 Redditch Borough Councils policies and Strategic Purposes, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Redditch Borough Council for the year ended 31 March 2019 and up to the date of approval of the statement of accounts.

The Governance Framework

The framework to deliver good governance across the Councils services in delivering the Strategic Purposes encompass a number of elements;

- The Strategic Purposes have been developed in line with the needs of our communities and customers and the Council Plan has been approved to reflect the activities that need to be undertaken by the Council to further support the delivery of these purposes.
- Strategic Partnership meetings are held on a regular basis to ensure that all partners and agencies are engaged in supporting the Councils aims to deliver the purposes to our community. Liaison between officers to deliver joint working arrangements in encouraged and actively undertaken by the Council.
- A performance dashboard is in place for members and officers to review the perfomance of key measures, both strategic and operational across the organisation. This includes national statistics where relevant to the community of the Borough.
- Performance reports are presented to members on a quarterly basis in relation to the strategic purpose delivery and the associated measures in place.
- The Council's Constitution clearly sets out the roles and responsibilities of Councillors, and the procedural rules for Full Council, Executive and the other Committees operated by the Council.
- Terms of reference for member working groups (e.g. Scrutiny Task Groups) are clearly defined.
- Financial Regulations and Contract Procedure Rules have been approved by Council. A full training programme is in place to ensure all relevant officers comply and understand the regulations in place. In addition an officer contract working group has been established with the aim to improve efficiencies in relation to contract management arrangements.
- A clear scheme of Councillor/Officer delegation exists to provide clarity on the powers entrusted to those appointed to make decisions on behalf of the Council. A Member / Officer protocol is also set out in the Constitution.

- The roles and responsibilities of Councillors are underpinned by an extensive Member Development Programme to include both mandatory and discretionary training. This is developed by the cross party Member Development Steering Group and includes; induction, chairmanship and specific Committee based training.

- The behaviour of Councillors is regulated by the Member Code of Conduct and is supported by a number of protocols.

- A review of the Constitution is undertaken on a regular basis to ensure it enables members to make informed and transparent decisions. This includes the scheme of delegation to officers.

- Decision making is carried out through Executive, Planning Committee and Audit, Standards and Governance Committee . Overview and Scrutiny Committee has responsibility to review and scrutinise the activities of the Council.

- Regular staff briefings and 4th tier manager forums are held to ensure staff are aware of changes and are engaged in the systems thinking methodology of supporting service changes across the Council. In addition a commercial approach to fees and charges and other income generation has been adopted. A staff survey has also been undertaken and culture workshops developed and delivered to staff to ensure improvements and engagement in light of previous staff surveys.

- Robust financial management arrangements are in place through regular budget monitoring, on line purchase ordering systems and robust financial internal controls that ensure that the Council complies with statutory legislation.

- There is a clear procurement code and policy in place to ensure that purchases are made in a compliant and transparent manner.

- Heads of Service are responsible for establishing and maintaining an adequate system of internal control arrangements when within their own services. They are required to sign off annual Governance and Internal Control returns where they can raise any items of concern. There were no new issues raised during 2018/19. The issues in housing were determined to be a prior year ongoing issue rather than a new item.

- The Constitution clearly defines the roles of Monitoring officer, S151 and Head of Paid Service.

- Regular press releases are submitted and on line information about the Council is sent to residents to inform them of the Councils activities and services provided. In addition information on the commercial services provided by the Council was sent out to enable residents to utilise the services offered.

Review of Effectiveness

Redditch has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Heads of Service within Redditch Borough who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors.

The Constitution clearly identifies the terms of reference, roles and responsibilities of Full Council, Executive, Overview and Scrutiny Committee and Audit, Standards and Governance Committee all of which have fully understood governance responsibilities

Throughout 2018/19, the Council adopted a robust approach to corporate governance, which has been advised through the work of the Audit, Standards and Governance Committee, Overview and Scrutiny as well as the statutory roles of the S151 Officer and the Monitoring Officer.

- **Audit, Standards and Governance Committee**
  The Committee played a role by reviewing and monitoring internal control issues throughout the year. This included approval of the treasury management strategy, savings reports, regular progress reports from Internal Audit and reports and updates from the External Auditors.

- **Internal Audit**

  RBC's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2015.

The Worcestershire Internal Audit Shared Service Team operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic, efficient and effective use of resources.

During 2018/19 the Internal Audit team delivered a comprehensive programme including:

· a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' and other corporate systems for example Governance, and

· a number of operational systems, for example, Shop Mobility, Car Parking, GDPR, Transport were looked at to maintain and improve control systems and risk management processes or reinforce oversight of such systems.

Internal Audits' work programme helps to assure Audit Committee that the framework and statement can be relied upon based on the following:

· Evidence streams which were verifiable and could be relied upon,
· Monitoring and reporting mechanisms were in place to report issues,
· These streams and reporting mechanisms are embedded in the RBC governance process.

Internal Audit reports are considered by the relevant Head of Service and Director of Finance and Resources, before submission to the Audit, Standards and Governance Committee for further scrutiny.
In relation to the 18 reviews that have been undertaken, 13 have been finalised, 5 are at draft report stage and 2 awaiting clearance and close to completion.

Significant Governance Issues

Areas which returned an assurance level of 'limited' included Health and Safety, Universal Credits, Housing Benefits, Procurement, Risk Management, and Transport. A piece of work that commenced in 2018/19 in regard to Housing was rolled into the year 2019/20 due to initial enquiries, the nature and coverage.

There remains a significant risk regarding the delivery of Housing Services which could jeopardise the ability to deliver Council objectives. Control measures have been deployed to reduce the risk in 2018/19 which will be closely monitored by the Corporate Management Team and Internal Audit.

The Heads of Service have actions in place to address any recommendations from Audit reviews and all assessed as being either of high or medium importance have been reported to the Audit Standards and Governance Committee. The Internal Audit team will continue to review the actions as they are implemented.

An opinion from the Head of Worcestershire Internal Audit is provided in the accounts on page 15.

Conclusion and Evaluation

As leader and Chief Executive, we have been advised on the reuslts of the review of the effectiveness of the Council's governance framework. Our overall assessment is that this Annual Governance Statement is a balanced reflection of the governance environment and the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

We are also satisfied that over the coming year, the Council will take appropriate steps to address any significant governance issues and we will monitor their implementation and operation as part of our next annual review.

Signed .... **Date ....**

Signed .... **Date ....**

Leader of the Council & Chief Executive on behalf of Redditch Borough Council

1. Head of Internal Audit Opinion

1.1 The internal audit of Redditch Borough Council's systems and operations during 2018/19 was conducted in accordance with the Internal Audit Annual plan which was approved by the Audit, Governance and Standards Committee on 26th April 2018 and any subsequent revision.

1.2 The Internal Audit function was set up as a shared service in 2010/11 and hosted by Worcester City for 5 district councils and increased to 6 partners with the inclusion of Hereford and Worcester Fire and Rescue Authority from April 2016. The shared service conforms with CIPFA guidance and the Institute of Internal Auditors Public Sector Internal Audit Standards as amended and objectively reviews on a continuous basis the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic and effective use of resources.

1.3 The Internal Audit Plan for 2018/19 was risk based assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk, fraud risk, and external risk. It included:

- a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' and other corporate systems for example governance, and,
- a number of operational systems, for example, Shop Mobility, Car Parking, GDPR, Transport were looked at to maintain and improve control systems and risk management processes or reinforce oversight of such systems.

1.4 The 2018/19 internal audit plan and any revision thereto, was delivered to provide sufficient coverage for the Head of Internal Audit Shared Service to form an overall audit opinion.

1.5 At the time of writing this opinion in relation to the 18 reviews that have been undertaken, 13 have been finalised, 5 are at draft report stage and 2 awaiting clearance and close to completion. Areas which returned an assurance level of 'limited' included Health and Safety, Universal Credits, Housing Benefits, Procurement, Risk Management, and Transport. A piece of work that was commenced in 2018/19 in regard to Housing was rolled into the 2019/20 due to initial enquiries, the nature and coverage.

1.6 A clear management action plan has been, or is in the process of being formulated to address the issues identified in all the other audit areas where 'limited' assurance was identified to mitigate the risk. Where audits are to be finalised a comprehensive management action plan will be required and agreed by the s151 Officer. There is a clear understanding that further work is required to embed risk management throughout the organisation with the outcomes now being monitored by the Executive Director - Finance and Resource.

1.7 As part of the process of assessing the Council's control environment, senior officers within the Council are required to complete an annual "Internal Control Assurance Statement" to confirm that the controls in the areas for which they are responsible are operating effectively. Officers were required to acknowledge their responsibilities for establishing and maintaining adequate and effective systems of internal control in the services for which they are responsible and confirming that those controls were operating effectively except where reported otherwise. There were some key themes identified in some of the returns which will be picked up directly with management including a lack of knowledge of the personnel handbook, no inventory checks, no risk register updates. A reoccurring theme reported across several Services was the impact of staff shortages. No areas of significant risk have been identified in additional to those already identified in the audit work completed.

1.8 Any concerns raised by managers will be assessed and addressed by the Corporate Management Team. It is acknowledged there remain and continue to be some significant challenges and potential risks in the Housing Service.

1.9 11 of the completed audits have been allocated an audit assurance of either 'moderate' or above meaning that there is generally a sound system of internal control in place, no significant control issues have been encountered and no material losses have been identified. However, there were 6 audits allocated a 'limited' assurance which indicates weaknesses in the design and / or inconsistent application of controls potentially putting the achievement of the organisation's objectives at risk in those areas reviewed. Any assurance provided is limited to the few areas of the system where controls are in place and are operating effectively. The one critical friend review that was undertaken did not provide an overall assurance but did report on potential lessons learnt.

1.10 WIASS can conclude that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance based on the audits performed in accordance with the approved plan and the scoping therein. Based on the audits performed in accordance with the approved plan, the Head of Internal Audit Shared Service has concluded that the internal control arrangements during 2018/19 effectively managed the principal risks in a number of areas, but not all, and can be reasonably relied upon to ensure that the Council's corporate objectives have been met in the main. However, there remains a significant risk which could jeopardise this in the future in regard to the Housing Service and potentially emerging risks in some key areas. Close monitoring of deployed measures are set to continue but the need to reduce the overall risk and work towards a better approach beyond 2018/19 will be critical to create better transparency, expectation and accountability. This will be necessary in order to ensure the Borough can deliver a satisfactory housing service, manage risk management effectively, and, ensure other areas which attracted a 'limited' assurance develop and deploy a sound control environment.

Andy Bromage
Head of Internal Audit Shared Service
Worcestershire Internal Audit Shared Service
May-19

Agenda Item 10

Redditch Borough Council

Financial Statements for the year ended 31 March 2019

The Core Financial Statements

Redditch Borough Council

Movement in Reserves Statement for the Council and Group
For the current and comparative year

	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	HRA Balance £000	Earmarked HRA Reserves £000	Total HRA Balance £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Authority Reserves £000	Rubicon Leisure Limited £000	Total Group Reserves £000
Balance as at 1 April 2017	**1,895**	**1,816**	**3,711**	**1,475**	**19,510**	**20,985**	**4,187**	**92**	**1,268**	**30,243**	**87,096**	**117,339**	**0**	**117,339**
Movement in reserves during the year														
Total Comprehensive Income and Expenditure	(1,665)	**0**	**(1,665)**	15,132	**0**	**15,132**	**0**	**0**	**0**	**13,467**	15,209	**28,676**	**0**	**28,676**
Adjustments between accounting basis & funding basis under regulations (Note 9)	1,360		**1,360**	(14,807)	0	**(14,807)**	864	1,379	(127)	**(11,331)**	11,331	**0**	**0**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**(305)**	**0**	**(305)**	**325**	**0**	**325**	**864**	**1,379**	**(127)**	**2,136**	**26,540**	**28,676**	**0**	**28,676**
Transfers to or from earmarked reserves	200	(200)	**0**	(325)	325	**0**				**0**		**0**	**0**	**0**
(Increase)/Decrease in Year	**(105)**	**(200)**	**(305)**	**0**	**325**	**325**	**864**	**1,379**	**(127)**	**2,136**	**26,540**	**28,676**	**0**	**28,676**
Balance as at 31 March 2018	**1,790**	**1,616**	**3,406**	**1,475**	**19,835**	**21,310**	**5,051**	**1,471**	**1,141**	**32,379**	**113,636**	**146,015**	**0**	**146,015**
Closing General Fund and HRA Balance 31 March 2018						**24,716**								
Movement in reserves during the year														
Total Comprehensive Income and Expenditure	**(2,089)**	**0**	**(2,089)**	3,020	**0**	**3,020**	**0**	**0**	**0**	**931**	12,236	**13,167**	**30**	**13,197**
Adjustments between accounting basis & funding basis under regulations	**5,028**		**5,028**	(5,324)		**(5,324)**	1,828	4,395	1,014	**6,941**	(6,941)	**0**	**0**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**2,939**	**0**	**2,939**	**(2,304)**	**0**	**(2,304)**	**1,828**	**4,395**	**1,014**	**7,872**	**5,295**	**13,167**	**30**	**13,197**
Transfers to or from earmarked reserves	(3,504)	3,504	**0**	1,599	(1,599)	**0**				**0**		**0**	**0**	**0**
(Increase)/Decrease in Year	**(565)**	**3,504**	**2,939**	**(705)**	**(1,599)**	**(2,304)**	**1,828**	**4,395**	**1,014**	**7,872**	**5,295**	**13,167**	**30**	**13,197**
Balance as at 31 March 2019	**1,225**	**5,120**	**6,345**	**770**	**18,236**	**19,006**	**6,879**	**5,866**	**2,155**	**40,251**	**118,931**	**159,182**	**30**	**159,212**
Closing General Fund and HRA Balance 31 March 2019						**25,351**								

Redditch Borough Council

Comprehensive Income and Expenditure Statement for the year ended 31 March 2019

	Notes	2018/19 £000 Expenditure	2018/19 £000 Income	2018/19 £000 Net	2017/18 £000 Expenditure	2017/18 £000 Income	2017/18 £000 Net
Enabling of the Authority		4,399	(2,307)	2,092	4,376	(2,144)	2,232
Help me be financially independent (including Education and Skills)		20,963	(20,214)	749	23,551	(23,141)	410
Help me find somewhere to live in my locality		1,900	(729)	1,171	2,204	(788)	1,416
Help me to live my life independently (including Health and Activity)		2,070	(1,740)	330	2,401	(1,818)	583
Help me run a successful business		2,857	(1,205)	1,652	1,094	(1,171)	(77)
Keep my place safe and looking good		7,584	(2,699)	4,885	7,921	(2,527)	5,394
Provide good things for me to see, do and visit		4,482	(2,338)	2,144	5,284	(3,163)	2,121
Local authority housing - (HRA)		21,096	(24,391)	(3,295)	19,267	(24,499)	(5,232)
Revaluation of Housing Revenue Account Stock		(4,546)		(4,546)	(14,749)		(14,749)
Cost of Services		**60,805**	**(55,623)**	**5,182**	**51,349**	**(59,251)**	**(7,902)**
Other Operating Expenditure	**11**	13	0	13	100	0	100
Financing and Investment Income and Expenditure	**12**	5,111	(28)	5,083	5,122	(3)	5,119
Taxation and Non-Specific Grant Income and Expenditure	**13**	11,194	(22,403)	(11,209)	10,755	(21,539)	(10,784)
(Surplus) or Deficit on Provision of Services				**(931)**			**(13,467)**
(Surplus) or deficit on revaluation of Property, Plant and Equipment	**14, 15**			(19,661)			(7,393)
Remeasurement of the net defined benefit liability/(asset)	**37**			7,425			(7,816)
Other Comprehensive Income and Expenditure				**(12,236)**			**(15,209)**
Total Comprehensive Income and Expenditure				**(13,167)**			**(28,676)**

