Audit and Standards Committee

Thursday, 18th September, 2014 at 6.00pm
in Committee Room 3 at the Council House, Priory Road, Dudley

Agenda - Public Session
(Meeting open to the public and press)

1. Apologies for absence.

2. To report the appointment of any substitute Members for this meeting of the Sub-Committee.

3. To receive any declarations of interest under the Members' Code of Conduct.

4. To confirm and sign the minutes of the meeting held on 8th July, 2014 as a correct record.

5. External Audit Findings Report 2013/14 (Pages 1 – 38)

6. Annual Governance Statement (Pages 39 – 50)

7. Treasury Management (Pages 51 – 62)

8. Statement of Accounts 2013/14 (Pages 63 – 175)

9. To consider any questions from Members to the Chair where two clear days notice has been given to the Director of Corporate Resources (Council Procedure Rule 11.8).

   Under the provisions of Part I of Schedule 12A to the Local Government Act 1972, the Director of Corporate Resources has decided that there will be no advance disclosure of the following reports because the public interest in disclosing the information is outweighed by the public interest in maintaining the exemption from disclosure

   The submission of these reports complies with the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations 2012

10. Resolution to exclude the public and press

Chair to move:

> "That the public and press be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information under Part I of Schedule 12A to the Local Government Act 1972, as amended, for the reasons stated on the agenda."

Agenda - Private Session

(Meeting not open to the public and press)

11. Annual Audit Report in relation to the Directorate of the Urban Environment (Pages 176 – 204)

12. Report Required Under Standing Orders (Pages 205 – 210)

13. Audit Services Interim Performance Report (Pages 211 – 220)

Director of Corporate Resources
Dated: 10th September, 2014

Distribution:

Councillor J Cowell (Chair)
Councillor M Roberts (Vice-Chair)
Councillors A. Aston; M. Attwood; P Brothwood; M. Evans; D. Russell; A. Taylor; and D. Tyler

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- The Democratic Services contact officer for this meeting is Karen Taylor, Telephone 01384 818116 or E-mail **karen.taylor@dudley.gov.uk**

Minutes of the Audit and Standards Committee

Tuesday 8th July, 2014 at 6.00 p.m.
in Committee Room 2, The Council House, Dudley

Present:-

Councillor J Cowell (Chair)
Councillor M Roberts (Vice-Chair)
Councillors A Aston, M Attwood, M Evans, A Taylor, K Turner and D Tyler (From Minute No. 8)

Officers:-

I Newman (Treasurer); L Bourne (Principal Information Security Officer); L Bradshaw (Head of Audit Services); S Denyer (Senior Auditor - Special Projects); M Farooq (Assistant Director – Law and Governance); G Harrison (Audit Manager - Central Services); I McGuff (Assistant Director - Quality and Partnership); S Potter (Audit Manager - Education/Social Services); P Tart (Director of Corporate Resources); G Thomas (Assistant Director - Policy and Improvement); D Whorton (Principal Auditor - Special Projects) and K Taylor (Democratic Services Officer).

Also in Attendance:-

S. Joberns (Grant Thornton)

1. **Apologies for Absence**

Apologies for absence from the meeting were submitted on behalf of Councillors P Brothwood and D Russell.

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2. **Appointment of Substitute Member**

It was reported that Councillor K Turner had been appointed as substitute member for Councillor P Brothwood for this meeting of the Committee only.

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3. **Declarations of Interest**

No Member made a declaration of interest in accordance with Members' Code of Conduct in respect of any matter to be considered at this meeting.

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4. **Minutes**

Resolved

That the minutes of the meeting held on 17th April, 2014, be approved as a correct record and signed.

5. **Grant Thornton Fee Letter 2014/15**

A report of the Treasurer was submitted on the planned audit fee for 2014/15 by the Council's external auditor, Grant Thornton. A copy of the letter was attached as an Appendix to the report submitted.

Resolved

That the information contained in the report, and Appendices to the report, submitted on the audit fee for 2014/15 be noted.