Redditch Borough Council

Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2019

	Notes	2018/19 £000 Expenditure	2018/19 £000 Income	2018/19 £000 Net	2017/18 £000 Expenditure	2017/18 £000 Income	2017/18 £000 Net
Enabling of the Authority		4,399	(2,307)	2,092	4,376	(2,144)	2,232
Help me be financially independent (including Education and Skills)		20,963	(20,214)	749	23,551	(23,141)	410
Help me find somewhere to live in my locality		1,900	(729)	1,171	2,204	(788)	1,416
Help me to live my life independently (including Health and Activity)		2,070	(1,740)	330	2,401	(1,818)	583
Help me run a successful business		2,857	(1,205)	1,652	1,094	(1,171)	(77)
Keep my place safe and looking good		7,584	(2,699)	4,885	7,921	(2,527)	5,394
Provide good things for me to see, do and visit		5,564	(3,450)	2,114	5,284	(3,163)	2,121
Local authority housing - (HRA)		21,096	(24,391)	(3,295)	19,267	(24,499)	(5,232)
Revaluation of Housing Revenue Account Stock		(4,546)		(4,546)	(14,749)		(14,749)
Cost of Services		**61,887**	**(56,735)**	**5,152**	**51,349**	**(59,251)**	**(7,902)**
Other Operating Expenditure	**11**	13	0	13	100	0	100
Financing and Investment Income and Expenditure	**12**	5,111	(28)	5,083	5,122	(3)	5,119
Taxation and Non-Specific Grant Income and Expenditure	**13**	11,194	(22,403)	(11,209)	10,755	(21,539)	(10,784)
(Surplus) or Deficit on Provision of Services				**(961)**			**(13,467)**
(Surplus) or deficit on revaluation of Property, Plant and Equipment	**14, 15**			(19,661)			(7,393)
Remeasurement of the net defined benefit liability/(asset)	**37**			7,425			(7,816)
Other Comprehensive Income and Expenditure				**(12,236)**			**(15,209)**
Total Comprehensive Income and Expenditure				**(13,197)**			**(28,676)**

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Redditch Borough Council

Balance Sheet as at 31 March 2019

	Notes	31st March 2019 £000	31st March 2018 £000
Property, Plant & Equipment	**14/14a**	337,480	318,907
Heritage Assets		60	63
Intangible Assets	**15**	173	247
Long Term Debtors	**16**	964	960
Long Term Assets		**338,677**	**320,177**
Short Term Investments	**16**	4,500	0
Inventories	**17**	326	316
Short Term Debtors	**18**	8,756	6,755
Cash and Cash Equivalents	**19**	1,138	824
Current Assets		**14,720**	**7,895**
Short Term Borrowing	**16**	(6,000)	(7,000)
Short Term Creditors	**21**	(7,385)	(8,035)
Provisions	**22**	(3,286)	(2,643)
Revenue Grants received in advance	**33**	0	(32)
Current Liabilities		**(16,671)**	**(17,710)**
Long Term Borrowing	**16**	(104,063)	(104,063)
Other Long Term Liabilities	**37**	(72,930)	(60,041)
Capital Grants received in advance	**33**	(551)	(243)
Long Term Liabilities		**(177,544)**	**(164,347)**
Net Assets		**159,182**	**146,015**
Usable reserves	**24**	40,251	32,379
Unusable Reserves	**25**	118,931	113,636
Total Reserves		**159,182**	**146,015**

Agenda Item 10

Redditch Borough Council

Group Balance Sheet as at 31 March 2019

Information relating to the Group Balance Sheet is included in Note 23 - Group Accounts

	Notes	31st March 2019 £000	31st March 2018 £000
Property, Plant & Equipment	**14/14a**	337,480	318,907
Heritage Assets		60	63
Intangible Assets	**15**	173	247
Long Term Debtors	**16**	964	960
Long Term Assets		**338,677**	**320,177**
Short Term Investments	**16**	4,500	0
Inventories	**17**	343	316
Short Term Debtors	**18**	7,625	6,755
Cash and Cash Equivalents	**19**	1,349	824
Current Assets		**13,817**	**7,895**
Short Term Borrowing	**16**	(6,000)	(7,000)
Short Term Creditors	**21**	(6,452)	(8,035)
Provisions	**22**	(3,286)	(2,643)
Revenue Grants received in advance	**33**	0	(32)
Current Liabilities		**(15,738)**	**(17,710)**
Long Term Borrowing	**16**	(104,063)	(104,063)
Other Long Term Liabilities	**37**	(72,930)	(60,041)
Capital Grants received in advance	**33**	(551)	(243)
Long Term Liabilities		**(177,544)**	**(164,347)**
Net Assets		**159,212**	**146,015**
Usable reserves	**24**	40,281	32,379
Unusable Reserves	**25**	118,931	113,636
Total Reserves		**159,212**	**146,015**

Redditch Borough Council

Cash Flow Statement at 31 March 2019

	Notes	2018/19 £000	2017/18 £000
Net surplus on the provision of services		931	13,467
Adjustment to surplus or deficit on the provision of services for non-cash movements	**26**	14,957	(10,799)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**26**	(5,662)	(4,213)
Net cash flows from Operating Activities		**10,226**	**(1,545)**
Investing Activities	**27**	**(5,227)**	**(4,051)**
Financing Activities	**28**	**(4,685)**	**5,519**
Net increase or decrease in cash and cash equivalents		**314**	**(77)**
Cash and cash equivalents at the beginning of the reporting period		**824**	**901**
Cash and cash equivalents at the end of the reporting period		**1,138**	**824**

Redditch Borough Council

Group Cash Flow Statement at 31 March 2019

	Notes	2018/19 £000	2017/18 £000
Net surplus on the provision of services		961	13,467
Adjustment to surplus or deficit on the provision of services for non-cash movements	**26**	15,138	(10,799)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**26**	(5,662)	(4,213)
Net cash flows from Operating Activities		**10,437**	**(1,545)**
Investing Activities	**27**	**(5,227)**	**(4,051)**
Financing Activities	**28**	**(4,685)**	**5,519**
Net increase or decrease in cash and cash equivalents		**525**	**(77)**
Cash and cash equivalents at the beginning of the reporting period		**824**	**901**
Cash and cash equivalents at the end of the reporting period		**1,349**	**824**

Notes to the Core Financial Statements

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 1 Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The statements are prepared on a general principle of a going concern and that the functions and services provided by the Council will continue to operate for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.
The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2017 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 supported by International Financial Reporting Standards (IFRS).

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

Summary of Significant Accounting Policies

1) Revenue and Expenditure Recognition

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

- Revenue in respect of services provided is recognised when (or as) performance obligations are satisfied by transferring promised services to the customer, and is measured at the amount of the transaction price allocated to that performance obligation. Where income is received for a specific performance obligation that is to be satisfied in the following year, that income is deferred.
- Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- The council has set a de-Minimis level for accruals of creditors and debtors that are calculated manually in order to avoid additional time and cost in estimating and recording accruals.

  This level is reviewed annually and is currently set at £5,000. If a payment or receipt is split across different cost centres, the limit is for the whole payment or receipt.

  Exceptions to this de Minimis rule where accruals are made in full are:

  - Qualifying expenditure upon which income from government grant or other third parties is dependent and associated grant income, where the grant funding would be lost if the accrual is not made.
  - Invoices for substantially the same supply or service that are chargeable to the same service area are aggregated where their total is over £500.
  - Accruals posted based on orders that have been goods receipted on the E-Financials system.

- For capital projects work in progress schedules will be obtained and accruals will be processed on this basis.

2) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.
In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

3) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

4) 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 Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This is the Minimum Revenue Provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP 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

5) Council Tax and Non-Domestic Rates (England)

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

Accounting for Council Tax and NDR

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

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

6) Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

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

Post Employment Benefits

Employees of the Authority are members of the below pension scheme:

- The Local Government Pensions Scheme, administered by Worcestershire County Council known as the Worcestershire Pension Fund (WPF)
  The schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

The Local Government Pension Scheme

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

- The liabilities of the WPF attributable to the Authority 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 projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.5% (based on the indicative rate of return on a basket of high quality corporate bonds, government gilts and other factors).
- The assets of WPF attributable to the Authority 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 the following components:

- **Service cost comprising:**

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- net interest on the net defined benefit liability , i.e. net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- **Remeasurements comprising:**

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the WPF – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

The Authority 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.

7) Events After the Reporting Period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

8) Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as other financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:☐

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

9) Financial Instruments

Financial Liabilities
Financial liabilities are recognised when the Council becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been extinguished – that is, the obligation has been discharged or cancelled or has expired.

Financial liabilities are initially measured at fair value and carried at their amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the amortised cost of the financial liability. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount (balance carried forward) 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 included in the Balance Sheet is the outstanding principal repayable, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement. Accounting for debt re-structuring or early settlement will be in accordance with the Code and relevant statute.

Financial Assets

Financial assets are recognised when the Council becomes party to the contractual provision of the financial instrument or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or when the asset has been transferred and the Council has transferred substantially all of the risks and rewards of ownership or has not retained control of the asset.

Financial assets are initially recognised at fair value plus or minus directly attributable transaction costs for financial assets not measured at fair value through profit or loss. Fair value is taken as the transaction price, or otherwise determined by reference to quoted market prices, where possible, or by valuation techniques.

Financial assets are classified into the following categories:
- financial assets at amortised cost,
- financial assets at fair value through other comprehensive income, and
- financial assets at fair value through profit and loss.

The classification is determined by the cash flow and business model characteristics of the financial assets, as set out in The Code, and is determined at the time of initial recognition.

- **Financial Assets at Amortised Cost**

Financial assets measured at amortised cost are those held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and where the cash flows are solely payments of principal and interest. This includes most trade receivables, loans receivable, and other simple debt instruments.

After initial recognition, these financial assets are measured at amortised cost using the effective interest method, less any impairment. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the financial asset to the gross carrying amount of the financial asset.

For most of the loans that the Council has made, this means that the amount included 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.

The Council has made interest free loans to home owners (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at an effective rate of interest rather than interest free, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

- **Financial Assets at Fair Value Through Other Comprehensive Income**

Financial assets measured at fair value through other comprehensive income are those held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and where the cash flows are solely payments of principal and interest.

Legislation requires that any changes in the fair value of financial assets charged to the Surplus or Deficit on the Provision of Service is to be reversed out to through the Movement in Reserves Statement to the Unusable Reserves.

- **Impairment**

For all financial assets measured at amortised cost or at fair value through other comprehensive income (except equity instruments designated at fair value through other comprehensive income), lease receivables and contract assets, the Council recognises a loss allowance representing expected credit losses on the financial instrument.
The Code requires that local authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions prevent default.

The Council adopts the simplified approach to impairment, in accordance with the Code, and measures the loss allowance for trade receivables, contract assets and lease receivables at an amount equal to lifetime expected credit losses. For other financial assets, the loss allowance is measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition, and otherwise at an amount equal to 12-month expected credit losses.

For financial assets that have become credit impaired since initial recognition, expected credit losses at the reporting date are measured as the difference between the net present value of all the contractual cash flows that are due to the Council in accordance with the contract for the instrument and the net present value of all the cash flows that the Council expects to receive, discounted at the original effective interest rate. Any adjustment is recognised in the Surplus or Deficit on the Provision of Service as an impairment gain or loss.

10) Government Grants and Contributions

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

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

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Account until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

11) Heritage Assets

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

Heritage Assets are those with cultural, environmental or historical significance that make their preservation for future generations important.
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. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment.

12) Intangible Assets

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

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

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

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

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

13) Interests in Companies and Other Entities

An assessment of the council’s interests has been carried out in accordance with the CIPFA Code of Practice to determine a group relationship exists. Inclusion in the group is dependent upon the extent of the councils control and significant influence over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity’s board of directors, and materiality. Accounts are prepared on a single entity basis with the Statement of Group accounts representing the position for the council and its subsidiary. Interests in other entities are recorded as financial assets at cost, less any provision for losses, or at valuation as appropriate.

14) Inventories and Long Term Contracts

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

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

15) Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

16) Leases

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

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

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

The Authority 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 Authority 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 authority at the end of the lease period).

The Authority 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 Authority as Lessor

Finance Leases

Where the Authority 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 Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease 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 Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve. (England and Wales).

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account

Operating Leases

Where the Authority 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.

17) Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the reader of the accounts. Notes are only included where items are considered to be material by value or nature.

18) Overheads and Support Services

In the Financial Statements overheads are reported under the Strategic Purpose where they are managed which is usually Enabling the Authority.

19) Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- council offices - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation and that are measured at depreciated replacement cost (instant build) as an estimate of current value.
- school buildings - current value, but because of their specialised nature, are measured at depreciated replacement cost which is used as an estimate of current value.
- surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

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

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

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

Impairment

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

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

Deprecation is calculated on the following bases:

- dwellings - the s151 Officer has reviewed the use of the Major Repairs Allowance as depreciation for Housing Revenue Account properties, and considers this to be a reasonable estimate for depreciation cost.   An amount equivalent to the Major Repairs Allowance has been used as the annual depreciation charge for HRA assets. Other buildings – straight-line allocation over the useful life of the property as estimated by the valuer and is between 15-100 years.
- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

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

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

Disposals and Non-Current Assets Held for Sale

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

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

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the

20) Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority 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 Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority 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 Authority.

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.

21) Reserves

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

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

22) Revenue Expenditure Funded from Capital under Statute

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

23) **Shared Services**

Redditch Borough Council provides the hosting for a number of shared service arrangements with Bromsgrove District and Wyre Forest District Council. A number of other shared services are hosted by Bromsgrove District (including Worcestershire Regulatory Services which is a Jointly Controlled Operation),Worcester City Council and Wyre Forest District Council.

Each arrangement is accounted for within the records of the host Council with a monitoring report prepared for the partner authority on a monthly basis for consideration of the operational costs together with an annual statement of assets and liabilities extracted from the accounts of the host Council. There is a responsibility for each partner Council to account for their share of the arrangement within their statement of accounts

When entering into shared services all capital assets that are purchased are financed by each authority separately and accounted for on their own Balance Sheet. Any assets purchased prior to the start of the shared service are not included in the shared service; the costs associated with this remain on the accounts of the Authority that purchased the asset only.

The Management team is shared across both authorities as well as other services. Cross-charging occurs where a resource is used by the other Authority where there is not a formal shared service in place.

Each Authority pays a fair share of services which are shared, in line with the Business Case; all direct expenditure is shared on this basis, with income staying with the home Authority. Where a cost is only in relation to one Authority, this falls outside the Business Case and the Authority that gains the benefit for this is fully charged.

24) **Value Added Tax (VAT)**

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

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 2 Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The code requires that the Council disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. These amendments are listed below; it is expected that these will have no material impact on the Statement of Accounts.

- Amendments to IAS 40 Investment Property: Transfers of Investment Property. This is to provide further guideance for instances where a property is reclasified as an investment property.
- Annual Improvements to IFRS Standards 2014-2016 Cycle.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration. This clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods.
- IFRIC 23 Uncertainty over Income Tax Treatments. This is to provide additional guideance on income tax treatment where there is uncertainty.
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation. This has been amended to make clear that amortised costs should be used where prepayments are substantially lower than the unpaid principal and interest.

  There is also an amendment to IFRS 16 Leases, this implementation has been delayed until April 2020.
- IFRS 16 Leases. The amendment requires Local Authorities who are lessees to recognise leases on the balance sheet as right of use assets with a corresponding lease liability.

Note 3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority 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 Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision. The Council holds earmarked General Fund reserves of £5,120k and a General Fund Balance of £1,225k.

The Council has determined that the Worcestershire Regulatory Services Shared Service meets the definition of a Jointly Controlled Operation. The Council has therefore accounted for its share of the Joint Committee's assets and liabilities and income and expenditure as documented in the Legal Agreement.

The Council has determined that a Group Accounting relationship exists with Rubicon Leisure Trust which was formed in December 2018. Rubicon Lesiure Limited is a company limited by guarantee and is 100% controlled by the Council. Where material the Group position is disclosed on the face of the applicable Core Statements. Further information is disclosed in note 23. All other notes relate to the Council rather than the Group.

The Council has made a 100% provision against the potential cost of business rates appeals arising from the 2010 rating list based on indicative information from Analyse Local informed by data from the Valuation Office. In addition, a provision has been made for appeals against the 2017 rating list. There is still insufficient appeal data to inform the provision calculation against the 2017 list so the Council, along with all Worcestershire District Councils, has provided for appeals based on 4.7% of the net rate debit in line with the Government assumption when setting the rate multiplier for 2017/18. This provision has been set aside for 2017/18 and 2018/19. Further information on these appeals is provided in note 22.

The Council has determined that it does not hold any assets solely for income or capital appreciation and therefore does not hold any investment properties.

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 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 Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2019 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
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets are reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for PPE (excluding Council dwellings) would increase by £277k for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate would result in a decrease in the pension liability of £3,228k. Further sensitivity analysis can be seen in the defined benefit pension scheme note.
Bad Debt Provisions	As at 31 March 2019 the Council had sundry debtor arrears of £2,113k. Provisions for bad debts are made according to the age of the debt and past experience and a provision of £140k is in place in respect of these balances.	If recoverability of these balances were to fall the amount set aside as a provision for bad debts would have to increase. For example, if recoverability of all ages of debt fell by 10% an additional £36k would have to be set aside.
Provision for Business Rates Appeals	The Council has made a provision against the potential cost of business rates appeals arising from the 2010 rating list based on indicative information from Analyse Local informed by data from the Valuation Office. In addition, a provision has been made for appeals against the 2017 rating list. There was insufficient appeal data to inform the provision calculation so the Council has provided for appeals based on 4.7% of the net rate debit in line with the Government assumption when setting the rate multiplier for 2017/18.	Should the success rate of appeals increase the provision would need to increase accordingly. A 10% increase in the cost of successful appeals would increase Councils share of the provision required by £263k. The provision only covers appeals lodged to date. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office so there is a risk that national and local appeals may have a future impact on the accounts.

Note 5 Material Items of Income and Expense

The following two material items have had an impact on the 2018/19 Financial Statements:-

Non-current Assets have increased from £318,907k to £337,480k, an increase of £18,573k. This is mainly as a result of the revaluation of the Housing Revenue Account housing stock which increased by £21,809k in the year. This has been partly offset by disposal of housing properties under right to buy with a book value of £3,093k.

There has been an increase in the pension deficit increasing from £67,387k to £76,979k. Note 37 on page 71 provides a detailed analysis of the pension changes but the main reason for the change are actuarial losses from changes in financial assumptions. The pension liability is reported at £73,337k, £3,642k lower than the decicit and this reflects the 2019/20 advanced payment of pension contributions.

Rubicon Leisure Limited was created in 2018/19 and commenced trading on 1st December 2018 through a management agreement with the Council. Rubicon Leisure Limited is a company limited by guarantee and the Guarantor and 100% owner is Redditch Borough Council. The Council CIES income and expenditure has reduced within the Strategic Priority ‘ Provide good things for me to see, do and visit’ as a result of the leisure services that have transferred to Company for the 4 months 1st December 2018 to 31st March 2019. However, the income and expenditure of the Company is incorporated in the Group CIES. Further details on Rubicon Leisure Limited are provided in Note 23.

Note 6 Events after the Reporting Period

On the 27th June 2019, the Supreme Court denied the Government’s request for permission to appeal against the Court of Appeal’s decision in the cases of McCloud and Sargeant, regarding age discrimination and transitional protection arrangements in the New Judges Pension Scheme and the New Firefighters Pension Scheme. The refusal could have significant implications for all public service pension schemes.

The Court of Appeal ruled on 20 December 2018 that the transitional protections in these two cases which allowed older members either to

- Remain members of their existing scheme until retirement, rather than become members of the replacement scheme; or

- Remain members of their existing scheme until the end of a period of tapered protection (dependent on their age) and then become a member of the replacement scheme

Were unlawful on the grounds of age discrimination and could not be objectively justified.

The transitional protections were given to scheme members who, on 1 April 2012 were either within ten years of their normal retirement (full protection) or for those who were three to four years younger tapered protection.

Although the two cases related specifically to the judicial and firefighters pension schemes, similar transitional arrangements were agreed in relation to all other public service pension schemes, so there will also be a potential additional liability arising on the Local Government Pension Scheme. As a result of this significant changes are likely to be required to the public service pension schemes, though due to the uncertainties surrounding the outcome at this time this is difficult to quantify.

Additional actuary calculations were requested to reflect the pension position following the outcome of the McCloud and Sargeant cases. The accounts have been adjusted to reflect these additional costs.

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 7 Expenditure and Funding Analysis
For the current and comparative year

2018/19				2017/18		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Strategic Purpose	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
3,100	1,008	2,092	Enabling of the Authority	7,481	5,249	2,232
428	(321)	749	Help me be financially independent (including Education and Skills)	161	(249)	410
517	(654)	1,171	Help me find somewhere to live in my locality	759	(657)	1,416
29	(301)	330	Help me to live my life independently (including Health and Activity)	247	(336)	583
74	(1,578)	1,652	Help me run a successful business	(163)	(86)	(77)
4,086	(799)	4,885	Keep my place safe and looking good	4,293	(1,101)	5,394
1,278	(866)	2,144	Provide good things for me to see, do and visit	1,398	(723)	2,121
2,305	10,146	(7,841)	Local authority housing - (HRA)	0	19,981	(19,981)
11,817	**6,635**	**5,182**	**Net Cost of Services**	**14,176**	**22,078**	**(7,902)**
(12,453)	(6,340)	(6,113)	Other Income and Expenditure	(14,196)	(8,631)	(5,565)
(636)	**295**	**(931)**	**Surplus or Deficit**	**(20)**	**13,447**	**(13,467)**
(24,716)	**-**	**-**	**Opening General Fund and HRA Balance**	**(24,696)**	**-**	**-**
(636)	**-**	**-**	**Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year**	**(20)**	**-**	**-**
(25,352)	**-**	**-**	**Closing General Fund and HRA Balance at 31 March**	**(24,716)**	**-**	**-**

Note 7a Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2018/19

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Statutory Adjustments	Other Differences	Total
	£000	£000	£000	£000	£000
Enabling of the Authority	(103)	1,762	0	(651)	1,008
Help me be financially independent (including Education and Skills)	0	(321)	0	0	(321)
Help me find somewhere to live in my locality	(575)	(79)	0	0	(654)
Help me to live my life independently (including Health and Activity)	(70)	(231)	0	0	(301)
Help me run a successful business	(1,476)	(102)	0	0	(1,578)
Keep my place safe and looking good	(676)	(123)	0	0	(799)
Provide good things for me to see, do and visit	(566)	(300)	0	0	(866)
Local authority housing - (HRA)	6,146	(811)	0	4,811	10,146
Net Cost of Services	**2,680**	**(205)**	**0**	**4,160**	**6,635**
Other Income and Expenditure from the Expenditure and Funding Analysis	2,501	(1,554)	(3,044)	(4,243)	(6,340)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**5,181**	**(1,759)**	**(3,044)**	**(83)**	**295**

Adjustments between Funding and Accounting Basis 2017/18

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Statutory Adjustments	Other Differences	Total
	£000	£000	£000	£000	£000
Enabling of the Authority	(247)	1,902	4	3,590	5,249
Help me be financially independent (including Education and Skills)	0	(251)	2	0	(249)
Help me find somewhere to live in my locality	(810)	(125)	1	277	(657)
Help me to live my life independently (including Health and Activity)	(77)	(261)	2	0	(336)
Help me run a successful business	(79)	(7)	0	0	(86)
Keep my place safe and looking good	(1,034)	(116)	1	48	(1,101)
Provide good things for me to see, do and visit	(372)	(354)	3	0	(723)
Local authority housing - (HRA)	15,347	(518)	4	5,148	19,981
Net Cost of Services	**12,728**	**270**	**17**	**9,063**	**22,078**
Other Income and Expenditure from the Expenditure and Funding Analysis	1,721	(1,590)	373	(9,135)	**(8,631)**
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**14,449**	**(1,320)**	**390**	**-72**	**13,447**

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 7b Segmental Income and Expenditure

Income and expenditure on a segmental basis are analysed below:

2018/19	Revenue from External Customers	Depreciation and Amortisation	Material Non-cash Items other than Depreciation and Amortisation
	£000	£000	£000
Enabling of the Authority	(2,282)	260	0
Help me be financially independent (including Education and Skills)	(1,650)	0	0
Help me find somewhere to live in my locality	(526)	0	0
Help me to live my life independently (including Health and Activity)	(1,737)	70	0
Help me run a successful business	(1,205)	145	0
Keep my place safe and looking good	(2,665)	709	0
Provide good things for me to see, do and visit	(2,253)	566	0
Local authority housing - (HRA)	(24,391)	6,271	(4,546)
Total Income Analysed on a Segmental Basis	**(36,709)**	**8,021**	**(4,546)**

2017/18	Revenue from External Customers	Depreciation and Amortisation	Material Non-cash Items other than Depreciation and Amortisation
	£000	£000	£000
Enabling of the Authority	(2,016)	279	0
Help me be financially independent (including Education and Skills)	(1,027)	0	0
Help me find somewhere to live in my locality	(603)	0	0
Help me to live my life independently (including Health and Activity)	(1,783)	77	0
Help me run a successful business	(1,171)	133	0
Keep my place safe and looking good	(2,492)	701	0
Provide good things for me to see, do and visit	(3,133)	411	0
Local authority housing - (HRA)	(24,499)	5,712	(14,749)
Total Income Analysed on a Segmental Basis	**(36,724)**	**7,313**	**(14,749)**

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 8 Expenditure and Income Analysed by Nature

The authority's expenditure and income are analysed as follows:

Expenditure:	2018/19 £000	2017/18 £000
Employee Benefits Expenses	16,671	17,533
Other Services Expenditure	39,687	41,251
Depreciation and Amortisation	8,021	7,313
Revaluation of HRA dwellings reversing previous losses	(4,546)	(14,749)
Interest Payments	5,111	5,122
Precepts and Levies	8	8
Payments to Housing Capital Receipts Pool	776	776
Gain on the Disposal of Assets	(771)	(684)

Income:	2018/19 £000	2017/18 £000
Fees, Charges and other service Income	(36,709)	(36,724)
Interest and Investment Income	(28)	(3)
Income for Council tax, non-domestic rates, district rate income	(7,819)	(7,722)
Government grants and Contributions	(22,304)	(25,588)
Other Income	0	0
(Surplus) or Deficit on the Provision of Services	**(1,903)**	**(13,467)**

Revenue from contracts with Service Receipients

Revenue from contracts with service recipients amounts to £30,053k of the £55,623k income in the Comprehensive Income and Expenditure Statement (CIES). The income is significant and in the areas received fund a large part of the costs of providing the services. Compared with 2017/18 there has been a £672k reduction, mainly due to reduced housing rents (1% rent reduction and impact of right to buys) and reduced leisure income following the creation of Rubicon Leisure Limited who have operated key Leisure facilities since 1st December 2018. A summary of the income from service recipents is provided below:-

Service Area	2018/19 £000	2017/18 £000
Charges to Council Tenants	23,837	24,187
Leisure	1,692	2,754
Lifeline	491	288
Rents	1,309	1,124
Bereavement	1,402	1,325
Planning and Building Control	319	269
Licencing	256	235
Land Charges	70	62
Garden and Bulky Waste	145	75
Other	532	406
Total income from contracts with service receipients	**30,053**	**30,725**

The Council Policy on fees and charges is that:

- All services should be charged where it is appropriate to do so, unless there are conflicting policies or legal reasons not to do so.
- The charge should (subject to market conditions) aim to maximise income from fees and charges by ensuring that the full cost of provision and enforcement is recovered, unless there are contrary policies, legal or contractual reasons.
- Decisions to subsidise services, or to not make a charge for a service should be clearly linked to Council objectives, and the potential income that is not earned must be a consideration in the decision.
- Where the Council continues to subsidise the cost of services provided to customers, the level of subsidy should be clearly understood by the Service unit.
- Charges must be linked to both service and strategic objectives and must be clearly understood.
- The direct implications of charging for residents, and the indirect implications for public, private and voluntary sector partners should be clearly understood.
- Any concessionary scheme should be based on ability to pay and be applied in a consistent and transparent approach across all Council services.
- Where appropriate annual inflationary uplifts will be applied through the budget setting process, this will be agreed by the Council as part of the budget setting process.

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 9 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact upon the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. For housing authorities - however, the balance is not available to be applied to funding HRA services.

Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

	Usable Reserves					
2018/19	**General Fund Balance** £000	**Housing Revenue Account** £000	**Capital Receipts Reserve** £000	**Major Repair Reserves** £000	**Capital Grants Unapplied** £000	**Movement in Unusable Reserves** £000
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.						
Pension cost (transferred to (or from) the Pensions Reserve)	134	1,625				(1,759)
Council tax and NDR (transfers to or from the Collection Fund)	3,044					(3,044)
Holiday pay (transferred to the Accumulated Absences reserve)	0	0				0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	2,957	4,818				(7,775)
Total Adjustments to Revenue Resources	**6,135**	**6,443**	**0**	**0**	**0**	**(12,578)**
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	0	(3,980)	3,980			
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0	83	(83)			
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	776		(776)			
Posting of HRA resource from revenue to the Major Repairs Reserve		(6,271)		6,271		
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(809)	0				809
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	0	(1,599)				1,599
Total Adjustments to Revenue Resources	**(33)**	**(11,767)**	**3,121**	**6,271**	**0**	**2,408**
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure			(1,293)			1,293
Use of the Major Repairs Reserve to finance new capital expenditure				(1,876)		1,876
Application of capital grants to finance capital expenditure	(1,074)	0			1,014	60
Total Adjustments to Capital Resources	**(1,074)**	**0**	**(1,293)**	**(1,876)**	**1,014**	**3,229**
Total Adjustments	**5,028**	**(5,324)**	**1,828**	**4,395**	**1,014**	**(6,941)**

2017/18	Usable Reserves General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repair Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.						
Pension cost (transferred to (or from) the Pensions Reserve)	81	1,241				(1,322)
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	0	0				0
Council tax and NDR (transfers to or from the Collection Fund)	(374)					374
Holiday pay (transferred to the Accumulated Absences reserve)	(12)	(5)				17
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	1,935	(6,559)				4,624
Total Adjustments to Revenue Resources	**1,630**	**(5,323)**	**0**	**0**	**0**	**3,693**
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(20)	(3,247)	3,267			
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0	72	(72)			
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	776		(776)			
Posting of HRA resource from revenue to the Major Repairs Reserve		(5,712)		5,712		
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(776)	0				776
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	0	(597)				597
Total Adjustments to Revenue Resources	**(20)**	**(9,484)**	**2,419**	**5,712**	**0**	**1,373**
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure			(1,555)			1,555
Use of the Major Repairs Reserve to finance capital expenditure				(4,333)		4,333
Application of capital grants to finance capital expenditure	(250)	0			(127)	377
Total Adjustments to Capital Resources	**(250)**	**0**	**(1,555)**	**(4,333)**	**(127)**	**6,265**
Total Adjustments	**1,360**	**(14,807)**	**864**	**1,379**	**(127)**	**11,331**

Note 10 Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2018/19.