6. **Re-Appointment of Standards Sub-Committee**

A report of the Director of Corporate Resources was submitted on the re-appointment of the Standards Sub-Committee.

The Director of Corporate Resources in his presentation of the content of the report and Appendix 1 to the report submitted, circulated a proposed amendment to the recommendation, in particular, that the Sub-Committee comprise four members of the Committee; two from the controlling group together with one member from each of the opposition groups represented on the Committee.

Resolved

(1) That the decision of the Council at the annual meeting on 5th June, 2014 confirming that the proportionality requirements of the Local Government and Housing Act 1989, shall not apply to any Sub-Committee(s) established by the Audit and Standards Committee to hear complaints against Members under the Members' Code of Conduct, be noted.

(2) That the Standards Sub-Committee be re-appointed for 2014/15 with its existing Terms of Reference and that the membership of the Sub-Committee comprise Councillors P Brothwood, J Cowell, M Roberts and A Taylor, two members from the controlling group together with one member from each of the opposition groups on the Committee.

7. **Change in Order of Business**

Pursuant to Council Procedure Rule 13(c) it was:-

Resolved

That the remaining items of business be considered in the following order:-

Agenda Item Nos. 9, 7, 8, 12 and 13.

8. **Risk Management**

A report of the Treasurer was submitted on current corporate risks and other matters relating to risk management, and to provide closer scrutiny of the Council's corporate risk – Risk ORG0021 – Children and Young People – that was identified for consideration by the Committee at a previous meeting.

The Assistant Director - Quality and Partnership tabled a written report and gave a verbal presentation in relation to the nature of a major risk facing the Council and the Directorate of Children's Services and the mitigating actions that were being used to manage the risk.

The Assistant Director - Quality and Partnership reported to the Committee that it was becoming difficult for the Council to mitigate against the risks to children and young people who were vulnerable to harm due to rising demand for services and contracting budgets.

Reference was made to the children protection five-year trend statistics, in particular, that the number of children subject to strategy discussions and requiring section 47 investigations had increased significantly from 2008/09.

The Assistant Director - Quality and Partnership reported that there were reductions in resources due to the Directorate of Children's Services commitment to the Medium Term Financial Strategy, which had resulted in the loss of over 100 posts, and a further 200 posts could go by 2017/18. It was noted that the reduction in resources had been taking place at a time when regulatory and statutory requirements upon the Directorate were increasing; expectations of the performance by regulators such as OfSTED and the general public continued to rise, and partner agencies were also experiencing resource reductions and therefore were less able to support joint working.

Reference was made to the mitigating actions implemented and within managing budget reductions the services for children in need of help and protection, children looked after and care leavers continued to be a priority. It was also anticipated that a service be developed to enable early help with families so that young people were not placed at risk.

The Assistant Director - Quality and Partnership referred to the importance of engaging other agencies such as, school's, police and the health service to play a greater role in service delivery.

Arising from the presentation, Members asked a number of questions and the Assistant Director - Quality and Partnership responded as follows:-

- That although Partner Agencies had reducing resources, their commitment to the service continued.
- In relation to the steps introduced to address and prevent risks to children, it was reported that a number of parenting programmes had been used to identify adults who were in need of support in their home or family situation, and support and advice would be arranged in relation to parenting skills.
- That there were relatively few incidents of significant harm to children in the Borough.
- Concerns were raised in regard to the increase of referrals since 2012.
- In relation to the potential problems arising from the continued reduction in resources, it was reported that increasing risks had become apparent and the steps to address this would be to allow children to remain in their homes and implement packages of support, however this could result in children living in more unpredictable situations.
- That Dudley Council are willing to explore alternative processes, such as partnership working with neighbouring authorities, however it had been apparent that some other authorities did not wish to participate.
- That a major consequence of reduction in resources in social care were the inability to engage in early help work and the difficulty in increasing the size of acute services to sustain the pace of demand, which resulted in social workers having complex and increased workloads.
- Following concerns raised in regard to the placement of children outside the Borough; the Assistant Director - Quality and Partnership undertook to provide Councillor Evans with comparison data in relation to the cost of internal and external care placements over a three year period.
- The Assistant Director - Quality and Partnership undertook to provide Councillor Tyler with data in relation to the percentage of children in care who were adopted or cared for by extended family members.
- In relation to the lack of funding for early intervention work, the Assistant Director - Quality and Partnership agreed that there could be improvements, and if additional funds were available for early help, it could reduce the risk to vulnerable children.
- The Assistant Director - Quality and Partnership acknowledged difficulties of initial contact and responses to referrals, however these were isolated incidents, and he was confident that contact duty workers were able to handle enquiries and referrals correctly and efficiently.

- In recent years due to West Midlands Police increasing the awareness of the importance to responding to Domestic Violence that involved children, contributed to the increase of referrals.

During his presentation of the content of the report, and Appendix 1 to the report submitted, the Treasurer referred, in particular, to the Committee giving consideration to identifying and scrutinising a specific risk from those shown in the Appendix for consideration when the Committee next considered the issue of corporate risks at its meeting in December, 2014.

Resolved

(1) That the information contained in the report, and Appendix 1 to the report, submitted on current corporate risks and other matters relating to risk management, be noted.

(2) That the risk ORG0021 – Children and Young People, be noted.

(3) That the risk ORG0013 – Information Governance – be the particular risk identified for closer scrutiny the next time a risk report was referred for consideration by the Committee, on 9th December, 2014.

(4) The Assistant Director - Quality and Partnership be requested to provide the following:

a) Councillor Evans with comparison data in relation to the cost of internal and external care placements over a three year period.

b) Councillor Tyler with data in relation to the percentage of children in care who were adopted or cared for by extended family members.

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9. **Internal Audit Services Annual Performance and Review Report 2013/14**

A report of the Treasurer was submitted on an overview of the performance of Audit Services in the year to the 31st March, 2014 and to inform members of the Head of Audit Services review of Audit Services in line with the Accounts and Audit Regulations, 2011, which require the Council to conduct an annual review of the effectiveness of internal audit. The Head of Audit was also required to give an opinion on the system of risk management and internal control and this was referred to in paragraphs 21 and 22 of the report submitted.

Following a presentation of the content of the report and related Appendices to the report submitted, lettered A – D, the Head of Audit Services commented on the self assessment of good practice and effectiveness.

The Head of Audit Services undertook to circulate a self assessment checklist, based on the CIPFA model, to members of the Committee, to evaluate their skills and knowledge, with a possibility of training given for identified gaps. Feedback of the questionnaire would be reported at a future Committee meeting.

Members asked a number of questions and made comments that were responded to, in particular in respect of the effects caused by the reduction of planned work, that resulted in a number of audits cancelled or deferred.

Regarding the number of post-audit questionnaires returned in 2013/14, although this had increased by 22% from the previous year, a Member of the Committee believed this should be improved.

Resolved

> That the information contained in the report, and Appendices to the report, submitted on the performance and review of Audit Services in 2013/14, be accepted and that the Head of Audit Services be requested to circulate the self assessment checklist to members of the Committee.

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10. **Committee Work Plan 2014/15**

A report of the Treasurer and the Director of Corporate Resources was submitted on a Committee Work Plan for 2014/15.

Resolved

> That the information contained in the report, and Appendix 1 to the report, submitted be approved.

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11. **Exclusion of the Public**

That the public and press be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information relating to any individual(s) as defined under Part I of Schedule 12A to the Local Government Act 1972.

Description of Item	Relevant Paragraphs of Part I of Schedule 12A
Annual Audit Report in relation to the Chief Executives Directorate	2 and 7
Annual Audit Report in relation to the Directorate of Corporate Resources	2 and 7

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12. **Annual Audit Report in relation to the Chief Executives Directorate**

A report of the Treasurer was submitted on the audit work, undertaken in the Chief Executive's Directorate for the financial year 2013/14 and incorporating details of the more important findings as indicated in Appendix 2 to the report submitted.