	Balance as at 1 April 2017 £000	Transfers In 2017/18 £000	Transfers Out 2017/18 £000	Balance as at 31 March 2018 £000	Transfers In 2018/19 £000	Transfers Out 2018/19 £000	Balance as at 31 March 2019 £000
General Fund:							
Business Rate grants	7	0	0	**7**			**7**
Business Rates Retention Scheme	0	0	0	**0**	3,246	0	**3,246**
Support for Commercialism	50	0	(3)	**47**	0	(19)	**28**
Community Development	18	1	(15)	**4**	0	0	**4**
Community Safety	357	270	(357)	**270**	225	(270)	**225**
Corporate Services	150	0	0	**150**	0	0	**150**
Customer Services	12	0	0	**12**	0	0	**12**
DWP FERIS	28	0	(28)	**0**	0	0	**0**
Electoral Services	128	33	(113)	**48**	14	(22)	**40**
Environmental Services	39	0	(39)	**0**	0	0	**0**
Equalities	11	0	0	**11**	0	0	**11**
Equipment replacement	100	0	(17)	**83**	0	(10)	**73**
Financial Services	0	0	0	**0**	55	0	**55**
General Risk reserve	0	0	0	**0**	17	0	**17**
Housing Benefit Implementation	27	175	(121)	**81**	127	(8)	**200**
Housing Support	503	230	(166)	**567**	171	(14)	**724**
Land Charges	9	0	0	**9**	0	0	**9**
Land Drainage	220	0	(59)	**161**	0	(20)	**141**
Leisure	0	21	0	**21**	0	(21)	**0**
Lifeline	4	0	(4)	**0**	0	0	**0**
Mercury Emissions	34	0	0	**34**	0	(34)	**0**
Parks & Open spaces	0	10	0	**10**	13	0	**23**
Planning Services	0	0	0	**0**	30	0	**30**
Public Donations - Shop mobility	20	0	(7)	**13**	0	(7)	**6**
Sports Development	41	20	(41)	**20**	63	(20)	**63**
Town Centre	44	15	(3)	**56**	0	(11)	**45**
Warmer Homes	12	0	0	**12**	0	0	**12**
PPL Retained Earnings	2	0	(2)	**0**	0	0	**0**
Total General Fund	**1,816**	**775**	**(975)**	**1,616**	**3,961**	**(456)**	**5,121**
HRA							
Housing Capital	19,469	366	0	**19,835**	0	(1,600)	**18,235**
Supporting People	41	0	(41)	**0**	0	0	**0**
Total HRA	**19,510**	**366**	**(41)**	**19,835**	**0**	**(1,600)**	**18,235**
Total Earmarked Reserves	**21,326**	**1,141**	**(1,016)**	**21,451**	**3,961**	**(2,056)**	**23,356**

Redditch Borough Council

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Note 11 Other Operating Expenditure

	2018/19 £000	2017/18 £000
Parish council precepts	8	8
Levies	0	0
Payments to the Government Housing Capital Receipts Pool	776	776
Gains/losses on the disposal of non current assets	(771)	(684)
Other	0	0
Total	**13**	**100**

Note 12 Financing and Investment Income and Expenditure

	2018/19 £000	2017/18 £000
Interest payable and similar charges	3,557	3,567
Net interest on the net defined benefit liability (asset)	1,554	1,555
Interest receivable and similar income	(28)	(3)
Income and expenditure in relation to investment properties and changes in their fair value	0	0
Other investment income	0	0
Total	**5,083**	**5,119**

Note 13 Taxation and Non-Specific Grant Income and Expenditure

	2018/19 £000	2017/18 £000
Income		
Council Tax Income	(6,095)	(5,814)
Non Domestic Rates Income and Expenditure	(1,724)	(1,908)
Non-ring-fenced government grants	(1,741)	(2,045)
Income from a Business Rates Supplement	0	0
Capital Grants and Contributions	(1,649)	(1,017)
Total	**(11,209)**	**(10,784)**

Redditch Borough Council

Notes to the Financial Statements
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Note 14 Property, Plant and Equipment

Current Year

	Property, Plant & Equipment (PP&E)								
	Council Dwellings £000	Land £000	Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	**Total PP&E £000**
Cost or Valuation									
Balance as at 1 April 2018	**262,158**	**6,704**	**39,715**	**12,978**	**3,999**	**1,378**	**399**	**1,750**	**329,081**
Additions (Note 35)	4,761	0	119	1,179	209	0	342	0	**6,610**
Revaluation increases/decreases to Revaluation Reserve	11,227	2,545	(749)	0	0	0	0	0	**13,023**
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	4,546	25	(1,462)	0	0	0	0	0	**3,109**
Derecognition - Disposals	(3,093)	0	0	(667)	0	0	0	0	**(3,760)**
Reclassifications & Transfers	0	0	0	26	580	0	(606)	0	**0**
Balance as at 31 March 2019	**279,599**	**9,274**	**37,623**	**13,516**	**4,788**	**1,378**	**135**	**1,750**	**348,063**
Depreciation and Impairment									
Balance as at 1st April 2018	**0**	**0**	**(877)**	**(8,543)**	**(754)**	**0**	**0**	**0**	**(10,174)**
Depreciation Charge	(5,995)	0	(1,037)	(790)	(122)	0	0	0	**(7,944)**
Depreciation written out on Revaluation Reserve	5,995	0	643	0	0	0	0	0	**6,638**
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	0	0	263	0	0	0	0	0	**263**
Derecognition - Disposals	0	0	0	634	0	0	0	0	**634**
Balance as at 31 March 2019	**0**	**0**	**(1,008)**	**(8,699)**	**(876)**	**0**	**0**	**0**	**(10,583)**
Net Book Value									
Balance as at 31 March 2019	**279,599**	**9,274**	**36,615**	**4,817**	**3,912**	**1,378**	**135**	**1,750**	**337,480**
Balance as at 31 March 2018	**262,158**	**6,704**	**38,838**	**4,435**	**3,245**	**1,378**	**399**	**1,750**	**318,907**

Redditch Borough Council

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

Note 14 a   Comparative Year

	Property, Plant & Equipment (PP&E)								
	Council Dwellings £000	Land £000	Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	**Total PP&E £000**
Cost or Valuation									
Balance as at 1 April 2017	**249,563**	**6,099**	**32,459**	**12,496**	**3,805**	**1,378**	**366**	**1,748**	**307,914**
Adjustments re prior year	(12)	46	(46)	0	0	0	0	0	**(12)**
Balance as at 1 April 2017	**249,551**	**6,145**	**32,413**	**12,496**	**3,805**	**1,378**	**366**	**1,748**	**307,902**
Additions (Note 35)	5,790	0	806	500	194	0	289		**7,579**
Donations	0	0	0	0	0	0	0	0	**0**
Revaluation increases/decreases to Revaluation	0	587	6,395	0	0	0	0	2	**6,984**
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	9,109	4	79	0	0	0	0	0	**9,192**
Derecognition - Disposals	(2,479)	(32)		(65)	0	0	0	0	**(2,576)**
Reclassifications & Transfers	187		22	47	0	0	(256)	0	**0**
Balance as at 31 March 2018	**262,158**	**6,704**	**39,715**	**12,978**	**3,999**	**1,378**	**399**	**1,750**	**329,081**
Depreciation and Impairment									
Balance as at 1 April 2017	**0**	**0**	**(660)**	**(7,769)**	**(632)**	**0**	**0**	**0**	**(9,061)**
Adjustments relating to 2016-17	0	0	4	(73)	(4)	0	0	0	**(73)**
Adjusted opening balance	**0**	**0**	**(656)**	**(7,842)**	**(636)**	**0**	**0**	**0**	**(9,134)**
Depreciation Charge	(5,464)		(834)	(766)	(118)	0	0	0	**(7,182)**
Depreciation written out on Revaluation Reserve	0	0	409	0	0	0	0	0	**409**
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	5,464	0	187	0	0	0	0	0	**5,651**
Derecognition - Disposals	0	0	0	65	0	0	0	0	**65**
Reclassifications & Transfers	0	0	17	0	0	0	0	0	**17**
Balance as at 31 March 2018	**0**	**0**	**(877)**	**(8,543)**	**(754)**	**0**	**0**	**0**	**(10,174)**
Net Book Value									
Balance as at 31 March 2018	**262,158**	**6,704**	**38,838**	**4,435**	**3,245**	**1,378**	**399**	**1,750**	**318,907**
Balance as at 31 March 2017	**249,563**	**6,099**	**31,799**	**4,727**	**3,173**	**1,378**	**366**	**1,748**	**298,853**

Redditch Borough Council

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Depreciation

All assets other than land have been depreciated using a straight line method. For the housing revenue account the depreciation is an amount equivalent to the major repairs allowance that has been used which represents the estimated annual cost of maintaining the condition of the housing stock over a 30 year period and this is considered a reasonable estimate of depreciation.

The useful economic life of the assets has been determined by the Council's valuers and surveyors.

Buildings have a useful life of between 15 to 100 years.

Vehicles, plant and equipment and software licences have a useful life between 5 to 10 years.

Valuation of Property, Plant and Equipment

The basis for valuation of individual classes of asset owned by the Council is explained in the Accounting Policies. The net book value as at 31 March represents the value of the assets belonging to the Council. The Council carries out a rolling programme that ensures that all Property, Plant and Equipment is measured at fair value at least every 5 years. All valuations are carried out by the Council's valuation provider, Place Partnership Limited. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

Valuations of non-current assets carried at current value:

Description	Dwellings £000	Land £000	Building £000	Surplus Assets £000	Other Asset Classes £000	Total £000
Valued at Historical Cost	0	0	0	0	10,242	10,242
Valued at current value in:						
2018/19	279,599	5,343	12,719	1,750	0	299,411
2017/18	0	2,212	18,967	0	0	21,179
2016/17	0	1,223	4,155	0	0	5,378
2015/16	0	496	774	0	0	1,270
2014/15	0	0	0	0	0	0
Total	**279,599**	**9,274**	**36,615**	**1,750**	**10,242**	**337,480**

Other asset classes include Vehicles, Plant and Equipment (£4,817k), Infrastructure (£3,912k), Community Assets (£1,378k) and Assets under construction (£135k).

Fair Value Hierarchy for Surplus Assets

Details of the authority's surplus assets and information about the fair value hierarchy as at 31 March 2019 and 2018 are as follows:

2018/19 Recurring fair value measurements using:	Quoted Prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31st March 2018 £000
Land at Upper Norgrove	0	1,500	0	**1,500**
Land at Middlehouse Lane	0	250	0	**250**
Total	**0**	**1,750**	**0**	**1,750**

2017/18 Recurring fair value measurements using:	Quoted Prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31st March 31st March 2017 £000
Land at Upper Norgrove	0	1,500	0	**1,500**
Land at Middlehouse Lane	0	250	0	**250**
Total	**0**	**1,750**	**0**	**1,750**

Transfers between levels of the fair value hierarchy
There were no transfers between Levels 1 and 2 during the year.

Valuation Techniques used to Determine Level 2 and 3 Fair Values for Surplus Assets

Significant observable inputs – Level 2

The fair value for the asset have been based on the market value approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Highest and best use of surplus assets

In estimating the fair value of the authority's surplus assets, the highest and best use of the assets is their current use.

Valuation Techniques
There has been no change in the valuation techniques used during the year for surplus assets.

Valuation Process for Surplus Assets

The fair value of the authority's Surplus Assets is measured at £1,750k. All valuations are carried out by Place Partnership Limited, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Place Partnership Limited work closely with finance officers reporting directly to the Executive Director of Finance and Corporate Resources on a regular basis regarding all valuation matters.

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 15 Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and internally generally software.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £74k (£56k 2017/18) charged to revenue in the current year was charged to revenue cost centres who use the software which was mainly revenue and benefits, cashiers and the IT service.

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 Authority. The useful lives assigned to the major software suites used by the Authority are:

	Other Assets
3 years	Software
5 years	Shared Software with Bromsgrove DC
10 years	Large Projects with longer term benefits

The Movement in Intangible Assets for the Year is as Follows

	2018/19		2017/18	
	Other Assets £000	Total £000	Other Assets £000	Total £000
Balance at start of year:				
· Gross carrying amounts	1,776	1,776	1,660	1,660
· Accumulated amortisation	(1,529)	(1,529)	(1,473)	(1,473)
Net carrying amount at start of year	**247**	**247**	**187**	**187**
Additions:				
· Purchases	0	0	116	116
Derecognition	0	0	0	0
	247	**247**	**303**	**303**
Amortisation for the period	(74)	(74)	(56)	(56)
Derecognition	0	0	0	0
Net carrying amount at end of year	**173**	**173**	**247**	**247**
Comprising:				
· Gross carrying amounts	1,776	1,776	1,776	1,776
· Accumulated	(1,603)	(1,603)	(1,529)	(1,529)
Net carrying amount at end of year	**173**	**173**	**247**	**247**

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 16 Financial Instruments

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

	Long-term		Current	
	31/03/2019 £000	31/03/2018 £000	31/03/2019 £000	31/03/2018 £000
Cash and Cash Equivalents	0	0	1,138	824
Cash and Cash Equivalents	**0**	**0**	**1,138**	**824**
Debtors				
Loans and receivables	964	960	4,500	0
Financial assets carried at contract amounts	0	0	5,725	4,737
Total Debtors	**964**	**960**	**10,225**	**4,737**
Borrowings				
Financial liabilities at amortised cost	(104,063)	(104,063)	(6,000)	(7,000)
Total borrowings	**(104,063)**	**(104,063)**	**(6,000)**	**(7,000)**
Total other long term liabilities	**(104,063)**	**(104,063)**	**(6,000)**	**(7,000)**
Creditors				
Financial liabilities carried at contract amount	0	0	(5,243)	(4,807)
Total creditors	**0**	**0**	**(5,243)**	**(4,807)**

Soft Loans

	2018/19	2017/18
Opening Soft Loans	**908**	**888**
Nominal Value of New Loans Granted During the Period	30	62
The fair value adjustment on initial recognition	(6)	(14)
The fair value adjustment on prior year advances	16	24
Grants Repaid	(32)	(52)
Nominal value of loans at the end of the period	**916**	**908**

The new advances are lifetime loans granted to owner occupiers which will be repaid on the sale of the property. The reclassification relate to lifetime loans granted to owner occupiers and loans to owners of homes of multiple occupation in previous years which will be repaid on the sale of the property. In all cases no interest is charged on the loans and a fair value adjustment has been made assuming the loan is repaid after 10 years.