Arising from consideration of the report, and Appendix to the report, submitted Members asked a number of questions and made comments which were responded to, in particular, in respect of the management responses highlighted in the report, and emergency planning.

The Assistant Director - Policy and Improvement referred to a training course on Monday 6th October, 2014, and agreed to circulate an invitation to Members.

Resolved

That the findings of the 2013/14 audit work be accepted.

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13. **<u>Annual Audit Report in relation to the Directorate of Corporate Resources</u>**

A report of the Treasurer was submitted on the audit work, undertaken in the Directorate of Corporate Resources for the financial year 2013/14 and incorporating details of the more important findings as indicated in Appendices 2 and 3 to the report submitted.

In presenting the report, the Head of Audit Services referred to the increased number of recommendations for the Directorate, and stated that this resulted from audits undertaken in IT and HR and Organisational Development. The Head of Audit Services referred to discussions he had had with the Treasurer and Principal Information Security Officer in relation to IT, and assured the Committee that work was being undertaken.

Members asked a number of questions and made comments, which were responded to, in particular in respect of the management responses highlighted in the report.

In responding to a question by a Member, the Principal Information Security Officer undertook to provide Councillor Attwood with supplementary information in relation to the ICT software structure.

In responding to a question by a Member, the Head of Audit Services undertook to provide Councillor A Aston with supplementary information in relation to the implications of an Approved Bureaux status not being applied to a number of Academy Schools in order to undertake a BACS Approved Bureaux service.

Following comments made, the Director of Corporate Resources assured the Committee that work was being undertaken to address the recommendations highlighted in the report submitted.

Resolved

(1) That the findings of the 2013/14 audit work be accepted.

(2) That the Principal Information Security Officer be requested to provide Councillor Attwood with supplementary information in relation to the ICT software structure.

(3) That the Head of Audit Services be requested to provide Councillor A Aston with supplementary information in relation to the implications of an Approved Bureaux status not being applied to a number of Academy Schools.

The meeting ended at 8.05 p.m.

CHAIR

Agenda Item No. 5

Audit and Standards Committee – 18th September 2014

Report of the Treasurer

External Audit Findings Report 2013/14

Purpose of Report

1. To present the external auditor's Audit Findings Report to the Audit and Standards Committee for consideration and approval, and to invite the Audit and Standards Committee to approve the formal Management Representation Letter to the Auditor.

Background

2. The Audit Commission's Code of Audit Practice 2005 requires external auditors to report to those charged with governance on the results of their work. The Council has delegated the responsibility for the approval of the Statement of Accounts, and all audit matters, to the Audit and Standards Committee.

3. The Accounts and Audit Regulations 2011 set out the responsibility of members of local authorities for the adequacy of financial management.

4. Towards the end of each audit of the annual accounts, the Treasurer provides a management representation letter (sometimes known as a letter of comfort), confirming the completeness and reliability of the information and records supplied to the auditors. The external auditors request that this letter should also be signed by the Chairman of this meeting, to evidence members' acknowledgment of responsibility for financial management. A copy of this letter is attached in Appendix 1.

5. Grant Thornton UK LLP were appointed as the Council's external auditor from 1st September 2012 for five years from 2012/13,

Audit Findings Report 2013/14

6. The Report is attached in Appendix 2, and will be presented by the external auditor, Kyla Bellingall. It includes findings from the audit of the 2013/14 accounts, and opinions on the Council's arrangements for securing value for money.

Finance

7. This report refers to various aspects of financial management, but does not give rise to any direct costs.

Law

8. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act, 1998, and regulations made thereunder.

Equality Impact

9. The proposals take into account the Council's Policy on Equality and Diversity.

Recommendation

10. It is recommended that:-
    - the Committee considers the Audit Findings Report 2013/14 and the auditor's comments.
    - the Committee approves the Letter of Representation.
    - the Chairman of the Committee signs and dates the Letter of Representation to give evidence of the approval above.

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Iain Newman
Treasurer

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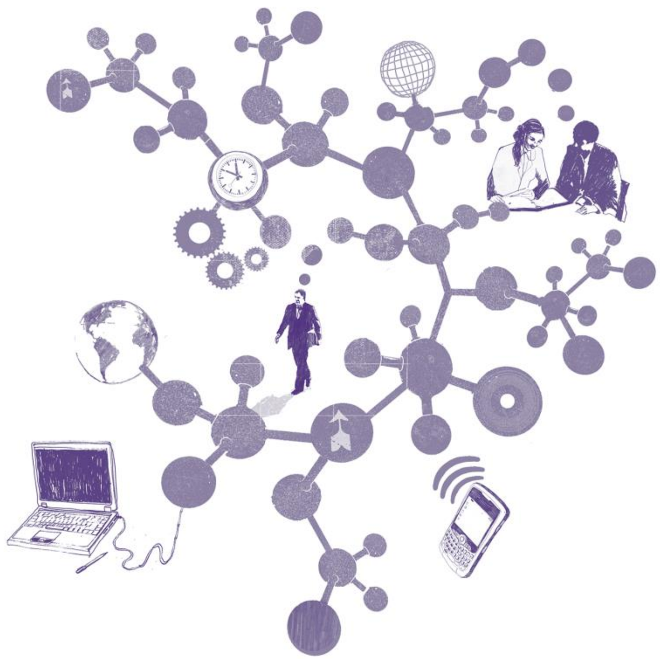
List of Background Papers
Audit Findings Report 2013/14

Grant Thornton

The Audit Findings Report for Dudley Metropolitan Borough Council

Year ended 31 March 2014

8th September 2014



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Contents

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

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

4

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Dudley Metropolitan Borough Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

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

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan presented in April 2014.

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

- review of the schools PFI operators model,
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts.

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

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any adjustments affecting the Council's reported financial position. We have made a number of adjustments to improve the presentation of the financial statements. Further details are set out in section 2 of this report.

Value for Money conclusion

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

Further detail of our work on Value for Money is set out in section 3 of this report. This includes a red, amber and green (RAG) rating against a number of themes. We are pleased to report that the majority of these have been rated as green. One area, Strategic financial planning, has been rated Amber, signifying that a residual risk exists.

This reflects the magnitude of the financial challenge that the Council is facing as it strives to continue making cost savings in an environment of significant reductions in local government funding.

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

Controls

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

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Treasurer.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Treasurer and the finance team.

Acknowledgment

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

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Standards Committee on 17 April 2014. We have not made any changes to our Audit Plan. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions.	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. However our testing did identify an issue regarding a number of journals being posted with no description. This could lead to an increased risk of fraud although, no fraud was identified from our testing. A recommendation has been included at Appendix A. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained and issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We planned to undertake a mix of tests to provide sufficient assurance that expenditure is not understated and is recorded in the correct period. This included: • Documentation of the processes and controls in place around the accounting for non pay expenditure • Walkthrough tests to confirm the operation of key controls • Testing of the monthly control account reconciliation processes • Reviewed the year end closedown process to ensure appropriate processes are in place • Testing of a sample of payments made before and after the year end • Testing of a sample of purchase orders raised either side of the year end • Testing of a sample of expenditure made during the year and creditors outstanding at the year end.	Our initial sample of 10 payments made in March 2014 identified 2 payments that related to goods and services to be provided in April 2014. Our initial sample of10 payments in April 2014 identified 2 payments that related to goods and services provided in March 2014 that had not been accrued for at 31/3/14. In both instances we extended our testing by 20 payments and we found no further errors in the March 2014 but a further 2 errors in the April 2014 population. If these were replicated across the whole population the potential error would be £1,357k from the March 2014 payments and £584k from the April 2014 payments, giving a net position of £773k. These have been included in the unadjusted misstatements on page 18. Given the low value of the individual errors identified, we have recommended that the Council consider a de minimus policy for expenditure accruals, as set out in Appendix A.