Note 16a Financial Instruments fair value disclosures

Fair Values of Financial Assets and Financial Liabilities that are not Measured at Fair Value (but for which Fair Value Disclosures are Required).

Except for the financial assets carried at fair value (described in the table above) all other financial liabilities and financial assets held by the authority are classified as loans and receivables and long-term debtors and creditors and are carried in the Balance Sheet at amortised cost. The fair values calculated are as follows.

Financial Liabilities	Balance as at 31 March 2019 Carrying amount £000	Fair Value £000	31st March 2018 Carrying amount £000	Fair Value £000
Financial liabilities held at amortised cost:				
PWLB Loans	98,966	115,984	98,966	116,148
Long Term Loans	5,097	6,710	5,097	6,900
Total	**104,063**	**122,694**	**104,063**	**123,048**

The fair value of borrowings is higher than the carrying amount because the authority'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 2019) arising from a commitment to pay interest to lenders above current market rates.

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

Fair Values of Financial Assets and Financial Liabilities that are not Measured at Fair Value (but for which Fair Value Disclosures are Required).

	31st March 2019				31st March 2018			
	Quoted prices in active markets for identical assets / liabilities (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Total	Quoted prices in active markets for identical assets / liabilities (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Total
Recurring Fair Value Measurements using:	£000	£000	£000	£000	£000	£000	£000	£000
Financial Liabilities								
Financial liabilities held at amortised cost:								
PWLB	0	115,984	0	**115,984**	0	116,148	0	**116,148**
Long Term Loan	0	6,710	0	**6,710**	0	6,900	0	**6,900**
Total	**0**	**122,694**	**0**	**122,694**	**0**	**123,048**	**0**	**123,048**

The fair value of Public Works Loan Board (PWLB) loans of £115,984k measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the (additional/reduced) interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against that would be paid if the loans were at prevailing market rate.

Financial Liabilities
- No early repayment is recognised
- The interest rates payable at 31 March 2019 range between 3.01% to 4.71% and the fair value calculation uses current lending rates for equivalent loans at that date which range from 1.53% to 2.35%.

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Agenda Item 10

Redditch Borough Council

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

Note 17 Inventories

	Consumable Stores	
	2018/19	2017/18
	£000	£000
Balance outstanding at start of year	316	322
Purchases	890	818
Recognised as an expense in year	(874)	(836)
Written off balances	(6)	12
Balance outstanding at year end	**326**	**316**

Note 18 Debtors

	Long term debtors		Short term debtors	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Central Government Bodies		0	918	311
Other Local Authorities		0	1,405	1,457
Other entities and individuals	964	960	8,217	7,171
Housing Rents		0	1,079	1,080
Less bad debt provision		0	(2,863)	(3,264)
Total	**964**	**960**	**8,756**	**6,755**

Included within the debtors balance are provisions for bad and doubtful debts which reduce the value of the related debtor as per the breakdown below:

	2018/19 £000	2017/18 £000
General Fund Debtors	(159)	(128)
Council Tax	(683)	(619)
NNDR	(390)	(956)
Housing Benefit	(1,171)	(1,107)
Housing Rents	(460)	(454)
Total	**(2,863)**	**(3,264)**

Note 19 Cash and Cash Equivalents

Cash and cash equivalents at the end of the reporting period can be reconciled to the related items in the Balance Sheet as follows:

	2018/19 £000	2017/18 £000	2016/17 £000
Cash and Bank balances	1,138	824	901
Bank Overdraft	0	0	0
Total	**1,138**	**824**	**901**

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 20 Assets Held for Sale

	Current	
	2018/19	**2017/18**
	£000	£000
Balance outstanding at start of year	**0**	**0**
Assets sold	0	0
Balance outstanding at year-end	**0**	**0**

There were no assets held for sale as at 31st March 2019. To be an asset held for sale it requires the Council to be committed to plan to sell the asset which is available for immediate sale, being actively marketed and a sale is highly probably with 12 months. The Council holds two surplus assets which do not meet the requirements of assets held for sale, details of which can be found in note 14 on page 48.

Note 21 Creditors

	2018/19	**2017/18**
	£000	£000
Central government bodies	(1,056)	(2,539)
Other local authorities	(1,774)	(2,668)
Housing Rents prepaid	(497)	(429)
Other entities and individuals	(4,058)	(2,399)
Total	**(7,385)**	**(8,035)**

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 22 Provisions

	Balance as at 1 April 2018 £000	Change in provision during year £000	Utilised during year £000	Balance as at 31 March 2019 £000
Insurance	(445)	(83)	0	(528)
NNDR Appeals	(2,070)	(560)	0	(2,630)
Employee Benefit	(128)	0	0	(128)
Total	**(2,643)**	**(643)**	**0**	**(3,286)**

Comparative Year

	Balance as at 1 April 2017 £000	Change in provision during year £000	Utilised during year £000	Balance as at 31 March 2018 £000
Insurance Claims	(548)	0	103	(445)
NNDR Appeals	(1,137)	(933)	0	(2,070)
Employee Benefit	(145)	0	17	(128)
Total	**(1,830)**	**(933)**	**120**	**(2,643)**

Current Provisions	(1,830)	(933)	120	(2,643)
Long Term Provisions	0	0	0	0
Total	**(1,830)**	**(933)**	**120**	**(2,643)**

Business Rates Appeals Provision

The Council has set aside a provision for any potential liabilities as a result of business rates appeals against rateable value. The Council is responsible for a 40% share of any successful appeals. A provision has been made for all outstanding appeals relating to the rate revaluation undertaken in 2010 and this accounts for almost £1,277k of the provision.

A new rate revaluation was implemented from 1st April 2017 but it is still too early to calculate a provision on actual appeals received to date. Therefore a judgement has been made to create a provision based on the calculation applied when setting the 2018/19 rate poundage (known as the multiplier) where nationally 4.7% of the net rate yield was set aside for appeals. The 4.7% was informed by appeals from the 2010 rate revaluation. In total £1,353k has been provided covering the financial years 2017/18 and 2018/19.

Insurance Provision

The Council also holds a provision for potential insurance claims, this is currently £528k. The Council self insures up to the value of £28k per claim and this provision is calculated with regard to the level of outstanding claims.

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 23 Group Accounts

1.1 Nature of the relationship between Redditch Borough Council and Rubicon Leisure Limited

Rubicon Leisure Limited was created in 2018/19 and commenced trading on 1st December 2018 through a management agreement with the Council. Rubicon Leisure Limited is a company limited by guarantee and the Guarantor and 100% owner is Redditch Borough Council.

The Council continue to own the buildings and Rubicon operate services at the following sites:-

Abbey Stadium
Palace Theatre
Pitcheroak Golf Course
Forge Mill Museum
Batchley, Oakenshaw, Windmill and Winyates Green Meeting Rooms

During the first 4 months of trading the Company made a surplus of £30k which is reflected through the Group CIES, MIRS and Balance Sheet. The Group Balance Sheet also nets off transactions between the Council and Rubicon which impact on inventories, cash, debtors, creditors and reserves. The first set of financial accounts will be prepared for the 16 months to 31st March 2020. The Group Account information has been prepared on the Company Management Accounts and General Ledger information which is produced by the Council under a service level agreement with the Company.

There is no goodwill as the group did not arise through a purchase.

1.2 Reconciliation of Group Movement in Reserves Statement to the Group Balance Sheet

	31st March 2019 £000	31st March 2018 £000
Total Authority Reserves	159,182	146,015
Rubicon Leisure Limited Retained Earnings at 31st March	30	0
Total Reserves in the Group Balance Sheet	**159,212**	**146,015**

1.3 Group Usable Reserves

	31st March 2019 £000	31st March 2018 £000
Rubicon Leisure Limited Retained Earnings	30	0
Capital Receipt Reserve	6,879	5,051
Capital Grants Unapplied	2,155	1,141
Major Repairs Reserve	5,866	1,471
HRA Balances	770	1,475
HRA Earmarked Reserves	18,236	19,835
General Fund Balances	1,225	1,790
General Fund Earmarked Reserves	5,120	1,616
Total	**40,281**	**32,379**

1.4 Group Comprehensive Income & Expenditure Statement

The Group CIES removes the management fee paid by the Council to Rubicon in 2018/19 (£222k) within the strategic purpose 'Provide good things for me to see, do and visit' and incorporates the Company expenditure (£1,304k) and income (£1,112k excluding the Council management fee). The net impact is a surplus of £30k.

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 24 Usable Reserves

	31/03/2019	31/03/2018
	£000	£000
Capital Receipt Reserve	6,879	5,051
Capital Grants Unapplied	2,155	1,141
Major Repairs Reserve	5,866	1,471
HRA Balances	770	1,475
HRA Earmarked Reserves	18,236	19,835
General Fund Balances	1,225	1,790
General Fund Earmarked Reserves	5,120	1,616
Total Usable Reserves	**40,251**	**32,379**

Capital Receipts Reserve

These are receipts from the sale of Council assets, which have not yet been used to finance capital expenditure.

	31/03/2019	31/03/2018
	£000	£000
Balance 1 April	**5,051**	**4,187**
Capital Receipts in year	3,897	3,195
Sub-Total	**8,948**	**7,382**
Less:		
Capital Receipts Pooled	(776)	(776)
Capital Receipts used for financing	(1,293)	(1,555)
Balance 31 March	**6,879**	**5,051**

The main capital receipts were from the sale of Council houses (£3,897k).

The £6,879k balance as at 31st March is represented by:-

- £3,962k earmarked for future acquisitions of housing stock. Under the capital regulations, capital receipts can be used to fund 30% of the acquisitions with the remaining 70% being funded from the HRA earmarked reserve.

- £2,109k for HRA future investment programme on existing assets or environmental improvements.

- £808K General Fund capital receipts. Since 1st April 2016 local authorities have had more flexibility in the use of capital receipts. There is greater scope to use the capital receipts to fund upfront costs that will generate ongoing savings and/or transform service delivery. All of the £808k is available to be used either for financing capital investment or funding projects qualifying for the flexible use.

Capital Grants Unapplied

	31/03/2019	31/03/2018
	£000	£000
Balance on 1 April	**1,141**	**1,268**
Unapplied Capital Grants received in year	1,074	250
Capital Grants applied in year to finance capital projects	(60)	(377)
Balance on 31 March	**2,155**	**1,141**

Major Repairs Reserve

The major repairs reserve receives the depreciation relating to housing revenue account assets which totalled £5,712k in the year. The reserve was used to finance £4,333k of the Housing Investment Programme increasing the balance held in the reserve from £92k to £1,471k.

	31/03/2019 £000	31/03/2018 £000
Balance at 1 April	1,471	92
Depreciation	6,271	5,712
Capital expenditure on HRA Land, Houses and Other Property	(1,876)	(4,333)
Balance at 31 March	**5,866**	**1,471**

Note 25 Unusable Reserves

	31/03/2019	31/03/2018
	£000	£000
Revaluation Reserve	37,629	18,396
Capital Adjustment Account	160,590	162,300
Pensions Reserve	(76,570)	(67,386)
Collection Fund Adjustment Account	(2,590)	454
Accumulated Absences Account	(127)	(127)
Total Unusable Reserves	**118,932**	**113,637**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority 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 on the Capital Adjustment Account.

	31/03/2019	31/03/2018
	£000	£000
Balance at 1 April	18,396	11,388
Upward revaluation of assets	19,661	7,393
Surplus or deficit on revaluation of non-current assets	**19,661**	**7,393**
Difference between fair value depreciation and historical cost depreciation	(428)	(385)
Amount written off to the Capital Adjustment Account	**(428)**	**(385)**
Balance at 31 March	**37,629**	**18,396**

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 Authority as finance for the costs of acquisition, construction and enhancement. 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 9 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	31/03/2019		31/03/2018	
	£000	£000	£000	£000
Balance at 1 April		**162,300**		**149,653**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	(7,947)		(7,257)	
Revaluation losses on Property, Plant and Equipment	3,372		14,843	
Amortisation of Intangible Assets	(74)		(56)	
Revenue expenditure funded from capital under statute	(575)		(1,162)	
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	(3,126)		(2,511)	
		(8,350)		**3,857**
Adjusting amounts written out of the Revaluation Reserve				
Recognition of Long-Term Debtors which in previous years were treated as revenue expenditure charged to capital under statute		428		385
Net written out amount of the cost of non current assets consumed in the year		**(7,922)**		**4,242**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	1,293		1,555	
Use of the Major Repairs Reserve to finance new capital expenditure	1,876		4,333	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	575		767	
Application of grants to capital financing from the Capital Grants Unapplied Account	60		377	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	809		776	
Capital expenditure charged against the General Fund and HRA balances	1,599		597	
		6,212		**8,405**
Deferred Capital Receipts realised		0		0
Balance at 31 March		**160,590**		**162,300**

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 Authority 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 Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority 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.

	31/03/2019 £000	31/03/2018 £000
Balance at 1 April	**(67,386)**	**(73,881)**
Remeasurements of the net defined benefit liability/(asset)	(7,425)	7,817
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	(5,453)	(5,652)
Employers pensions contributions and direct payments to pensioners payable in the year	3,694	4,330
Balance at 31 March	**(76,570)**	**(67,386)**

Collection Fund Adjustment Account

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

	31/03/2019 £000	21/03/2018 £000
Balance at 1 April	**454**	**80**
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(3,044)	374
Balance at 31 March	**(2,590)**	**454**

Accumulated Absences Account

The Accumulated Absences Adjustment 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.

	31/03/2019 £000	21/03/2018 £000
Balance at 1 April	**(127)**	**(144)**
Settlement or cancellation of accrual made at the end of the preceding year	127	144
Amounts accrued at the end of the current year	(127)	(127)
Balance at 31 March	**(127)**	**(127)**

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 26 Cash Flow Statement - operating activities

The cash flows from operating activities include the following items.
In 2018/19 Rubicon Leisure Limited has been incorporated into the Group Cashflow.

	Authority 2018/19 £000	Group 2018/19 £000	Authority 2017/18 £000
Interest Paid	(3,691)	(3,691)	(3,567)
Interest Received	29	29	3

	2018/19 £000	2018/19 £000	2017/18 £000
Adjustment to surplus or deficit on the provision of services for noncash movements			
Depreciation	7,947	7,947	7,255
Impairment & downward valuations	(3,372)	(3,372)	(14,841)
Amortisation	74	74	56
(Increase)/Decrease in Debtors	(172)	959	227
Increase/(Decrease) in Creditors	1,264	331	(798)
(Increase)/Decrease in Inventories	(12)	(29)	6
Movement in pension liability	5,463	5,463	(6,024)
Carrying amount of non-current assets, and non-current assets held for sale, sold or de-recognised	3,126	3,126	2,511
Other items charged to the net surplus or deficit on provision of services	639	639	809
Total	**14,957**	**15,138**	**(10,799)**

Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities			
Proceeds from the sale of PP&E, investment property and intangible assets	(4,013)	(4,013)	(3,195)
Any other items	(1,649)	(1,649)	(1,018)
Total	**(5,662)**	**(5,662)**	**(4,213)**

Note 27 Cash Flow From Investing Activities

	2018/19 £000	2018/19 £000	2017/18 £000
Purchase of PP&E, investment property and intangible assets	(6,479)	(6,479)	(8,327)
Purchase of Short Term Investments (not considered to be cash equivalents)	(233,100)	(233,100)	(23,500)
Other Payments for Investing Activities	(273)	(273)	(39)
Proceeds from the sale of PP&E, investment property and intangible assets	4,033	4,033	3,220
Proceeds from Short Term Investments (not considered to be cash equivalents)	228,600	228,600	23,500
Other Receipts from Investing Activities	1,992	1,992	1,095
Net Cash flows from Investing Activities	**(5,227)**	**(5,227)**	**(4,051)**

Note 28 Cash flows from Financing Activities

	2018/19 £000	2018/19 £000	2017/18 £000
Cash Receipts from Short and Long Term Borrowing	8,500	8,500	61,000
Repayment of Short and Long Term Borrowing	(9,500)	(9,500)	(57,000)
Other payments for Financing Activities	(3,685)	(3,685)	1,519
Net Cash flows from Financing Activities	**(4,685)**	**(4,685)**	**5,519**

Note 29 Reconciliation of Liabilities from Financial Activities

2018/19

	Long Term Borrowing £000	Short Term Borrowing £000
Balance as at 1st April 2018	(104,063)	(7,000)
Cashflows:		
Repayments	0	9,500
Borrowing	0	(8,500)
Balance as at 31st March 2019	**(104,063)**	**(6,000)**

Short term borrowing is required to fund the capital financial requirement (see note 35). It is therefore funding property, plant and equipment with long useful lives. In the medium term it is likely that Council will replace short term with long term borrowing when this is considered to be in the best financial interest of the Council.

Redditch Borough Council

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

Note 30 Members' Allowances

During the year Members allowances, including employer's costs totalled £149k (2017/18 £143k) and are as follows:

	2018/19 £000	2017/18 £000
Salaries	101	95
Allowances	39	39
Expenses	9	9
Total	**149**	**143**

Note 31 External Audit Costs

The Council has incurred the following costs relating to the annual audit of the Statement of Accounts, certification of grant claims and other services provided by the Council's external auditors.

	2018/19 £000	2017/18 £000
Grant Certification Work 2015/16	0	8
Housing Benefit Fee Variations 2016/17	3	0
Housing Benefit Fee Variations 2017/18	3	0
Fee Variations agreed for External Audit 2017/18 *	5	0
Housing Benefit Audit 2018/19	24	15
Fees payable with regard to external audit services carried out by the appointed auditor for the year*	45	72
Total	**80**	**95**

* Please note the fee variations agreed for External audit are in relation to previous years and not 2018/19.

* The 2017/18 external audit services fee includes £15k relating to the quarter 4 payment 2016/17.

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 32 Employees Remuneration

Since 2010/11 the management team has been shared between Redditch Borough Council and Bromsgrove District Council, with each authority being charged 50% of the cost of each post.

Officers Remuneration Redditch Borough Council (50% recharged to Bromsgrove District Council)

		Salary, Fees and £	Pension Contribution £	Total £	50% share to Bromsgrove £	Revised Total £
Officers Remuneration Redditch Borough Council (50% recharged to Bromsgrove District Council):						
Deputy Chief Executive and Executive Director of Leisure, Environmental & Community Services	2018/19	106,131	15,601	**121,732**	60,866	**60,866**
	2017/18	105,468	15,295	**120,763**	60,382	**60,382**
TOTAL	**2018/19**	**106,131**	**15,601**	**121,732**	60,866	**60,866**
	2017/18	**105,468**	**15,295**	**120,763**	60,382	**60,382**

Officers Remuneration Bromsgrove District Council (50% recharged to Redditch Borough Council)

		Salary, Fees and £	Pension Contribution £	Total £	50% share to Bromsgrove £	Revised Total £
Officers Remuneration Redditch Borough Council (50% recharged to Bromsgrove District Council):						
Chief Executive	2018/19	132,664	19,104	**151,768**	75,884	**75,884**
	2017/18	130,063	18,729	**148,792**	74,396	**74,396**
Executive Director of Finance & Resources	2018/19	98,171	14,137	**112,308**	56,154	**56,154**
	2017/18	96,505	13,859	**110,364**	55,182	**55,182**
Head of Legal & Democratic Services	2018/19	81,190	11,691	**92,881**	46,441	**46,441**
	2017/18	78,072	11,493	**89,565**	44,783	**44,783**
TOTAL	**2018/19**	**312,025**	**44,932**	**356,957**	**178,479**	**178,479**
	2017/18	**304,640**	**44,082**	**348,722**	**174,361**	**174,362**

Senior Employees' Remuneration

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Redditch Borough Council

	2018/19	2017/18
£50,001 to £55,000	1	1
£55,001 to £60,000	2	2
£60,001 to £65,000	1	0
£65,001 to £70,000	0	1
£70,001 to£ 75,000	0	1
£75,001 to £80,000	0	3
£80,001 to £85,000	1	0
£85,001 to £90,000	2	0
Total	**7**	**8**

Bromsgrove District Council

	2018/19	2017/18
£50,001 to £55,000	1	2
£55,001 to £60,000	10	10
£60,001 to £65,000	0	0
£65,001 to £70,000	1	0
£70,001 to£ 75,000	1	1
£75,001 to £80,000	0	2
£80,001 to £85,000	1	0
£85,001 to £90,000	1	1
Total	**15**	**16**

Exit Packages

The Council had a number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£0-£20,000	0	0	22	4	22	4	87,599	34,568
£20,001 - £40,000	0	0	5	0	5	0	145,555	0
£40,001 - £60,000	0	0	1	0	1	0	56,235	0
£60,001 - £80,000	0	0	1	0	1	0	74,215	0
£80,001 - £100,000	0	0	0	1	0	1	0	89,872
£100,001 - £150,000	0	0	0	0	0	0	0	0
£150,001 - £200,000	0	0	0	0	0	0	0	0
£200,001 - £250,000	0	0	0	1	0	1	0	215,868
			Total cost included in bandings				**363,604**	**340,308**
			Recharge to Bromsgrove District Council				(164,491)	(59,492)
			Cost to Redditch Borough Council				**199,113**	**280,816**
			Exit Packages undertaken by Bromsgrove District Council with a shared cost to Redditch Borough Council				72,615	0
			Total cost included in the CIES				**271,728**	**280,816**

Redditch Borough Council

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Note 33 Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19

Credited to Taxation and Non-Specific Grant Income	2018/19 £000	2017/18 £000
Revenue Support Grant	(35)	(407)
New Homes Bonus	(674)	(1,022)
S31	(1,007)	(616)
Other Government Grants	(25)	0
Capital Grants	(1,649)	(1,017)
Total	**(3,390)**	**(3,062)**

Credited to Services	2018/19 £000	2017/18 £000
Cabinet Office - Individual Electoral Registration	(14)	(14)
DCLG - Council Tax Support Admin Subsidy	(98)	(117)
DCLG - Local Plans	0	(35)
DCLG - Cost of Collection	(106)	(107)
DCLG - Homelessness Grant	(201)	(184)
DCLG - New Burdens	(8)	0
DCLG - Other Grant Income	(52)	0
DWP - Benefit Schemes	(178)	(173)
DWP - Discretionary Housing	(123)	(78)
DWP - Housing Benefit Subsidy	(17,808)	(21,468)
DWP - Housing Benefit Subsidy Admin Grant	(248)	(276)
Bus Grant	(3)	(35)
Worcestershire County Council - Positive Activity Fund	(48)	(39)
Sports Partnership	(20)	0
Apprenticeship Levy	(3)	0
Other Grants	(4)	0
Total	**(18,914)**	**(22,526)**

Current Liabilities

Grants Received in Advance (Revenue)	2018/19 £000	2017/18 £000
Sports Development	0	(32)
Total	**0**	**(32)**

Long-term Liabilities

The Authority has received £883k disabled facilities grant in 2018/19 from the Worcestershire Better Care Fund. £575k was applied in 2018/19 and the balance is yet to be recognised as income as the grant has conditions attached to it that may require the monies to be refunded. The balances at year-end are as follows:

Grants Received in Advance (Capital)	2018/19 £000	2017/18 £000
Disabled Facilities Grant	(551)	(243)
Total	**(551)**	**(243)**

Note 34 Related Parties

The Authority 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 Authority. The Council have considered the materiality of the transactions from both the Council's and the related parties perspective.

Central Government

Central government has effective control over the general operations of the Authority– it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 33.

Members

Members of the council have direct control over the council's financial and operating policies . The total of members allowances paid in 2018/19 is shown in Note 30. The Council maintains a register of Councillors interests that is regularly updated and available online for public inspection.
Many Redditch Borough Councillors are also County Councillors and/or elected members of the parish council.

In 2018/19 all members have completed a register of members disclosable pecuniary interest. There are no material interest disclosures that require reporting.

Officers

There were no disclosures made by officers in 2018/19.

Entities Controlled or Significantly Influenced by the Authority

As host of the Worcester Regulatory Shared Service, Bromsgrove District Council were paid £544k for hosting Environmental Health and Licensing (£540k in 2017/18)

As part of the shared services with Bromsgrove District Council, Redditch Borough Council received £3,210k (2017/18 :£3,114k) for services it hosted and paid £6,186k (2017/18: £6,210k) for services hosted by Bromsgrove.

The Council has been involved in shared service arrangements for Markets, Economic Development and Land Drainage with Wyre Forest District Council. The Council has paid £321k (2017/18 £326k) to Wyre Forest for services hosted by them.

A shared service arrangement has also been set up between the Council, Bromsgrove and Wyre Forest for the provision of Building Control. Redditch Borough Council paid Bromsgrove District Council £110k for this service (this figure is included within the shared service figures above).

For the provision of Car Park Services, the Council paid £42k to Wychavon District Council (2017/18 £63k)

Under the Internal Audit Shared Service, the Council paid £85k to Worcester City Council (2017/18 £93k)

In total, the Council received £704k in 2018/19 from Worcestershire County Council for running the Early Help services (943k in 2017/18).

From 1st September 2015, the Council entered into an arrangement with Place Partnership Limited for the provision of Asset Maintenance. The cost in 2018/19 was £437k (2017/18 £393k).
The contract with Place Partnership Limited has ended as of the 31st March 2019, the service will now be provided by Redditch Borough Council.

Note 35 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 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR) which is a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The movement in the CFR is analysed in the second part of this note.

Capital Expenditure and Capital Financing	2018/19 £000	2017/18 £000
Opening Capital Financing Requirement	**138,586**	**138,060**
Capital Investment		
Property, Plant and Equipment	6,610	7,579
Intangible Assets	0	116
Heritage Assets	0	12
Long Term Debtors	30	62
Revenue Expenditure Funded from Capital under Statute	575	1,162
Total Capital investments	**7,215**	**8,931**
Sources of finance		
Capital receipts	(1,293)	(1,555)
Government grants and other contributions	(635)	(1,144)
Major Repairs Allowance	(1,876)	(4,333)
Sums set aside from revenue:		
Direct revenue contributions:		
General Fund	0	0
HRA	(1,599)	(597)
Minimum Revenue Provision	(809)	(776)
Total Sources of Finance	**(6,212)**	**(8,405)**
Long Term Debtors previously financed through CFR		**0**
Closing Capital Finance Requirement	**139,589**	**138,586**
Explanation of movements in year		
Increase in underlying need to borrowing (unsupported by government financial assistance)	1,003	526
Increase/(decrease) in Capital Financing Requirement	**1,003**	**526**

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 36 Leases

Operating and Finance Leases

Authority as Lessee:

Operating Leases (Authority as lessee)

The Rubicon Centre is leased with a remaining lease period to 31st July 2023 with the option of a break on 31st July 2021. This is a business centre sublet to small businesses. The expenditure and income charged to the services in the CIES during the year are set out below:

	2018/19 £000	2017/18 £000
Minimum lease payments	263	247
Less: Sublease payments receivable	(157)	(191)
Total	**106**	**56**

The Council leases multifunctional devises (MFD's) through a lease that commenced in 2018/19 for an initial period until 31st July 2021 and an option to extend to 31st July 2023. The future minimum payments under non-cancellable operating leases in future years are set out below:

	2018/19 £000	2017/18 £000
Minimum lease rentals payable:		
No later than 1 year	38	16
Later than 1 year and no later than 5 years	48	0
Total	**86**	**16**

Finance Leases

The Council has no finance leases.

Authority as Lessor:

Operating Leases

The Authority, in accordance with its statutory and discretionary responsibilities, leases out property and

- for the provision of community services, such as sports and community facilities

- for economic development purposes to provide suitable affordable accommodation for small local businesses
- any other purposes

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

	31/03/2018 £000	31/03/2017 £000
No later than 1 year	349	370
Later than 1 year and no later than 5 years	1,179	1,241
Later than 5 years	1,548	1,836
Total	**3,076**	**3,447**

The 2018/19 passing rent was £553k.

Finance Leases

The Council has no finance leases.

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 37 Defined Benefit Pension Schemes

Retirement Benefits

Participation in the Local Authority Pension Scheme

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits within the Local Government Pension Scheme. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Authority participates in two post-employment schemes:

* The Local Government Pension Scheme, administered locally by Worcestershire County Council - this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's 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 liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.
* The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of Worcestershire County Council. Policy is determined in accordance with the Public Service Pensions Act 2013.
* The principal risks to the Authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Transactions relating to Post-Employment Benefits

The Authority recognises the cost of retirement benefits in the reported cost of service when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge the Authority is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement on 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:

	Local Government Pension Scheme		Discretionary Benefits	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Comprehensive Income and Expenditure Statement *Cost of services:* *Service cost comprising:*				
Current service cost	3,039	3,544	0	0
Past service cost and Curtailments	860	553	0	0
(Gain)/loss from settlements	0	0	0	0
Financing and Investment Income and Expenditure:				
Net Interest expense	1,457	1,454	97	101
Total post-employment benefits charged to the Surplus of Deficit on the Provision of Services	**5,356**	**5,551**	**97**	**101**
Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(1,421)	(1,314)	0	0
Actuarial gains and losses arising on changes in demographic assumptions	0	0	0	0
Actuarial gains and losses arising on changes in financial assumptions	8,763	(6,370)	130	(89)
Other	(47)	(44)	0	0
Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	**12,651**	**(2,177)**	**227**	**12**
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	**(5,356)**	**(5,551)**	**(97)**	**(101)**
Actual amount charged against the general fund balance for pensions in the year:				
Employers' contributions payable to scheme	**3,438**	**4,075**		
Retirement benefits payable to pensioners			**256**	**255**

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme		Discretionary Benefits	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Present value of the defined obligation	(177,159)	(166,387)	(3,875)	(3,904)
Fair value of plan assets	104,462	102,988	0	0
Net liability arising from the defined benefit obligation	**(72,697)**	**(63,399)**	**(3,875)**	**(3,904)**

Net Liability and Pension Strain	Local Government Pension	
	2018/19 £000	2017/18 £000
Local Government Pension Scheme	(72,697)	(63,399)
Discretionary Benefits	(3,875)	(3,904)
Pension Strain Liability	0	(84)
Sub-total	**(76,572)**	**(67,387)**
Advance Payment of Pension Contributions	3,642	7,346
Net liability arising from the defined benefit obligation	**(72,930)**	**(60,041)**

In April 2017 the Council made an advance payment of pension contributions 2017/18 to 2019/20 to the Pension Fund in order to secure a reduction in the amount in each of the three financial years. Greater detail is provided later in this note under the heading 'Impact on the Authority's cash flows'. As at 31st March 2019 the Pension Liability is £3,619k lower than the Pension Reserve representing the advance payment relating to 2019/20.