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained and issues arising
Employee remuneration	Employee remuneration accrual understated	We planned to undertake a mix of tests to provide sufficient assurance that employee remuneration is not materially understated. This included: • Documentation of the processes and controls in place around the accounting for pay costs • Walkthrough tests to confirm the operation of the key controls • Testing of the monthly control reconciliations • Testing of a sample of payments made to employees during the year • Testing of year end payroll creditors • Trend analysis of monthly movement of payroll amounts to identify unusual movements • Testing of the Senior Officers Remuneration disclosure • Testing of the disclosures relating to the defined benefit contribution pension scheme.	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefit expenditure improperly computed	• Documentation and walkthrough of processes and controls surrounding council tax reduction and housing benefit expenditure • Testing of the final Housing Benefit claim using the HB COUNT methodology. • Testing of the calculation of a sample of council tax reductions.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained and issues arising
Housing Rent Revenue Account	Revenue transactions not recorded	• Documentation and walkthrough of processes and controls surrounding rents • Detailed analytical review to provide sufficient assurance that housing rents are not materially understated. • Testing of a sample of rents received.	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant and equipment	PPE activity not valid Revaluation measurement not correct	• Documentation and walkthrough of processes and controls surrounding valuation of assets and the validity of activity • Review of the Council's arrangements for instructing the valuer • Procedures for relying on the work of the valuer and tests of detail on valuations • Substantive tests to provide sufficient assurance that activity (additions and disposals) in year was valid.	Our testing of capital asset additions identified an invoice that included expenditure on both a new installation and on repairs. £10k of the £21k invoice should have been treated as revenue rather than capital expenditure. Extrapolating this error over the whole of capital additions would give a potential error of £2.1m. This has been included in the unadjusted misstatements on page 18. During the year the Council identified that is did not hold the title deeds to Netherton CofE Primary School (held by the Official Custodian for Charities). This means that the opening assets balances were overstated by £1.5m. However as this is not considered material, the Council has correctly treated this as a disposal in year. A recommendation that the Council undertakes a review of its assets, to ensure it does not inadvertently have assets on its balance sheet that is does not have the right to, is included at Appendix A.

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Fees, charges and rents due from customers and tenants are accounted for a income at the date the Council provides the relevant goods, services or accommodation.	The Council's accounting policy for revenue recognition is appropriate and in line with common practice for local government bodies. It is disclosed in sufficient detail.	● Green
Judgements and estimates	• Key estimates and judgements include : – Use of the major repairs allowance (MRA) as a proxy for depreciating council dwellings – Valuation of investment in Birmingham Airport	MRA We have reviewed the Council's justification for using MRA as a proxy for depreciation. The Council has demonstrated that calculating depreciation on an alternative basis produces a trivial (£26k) difference. Therefore, we are satisfied that is reasonable to use MRA as a proxy. Birmingham Airport The Council holds shares in Birmingham Airport Holdings Limited (BAHL). The Council is required to record this investment in the accounts at fair value. As shares in this company are not traded frequently the Council has had to estimate the value of its investment. The Council has drafted an estimation approach in conjunction with other West Midlands Metropolitan Councils that also hold shares in BAHL. We have reviewed the approach used and are satisfied that it produces a valuation which is not materially misstated.	● Green