	Local Government Pension Scheme		Discretionary Benefits	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Opening fair value of scheme assets	102,988	98,561	0	0
Interest income	2,778	2,710		
Remeasurement gain/(loss):				
the return on plan assets, excluding the amount included in the net interest expense	1,421	1,314		
Removal of Place Partnership Assets	(1,346)			
Contributions from employer	3,438	4,075	256	255
Contributions from employees into the scheme	612	667		
Benefits/transfers paid	(5,392)	(4,299)	(256)	(255)
Administration costs	(37)	(40)		0
Closing value of scheme assets	**104,462**	**102,988**	**0**	**0**

Reconciliation of present value of the scheme liabilities:

	Local Government Pension Scheme		Discretionary Benefits	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Opening balance at 1 April	(166,387)	(168,128)	(3,904)	(4,147)
Current service cost	(3,039)	(3,544)		
Interest cost	(4,235)	(4,164)	(97)	(101)
Contributions from scheme participants	(612)	(667)		
Remeasurement (gains) and losses:				
Actuarial gains/(losses) from changes in financial assumptions	(8,763)	6,370	(130)	89
Removal of Place Partnership liabilities	1,345			
Past service cost	(974)			
Losses/(gains) on curtailments where relevant	114	(553)		
Liabilities assumed on entity combinations				
Benefits/transfers paid	5,392	4,299	256	255
Balance as at 31 March	**(177,159)**	**(166,387)**	**(3,875)**	**(3,904)**

Local government pension scheme assets comprised:

	Fair value of scheme assets	
	31/03/2019 £000	31/03/2018 £000
Cash and cash equivalents	2,402	1,238
Equities:	0	0
UK quoted	211	411
Overseas quoted	27,579	29,455
PIV - UK managed	13,999	25,232
PIV - UK managed (overseas)	33,322	33,883
PIV - Overseas managed		0
Sub-total equity	**75,111**	**88,981**
Bonds:		
UK Corporate	313	411
Overseas Corporate	4,805	4,532
UK Government Fixed	8,461	0
Sub-total bonds	**13,579**	**4,943**
Property:		
European Property Fund	2,716	2,575
UK Property Debt	940	824
Overseas Property Debt	627	515
UK Property Funds	2,298	411

Sub-total property	**6,581**	**4,325**
Alternatives		
UK Infrastructure	2,760	3,501
European Infrastructure	1,985	0
US Infrastructure	313	0
UK Stock Options	731	0
Sub-total alternative funds	**5,789**	**3,501**
Total assets	**103,462**	**102,988**

All scheme assets have quoted prices in active markets

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Mercer Limited, an independent firm of actuaries, estimates for the County Council Pension Fund being based on the latest full valuation of the scheme as at 1 April 2016.

The significant assumptions used by the actuary are set out below:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19	**2017/18**	**2018/19**	**112**
Mortality assumptions:				
Longevity at 65 current pensioners:				
Men	22.8	22.7	22.8	22.7
Women	25.8	25.7	25.8	25.7
Longevity at 65 for future pensioners:				
Men	25.1	24.9	25.1	24.9
Women	28.2	28.0	28.2	.28.0
Financial assumptions:				
Rate of inflation	2.2%	2.1%	2.2%	2.1%
Rate of increase in salaries	3.7%	3.6%	3.7%	3.6%
Rate of increase in pensions	2.3%	2.2%	2.3%	2.2%
Discount Rate	2.4%	2.7%	2.4%	2.7%

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The longevity assumptions, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in assumption £000	**Decrease in assumption £000**
Longevity (increase or decrease in one year)	3,632	(3,632)
Rate of inflation (increase or decrease by 0.1%)	3,098	(3,098)
Rate of increase in salaries (increase or decrease by 0.1%)	348	(348)
Rate for discounting liabilities (increase or decrease by 0.1%)	(3,046)	3,046

Impact on the Authority's cash flows

The objectives of the scheme are to keep employers’ contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme’s actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis.

The scheme takes account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The weighted average duration of the defined benefit obligation for scheme members is 18 years, 2018/19 (17 years 2017/18).

In April 2017 the Council made an advanced payment to Worcestershire Pension Fund for the deficit payments due 2017/18-2019/20 and 90% of the expected pension contributions for current employees for the same period. The total payment was £11,039k compared with a cost of £11,798k if the payments had been made monthly. After allowing for estimated interest costs (£72k) the net savings are estimated at £687k over the 3 years.

Redditch Borough Council

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Note 38 Contingent Liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events that are not wholly within the council’s control.

Various NHS trusts and limited companies have made applications for relief for business rates, this is an on-going issue and the outcome of these appeals will not be known until future years, no provision has been made for this.

Note 39 Contingent Assets

A Contingent Assets is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council.

There are no Contingent Assets as at 31 March 2019.

Note 40 Nature and Extent of Risks Arising from Financial Instruments

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

- credit risk – the possibility that other parties might fail to pay amounts due to the Council
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by Council the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.
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, as laid down by Fitch Ratings Services.

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used (for example the rating assigned to a secured investment), otherwise the counterparty credit rating is used.
Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For Money Market Funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

The credit criteria in respect of financial assets held by the Council are as detailed below:

Credit rating	Banks unsecured	Banks secured	Government	Corporates
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a
AAA	£2m 5 years	£2m 20 years	£2m 50 years	£2m 5 years
AA+	£2m 5 years	£2m 10 years	£2m 25 years	£2m 5 years
AA	£2m 4 years	£2m 5 years	£2m 15 years	£2m 5 years
AA-	£2m 3 years	£2m 4 years	£2 m 10 years	£2m 3 years
A+	£2m 2 years	£2m 3 years	£2m 5 years	£2m 2 years
A	£2m 13 months	£2m 2 years	£2m 5 years	£2m 2 years
A-	£2m 6 months	£2m 13 months	£2 m 5 years	£2m 13 months
None	£0.5m 6 months	n/a	£3m 25 years	£500k 1 year
Pooled funds	£2m per fund			

Banks Unsecured: call and notice accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies. These investments are subject to the risk of credit loss via a bail-in should the banking regulator determine that the bank/building society is failing or likely to fail.

Banks Secured: covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are exempt from bail-in and are secured on the financial institution's assets, which limits the potential losses in the unlikely event of insolvency.

Government: Investments with local authorities or guaranteed by national governments, investments with multilateral development banks. These are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years. Investments with the DMADF are guaranteed by HM Treasury. Following advice from the Council's treasury advisors, no upper limit was imposed on investments with the DMADF.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Debtors

At 31st March 2019, Redditch Borough Council had no investments held in our call accounts, the Council did hold £688k in the Current Account.

The Council does not generally allow credit for customers. An aged analysis of the Council's sundry debtor balances at 31st March 2019 is shown in the table below:

	2018/19 £000	2017/18 £000
Less than three months	1,839	739
Three to six months	61	28
Six months to one year	56	28
More than one year	157	143
Total	**2,113**	**938**

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of borrowings is summarised as follows:

	2018/19 £000	2017/18 £000
Less than one year	6,000	7,000
Between one & five years	0	0
More than five years	103,929	103,929
	109,929	**110,929**

The Council has been able to benefit from borrowing on a short-term basis at low rates from other local authorities.

Included within the long-term borrowing is a £5,000k loan due to mature in 2032 with an interest rate of 4.71%. In addition, the Council has borrowings of £98,929k in order to fund the Housing Settlement payment, secured through the Public Works Loan Board with maturities between 2032 and 2042.

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus of 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.

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments. It has a number of strategies for managing interest rate risk and these are addressed in the Treasury Management Strategy. In 2018/19, the Council had no variable long term investments or borrowings.

Price Risk

The Council, excluding its exposure to the Pension Fund, does not invest in equity shares.

Redditch Borough Council

Notes to the Core Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Note 41 Joint Operations - Place Partnership Limited

Place Partnership Limited (PPL) is a Joint Operation between Worcestershire County Council, Worcester City Council, Redditch Borough Council, Hereford and Worcester Fire Authority, West Mercia Police and Warwickshire Police. Each own two shares which equates to 16.67%.

Although Redditch hold two shares which equates to 16.67% the most appropriate basis of incorporating the company as a joint operation that reflects the true relationship is the percentage that Redditch BC transact with PPL which is 4.4%.

The table below reflects 4.4% of the PPL draft financial statements 2017/18 adjusted for inter company sums where Redditch Borough Council owe PPL (Creditors) which are within PPL debtors. The 4.4% share is not incorporated into the Council's Balance Sheet as at 31st March 2019 as it is not considered material.

Balance Sheet

	Authority Share 4.4%		Inter Company	
	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000
PPL Accounts				
Fixed Assets	12	6	0	0
Other Debtors	9	0	0	0
Trade Debtors	32	13	66	0
Cash at bank	76	101	0	0
Total Assets	**117**	**114**	**66**	**0**
Current Liabilities				
Trade Creditors	(95)	(107)	0	202
Retained Earnings	34	13	0	0
Redditch BC Accounts				
Current Liabilities				
Creditors	(7,385)	(8,035)	0	0

The contract with Place Partnership Limited has ended as of the 31st March 2019, the service will now be provided by Redditch Borough Council.

Agenda Item 10

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Housing Revenue Account for the year ended 31st March

	2018/19 £000	2017/18 £000
Expenditure		
Repairs & Maintenance	(6,211)	(5,281)
Supervision & Management	(8,062)	(7,994)
Rents, Rates, Taxes and other charges	(429)	(139)
Depreciation, impairments and revaluation losses of non-	(1,725)	9,038
Debt Management Costs	(5)	(5)
Movement in the allowance for bad debts	(118)	(137)
Total Expenditure	**(16,550)**	**(4,518)**
Income		
Dwelling rents	22,833	23,244
Non-dwelling rents	509	499
Charges for services and facilities	920	693
Contributions from General Fund	129	63
Total Income	**24,391**	**24,499**
Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement	**7,841**	**19,981**
HRA Services Share of Corporate & Democratic Core	(743)	(673)
Net Expenditure of HRA Services	**7,098**	**19,308**
Gains/(loss) on sale of HRA Fixed Assets	804	696
Interest Payable and Similar Charges	(4,174)	(4,173)
HRA Interest and Investment Income	106	24
Net interest on the defined benefit liability (asset)	(814)	(723)
Surplus or (Deficit for Year) on HRA Services	**3,020**	**15,132**

In 2018/19 there was a revaluation increase of £21,890k of housing revenue account assets. £4,546k of this increase is recorded through the housing revenue income and expenditure account and this is the remaining sum required to fully reverse historic deficits that were charged to the account, mainly in 2010/11. It has taken a number of years revaluation increases to recover the historical deficits, including the £14,749k credited in 2017/18. The balance of the revaluation increase (£17,344k) has been credited to the revaluation reserve.

Redditch Borough Council

FOR THE YEAR ENDED 31 MARCH 2019

Movement on the HRA Statement

	2018/19 £000	2017/18 £000
Balance on the HRA at the end of the previous year	**1,475**	**1,475**
Surplus or (Deficit) on the HRA Income and Expenditure Statement	3,020	15,132
Adjustments between accounting basis and funding basis under statute	(5,324)	(14,807)
Net Increase or (Decrease) before transfers to or from reserves	(2,304)	325
Transfers (to)/from Reserves	1,599	(325)
Increase or (decrease) on the HRA for the year	**(705)**	**0**
Balance on the HRA at the end of the current year	**770**	**1,475**

Notes to the Housing Revenue Account

	2018/19 £000	2017/18 £000
Transfers to/(from) the Capital Adjustment Account	1,725	(9,038)
Gain or loss on sale of HRA non current assets	(804)	(696)
Holiday pay (transferred to the Accumulated Absences reserve)	0	(5)
HRA Share of Contributions to or from the Pension Reserve	1,625	1,241
Transfers to/(from) Major Repairs Reserve	(6,271)	(5,712)
Capital expenditure funded by the HRA	(1,599)	(597)
Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	**(5,324)**	**(14,807)**

Transfers to/from Reserves

	2018/19 £000	2017/18 £000
Transfers (to)/from earmarked reserves	1,599	(325)
Total Transfers	**1,599**	**(325)**

Redditch Borough Council

FOR THE YEAR ENDED 31 MARCH 2019

Notes to the Housing Revenue Account

Current Year

Property, Plant & Equipment (PP&E)	Council Dwellings	Buildings	Vehicles, Plant & Equipment	Surplus Assets	Total PP&E	Intangible Assets	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
Balance as at 1 April 2018	262,170	3,800	534	1,500	268,004	86	268,090
Additions	4,761				4,761		4,761
Revaluation increases to Revaluation Reserve	11,227	(25)			11,202	0	11,202
Revaluation increases to Surplus or Deficit on the Provision of Services	4,546				4,546	0	4,546
Derecognition - Disposals	(3,093)				(3,093)	0	(3,093)
Reclassifications & Transfers					0		0
Balance as at 31 March 2019	279,611	3,775	534	1,500	285,420	86	285,506
Depreciation and Impairment							
Balance as at 1 April 2018	(12)	0	(184)	0	(196)	0	(196)
Depreciation Charge	(5,995)	(146)	(113)		(6,254)	(17)	(6,271)
Depreciation written out on Revaluation Reserve	5,995	146			6,141	0	6,141
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services					0	0	0
Reclassifications & Transfers					0	0	0
Balance as at 31 March 2019	(12)	0	(297)	0	(309)	(17)	(326)
Net Book Value							
Balance as at 31 March 2019	279,599	3,775	237	1,500	285,111	69	285,180
Balance as at 31 March 2018	262,158	3,800	350	1,500	267,808	86	267,894

Comparative Year

Property, Plant & Equipment (PP&E)	Council Dwellings	Buildings	Vehicles, Plant & Equipment	Surplus Assets	Total PP&E	Intangible Assets	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
Balance as at 1 April 2017	249,562	3,762	534	1,501	255,359	0	255,359
Additions	5,790	0	0	0	5,790	86	5,876
Revaluation increases to Revaluation Reserve	0	0	0	(1)	(1)	0	(1)
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	9,110	38	0	0	9,148	0	9,148
Derecognition - Disposals	(2,479)	0	0	0	(2,479)	0	(2,479)
Reclassifications & Transfers	187	0	0	0	187		187
Balance as at 31 March 2018	262,170	3,800	534	1,500	268,004	86	268,090
Depreciation and Impairment							
Balance as at 1 April 2017	0	(12)	(74)	0	(86)	0	(86)
Depreciation Charge	(5,464)	(138)	(110)	0	(5,712)	0	(5,712)
Depreciation written out on Revaluation Reserve					0	0	0
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	5,464	138			5,602	0	5,602
Balance as at 31 March 2018	(12)	0	(184)	0	(196)	0	(196)
Net Book Value							
Balance as at 31 March 2018	262,158	3,800	350	1,500	267,808	86	267,894
Balance as at 31 March 2017	249,562	3,750	460	1,501	255,273	0	255,273

Dwellings within the Housing Revenue Account are valued in accordance with the RICS Appraisal and Valuation Manual, as published by the Royal Institution of Chartered Surveyors, and DCLG guidance. Accordingly the Existing Use Value for Social Housing (EUV-SH) has been used as the basis of valuation. The beacon approach to valuation of the housing stock has been adopted as recommended by the DCLG, including the regional adjustment to be adopted within the EUV-SH valuation. Valuations of dwellings are carried out annually valued at 1 April each year.

The vacant possession value (open market value) of Council dwellings as at 31 March 2019 was £703,522k. This does not compare to the Balance Sheet, which shows the Existing Use Value, the difference being an indication of the economic and social costs of providing Council housing at less then market rent.

Redditch Borough Council

FOR THE YEAR ENDED 31 MARCH 2019

Notes to the Housing Revenue Account

Housing Stock

The number of dwellings in the Authority's housing stock, as at 31 March 2019, totalled 5716 properties. The type of properties and the period in which they were built, were as follows:

	2018/19 Number	2017/18 Number
Property Type		
Flats and Maisonettes		
1 Bed	1,550	1,549
2 Bed	537	544
3 Bed	31	30
Sub-Total	**2,118**	**2,123**
Non Permanent	41	41
Sub-Total	**41**	**41**
Houses / Bungalows		
1 Bed	655	657
2 Bed	871	878
3 Bed	1,868	1,895
4 or More	163	165
Sub-Total	**3,557**	**3,595**
Total Dwellings 31 March 2019	**5,716**	**5,759**

Housing Revenue Account Capital Expenditure

	2018/19 £000	2017/18 £000
Capital investment		
Operational assets	4,761	5,790
Intangible Assets	0	87
	4,761	**5,877**
Sources of funding		
Capital Receipts	1,286	947
Major Repairs Reserve	1,876	4,333
Direct Revenue Financing	1,599	597
	4,761	**5,877**

Rent Arrears

During 2018/19 total rent arrears remaining broadly the same, a summary of rent arrears and prepayments are shown in the following table:

	2018/19 £000	2017/18 £000
Current Tenant Arrears	713	758
Former Tenant Arrears	335	313
Total Rent Arrears	**1,048**	**1,071**
Prepayments	(404)	(291)
Net Rent Arrears	**644**	**780**

The rent arrears and prepayments exclude supporting people balances.

Depreciation and Impairment of Non-Current Assets

	2018/19 £000		2017/18 £000	
	Depreciation	Impairment	Depreciation	Impairment
Council Dwellings	5,995	0	5,464	0
Other Land and Buildings	146	0	138	0
Vehicles, Plant, Furniture and Equipment	113	0	110	0
Intangible Assets	17	0	0	0
Total	**6,271**	**0**	**5,712**	**0**

Transactions relating to retirement benefits

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

The Council participates in the Worcestershire Local Government Pension Fund administered by Worcestershire County Council. This is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However the charge required to be made against the Housing Revenue Account is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Housing Revenue Account after Net Operating Expenditure. The following transactions have been made in the Housing Revenue Account during the year.

HRA Income & Expenditure Account	2018/19 £000	2017/18 £000
Current Service Cost	2,452	2,635
Past Service Costs	737	412
Net interest expense	814	723
Total	**4,003**	**3,770**
Employer’s contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	(2,378)	(2,529)
Movement on Pension Reserve	**1,625**	**1,241**

Total Capital Receipts Generated during the year

	2018/19 £000	2017/18 £000
Council Houses	3,978	3,096
Other Property	2	151
Sub Total	**3,980**	**3,247**
Disposal Costs	(83)	(72)
Total HRA capital receipts	**3,897**	**3,175**

Redditch Borough Council

Collection Fund Statement
FOR THE YEAR ENDED 31 MARCH 2019

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.

2017/18			Collection Fund	2018/19		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£000	£000	£000		£000	£000	£000
			INCOME			
	(42,723)	(42,723)	Council Tax Receivable		(45,357)	(45,357)
(37,747)		(37,747)	Business Rates Receivable	(34,799)		(34,799)
(37,747)	**(42,723)**	**(80,470)**	**Total amounts to be credited**	**(34,799)**	**(45,357)**	**(80,156)**
			EXPENDITURE			
			Apportionment of Previous Year Surplus/Deficit			
(608)		(608)	Central Government	2,799		2,799
(487)	7	(480)	Redditch Borough Council	2,240	167	2,407
(109)	38	(71)	Worcestershire County Council	504	849	1,353
(12)	3	(9)	Hereford and Worcestershire Fire and Rescue	56	59	115
	6	6	Police and Crime Commissioner for West Mercia		137	137
			Precepts, demands and shares			
15,823		15,823	Central Government	16,791		16,791
12,659	5,804	18,463	Redditch Borough Council	13,432	6,106	19,538
2,848	29,471	32,319	Worcestershire County Council	3,022	31,593	34,615
316	2,029	2,345	Hereford and Worcestershire Fire and Rescue	336	2,134	2,470
	4,836	4,836	Police and Crime Commissioner for West Mercia		5,135	5,135
			Charges to Collection Fund			
313	108	421	Write-offs of uncollectable amounts	1,517	193	1,710
665	368	1,033	Increase/(decrease) in allowance for impairment	(1,417)	283	(1,134)
2,334		2,334	Increase/(decrease) in allowance for appeals	1,399		1,399
2,972		2,972	Transitional Protection Payments Payable	1,181		1,181
			Charges to General Fund			
107		107	Charge to General Fund for allowable collection costs for non-domestic rates	106		106
36,821	**42,670**	**79,491**	**Total amounts to be debited**	**41,966**	**46,656**	**88,622**
(926)	**(53)**	**(979)**	**(Surplus) /deficit arising during the year**	**7,167**	**1,299**	**8,466**
237	(1,278)	(1,041)	(Surplus)/deficit b/f at 1 April	(689)	(1,331)	(2,020)
(689)	**(1,331)**	**(2,020)**	**(Surplus)/deficit c/f at 31 March**	**6,478**	**(32)**	**6,446**

Redditch Borough Council

Collection Fund Statement
FOR THE YEAR ENDED 31 MARCH 2019

Note 1 - Council Tax Income

The amount of Council Tax payable is calculated by establishing a 'Council Tax Base'. This is the Council's estimated number of chargeable dwellings expressed in relation to those dwellings in Band D. Once this has been determined, the Council Tax payable for each band is established as follows: (The actual amount payable for each property is also subject to discounts where applicable.)

FOR THE YEAR ENDED 31 MARCH 2019

Band		Valuation band limits £		£	Calculated number of dwellings		Ratio to Band D	Equated number of dwellings	Council Tax Payable
					15	10.02	5/9	5.60	130.00
A	Up to & including	40,000			7,627	4,720.12	6/9	3,146.75	156.00
B		40,001	-	52,000	11,913	9,489.27	7/9	7,380.54	182.00
C		52,001	-	68,000	7,383	6,510.57	8/9	5,787.17	208.00
D		68,001	-	88,000	4,249	3,914.50	9/9	3,914.50	234.00
E		88,001	-	120,000	3,162	3,037.62	11/9	3,712.65	286.00
F		120,001	-	160,000	1,157	1,104.72	13/9	1,595.71	338.00
G		160,001	-	320,000	462	446.65	15/9	744.42	390.00
H	More Than			320,001	18	17.04	18/9	34.08	468.00

Adjustment	0.99
Council tax base	**26,058.20**

FOR THE YEAR ENDED 31 MARCH 2018

Band		Valuation band limits £		£	Calculated number of dwellings	Adjusted for discounts	Ratio to Band D	Equated number of dwellings	Council Tax Payable
					17	10.85	5/9	6.03	126.23
A	Up to & including	40,000			7,575	4,519.04	6/9	3,012.69	151.47
B		40,001	-	52,000	11,858	9,261.68	7/9	7,203.53	176.72
C		52,001	-	68,000	7,359	6,392.17	8/9	5,681.93	201.96
D		68,001	-	88,000	4,252	3,869.58	9/9	3,869.58	227.21
E		88,001	-	120,000	3,149	2,976.88	11/9	3,638.41	277.70
F		120,001	-	160,000	1,148	1,093.91	13/9	1,580.09	328.19
G		160,001	-	320,000	461	444.31	15/9	740.52	378.68
H	More Than			320,001	18	17.00	18/9	34.00	454.42

Adjustment	0.99
Council tax base	**25,509.11**

The breakdown above is for Redditch Borough Council only, below is the total payable for band D equivalent for the district for all Preceptors:

	2018/19 £	2017/18 £
Redditch Borough Council	234.00	227.21
Worcestershire County Council	1,212.38	1,155.31
Police and Crime Commissioner for West Mercia	197.07	189.60
Hereford and Worcestershire Fire and Rescue	81.90	79.53
Total Council Tax for non parish areas	**1,725.35**	**1,651.65**
Feckenham Parish Council	22.30	22.85
Total Council Tax for Feckenham	**1,747.65**	**1,674.50**

Note 2 – Non-Domestic Rates

Non-Domestic Rates are organised on a local basis. The Government specifies a rate poundage and subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. In 2018/19 the rate poundage was 49.3p (47.9p 2017/18). The reason for the rate poundage reduction was a national revaluation of rateable values effective from 1 April 2018 and the poundage was set to achieve the same national yield. The Council is responsible for collecting rates due from the ratepayers in its area and distributing the amount collected between itself, central government and major preceptors in proportions specified by central government. The Council share is shown in the Comprehensive Income and Expenditure Statement and analysed at Note 13. The total rateable value at 31 March 2019 was £81,437,804 (31 March 2018 £81,258,739).

Redditch Borough Council

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

Glossary

AAA FITCH RATING

Highest credit quality - 'AAA' ratings denote the lowest expectation of credit risk.

They are assigned only in case of exceptionally strong capacity for timely payment

of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA FITCH RATING

Very high credit quality - 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A FITCH RATING

High credit quality - 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

ACCOUNTING PERIOD

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

ACCRUALS

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial surpluses or deficits that arise because:

- Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- The actuarial assumptions have changed

ASSET

An item having value to the authority in monetary terms. Assets are categorised as either current or non-current

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A non-current asset provides benefits to the Authority and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

AUDIT OF ACCOUNTS

An independent examination of the Authority's financial affairs.

BALANCE SHEET

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

BORROWING

Using cash provided by another party to pay for expenditure, on the basis of an agreement to repay the cash at a future point, usually incurring additional interest charges over and above the original amount.

BUDGET

The forecast of net revenue and capital expenditure over the accounting period.

CAPITAL EXPENDITURE
Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

CAPITAL FINANCING
Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

CAPITAL PROGRAMME
The capital schemes the Authority intends to carry out over a specific period of time.

CAPITAL RECEIPT
The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government but they cannot be used to finance revenue expenditure.

CLAW-BACK
Where average council house rents are set higher than the government's prescribed average limit rent, used in the calculation of rent rebates, the percentage difference reduces the amount of rent rebate subsidy due to the authority, i.e. it is "clawed-back" by the government.

CIPFA
The Chartered Institute of Public Finance and Accountancy

COLLECTION FUND
A separate fund that records the income and expenditure relating to Council Tax and non-domestic rates.

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

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
The account of the Authority that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

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

CONTINGENT ASSET
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's accounts.

CONTINGENT LIABILITY
A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE
The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

CREDITOR
Amount owed by the Authority for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

CURRENT SERVICE COST (PENSIONS)
The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

DEBTOR
Amount owed to the Authority for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

DEFINED BENEFIT PENSION SCHEME
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

DEPRECIATION
The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Authority's fixed assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

DISCRETIONARY BENEFITS (PENSIONS)
Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

EQUITY
The Authority's value of total assets less total liabilities.

EVENTS AFTER THE BALANCE SHEET DATE
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

EXPECTED RETURN ON PENSION ASSETS
For a funded defined benefit scheme, this is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

FAIR VALUE
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

FINANCE LEASE
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

GOING CONCERN
The concept that the Statement of Accounts is prepared on the assumption that the Authority will continue in operational existence for the foreseeable future.

GOVERNMENT GRANTS
Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Authority. These grants may be specific to a particular scheme or may support the revenue spend of the Authority in general.

HOUSING BENEFITS
A system of financial assistance to individuals towards certain housing costs administered by authorities and subsidised by central government.

HOUSING REVENUE ACCOUNT (HRA)
A separate account to the General Fund, which includes the income and expenditure arising from the provision of housing accommodation by the Authority.

IMPAIRMENT
A reduction in the value of a fixed asset to below its recoverable amount, the higher of the asset's fair value less costs to sell and its value in use.

INFRASTRUCTURE ASSETS
Fixed assets belonging to the Authority that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

INTANGIBLE ASSETS
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Authority's intangible assets comprise computer software licences.

INTEREST COST (PENSIONS)
For a defined benefit scheme, the expected increase during the period of the present value of the scheme liabilities because the benefits are one period closer to settlement.

INVESTMENTS (PENSION FUND)
The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

LIABILITY
A liability is where the Authority owes payment to an individual or another organisation.

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

LIQUID RESOURCES
Current asset investments that are readily disposable by the Authority without disrupting its business and are either:

- Readily convertible to known amounts of cash at or close to the carrying amount; or
- Traded in an active market

LONG-TERM CONTRACT
A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one accounting period.

MATERIALITY
The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

MINIMUM REVENUE PROVISION (MRP)
The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Authority.

NET BOOK VALUE
The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

NET DEBT
The Authority's borrowings less cash and liquid resources.

NON-DISTRIBUTED COSTS
These are overheads for which no user now benefits and as such are not apportioned to services.

NON-DOMESTIC RATES (NDR)

The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by central government and multiplied by the assessed rateable value of the premises they occupy. In England it is collected by the Authority on behalf of itself, central government and major preceptors. In Scotland it is collected by the Authority on behalf of central government and then redistributed back to support the cost of services.

NON-OPERATIONAL ASSETS
Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

OPERATING LEASE
A lease where the ownership of the fixed asset remains with the lessor.

OPERATIONAL ASSETS
Fixed assets held and occupied, used or consumed by the Authority in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

PAST SERVICE COST (PENSIONS)
For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

PENSION SCHEME LIABILITIES
The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

PRECEPT
The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

PRIOR YEAR ADJUSTMENT
Material adjustments applicable to previous years arising from changes in accounting polices or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROVISION
An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

PUBLIC WORKS LOAN BOARD (PWLB)
A Central Government Agency, which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government can borrow itself.

RATEABLE VALUE
The annual assumed rental of a hereditament, which is used for NNDR purposes.

RELATED PARTIES
There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Authority's members, the Chief Executive, its Directors and their close family and household members.

RELATED PARTY TRANSACTIONS
The Statement Of Recommended Practice requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

REMUNERATION
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits. Received other than in cash. Pension contributions payable by the employer are excluded.

RESERVES
The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion

of the Authority. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

RESIDUAL VALUE
The net realisable value of an asset at the end of its useful life.

RETIREMENT BENEFITS
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

REVENUE EXPENDITURE
The day-to-day expenses of providing services.

REVENUE EXPENDITURE CAPITALISED UNDER STATUTE (REFCUS)
Expenditure which ordinarily would be revenue, but is statutorily defined as capital.

Examples of REFCUS include grants of a capital nature to voluntary organisations and back pay expenditure capitalised under Secretary of State Direction

REVENUE SUPPORT GRANT
A grant paid by Central Government to authorities, contributing towards the general cost of their services.

STOCKS
Items of raw materials and stores an authority has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

TEMPORARY BORROWING
Money borrowed for a period of less than one year.

TRUST FUNDS
Funds administered by the Authority for such purposes as prizes, charities, specific projects and on behalf of minors.

USEFUL ECONOMIC LIFE (UEL)
The period over which the Authority will derive benefits from the use of a fixed asset.

WORCESTERSHIRE PENSION FUND (WPF)

The Worcestershire Pension Fund is administered by Worcestershire County Council and consists of the County and Districts within Worcestershire together with admitted bodies such as Academy Schools.

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