Assessment

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

Accounting policies, estimates and judgements

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	• Key estimates and judgements include : – Provision of unequal pay – Provision of Business Rate Appeals.	<u>Unequal pay provision</u> The Council has made a provision for outstanding settlements with current and former employees in respect of actual and potential claims under Equal Pay legislation. We have discussed progress to settle these claims with senior finance staff during the audit and have reviewed the Council's estimate of the provision within the financial statements. The Council's estimate is based on the likelihood of various types of claims having to be settled and the estimated value of the settlement. We are satisfied that the provision is not materially misstated as the Council has made reasonable assumptions about the number of claims that it will have to settle and the likely cost of settling these claims. As a large proportion of claims have now been settled, we have included a recommendation, at Appendix A, that the Council takes account of recent claim and settlements patterns when considering the estimate process for the 2014/15. <u>Business Rates Appeal Provision</u> The Council has made a provision for the Business Rate appeals that have been received but not settled at year end. The Council, like most authorities, has based its estimate on the outcomes to date of appeals against the current (2010) ratings listing which appears reasonable. However, no provision has been made for appeals that have not yet been received . We have discussed why the Council feel that it cannot make a reliable estimate of potential claims with senior finance staff. We are satisfied that the provision is not materially mis-statated. However we are seeking confirmations in the Letter of Representation (LoR) to support the Council's view that it is not possible to arrive at a reliable estimate to the value of potential appeals not yet lodged.	● Green

Assessment

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

Accounting policies, estimates and judgements

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	• Key estimates and judgements include : – Pension Liabilities.	Pensions Liabilities A firm of consulting actuaries (Mercers) is engaged to provide the Council with expert advice about the assumptions to be applied when valuing pension liabilities. These assumptions cover areas such as mortality rates, inflation and future increases in salaries and pensions. We have reviewed the assumptions used by the actuary and are satisfied that they are reasonable.	● Green

Assessment

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

Accounting policies, estimates and judgements

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates - PPE	• Page 48 of the draft accounts sets out the Council's rolling programme of asset revaluations. This shows that the date of valuations vary between 2009 and 2013.	The Code requires the Council's to value all items within a class of property, plant and equipment simultaneously. A rolling basis of revaluation is only permitted when: - the revaluation of the class of assets is completed within a 'short period' - the revaluations are kept up to date We would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year. However the Council has assured itself that these valuations reflect current valuations at 31/3/2014 by undertaking a desktop review of all assets. This approach is similar to many other authorities and whilst not compliant with the Code we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. As a result, whilst we have accepted the approach for 31/3/2014 we have included a recommendation at Appendix A that this will be reviewed for 2014/15.	● Amber
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	● Green

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

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	The current service cost effect on HRA costs was not picked up properly, so spend was understated in the HRA stand alone statement, and the surplus on services overstated, by £1,212k. (This represents the difference between employers contributions to LGPS and current service cost, for HRA employees). The MiRS figures remain unchanged which means that the HRA reserve figure is unaffected.	£1,212	n/a	n/a
	Overall impact	**£1,212**	**n/a**	**n/a**

Misclassifications and disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	various	various	We noted a number of errors between the prior year comparators, included in the 2013/14 financial statements, and prior year audited financial statements. These have been amended.
2	Disclosure	18,060	CIES – public health	Additional disclosure have been added to reflect the transfer of public health responsibilities in 2013/14.
3	Disclosure	15,030	Other receipt from Investment Activities - Cashflow	Additional disclosure have been added to provide readers of the accounts with further information on this material balance..
4	Disclosure	various	Defined benefit pension scheme (note 28) Additional note required	We noted a number of inconsistencies between the pensions disclosures in the accounts (note 28 and CIES) and the supporting schedules provided by the scheme actuary from Mercers. Changes to IAS 19 required a number of changes to terminology and a prior period adjustment note to reflect changes required to the 12/13 comparators.
5	Disclosure	6,700	NDR provision	Additional disclosures have been added to provide the readers of the accounts with further information on the estimation uncertainties.

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit and Standards Committee should consider whether it is satisfied with management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1	Cut off error (see page 9)	CR 773	DR 773	Extrapolated error
2	PPE additions error (see page 11)	DR 2,031	CR 2,031	Extrapolated error
	Overall impact	**DR £1,258**	**CR £1,258**	

Other qualitative issues

The purpose of an audit is to express an opinion on the financial statements. The matters reported here are limited to those issues that are qualitative in nature that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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

	Assessment	Issue and risk	Recommendations
1.	● Deficiency	Capitalisation of staff costs From our testing we identified that the capitalised staff costs within housing were not supported by timesheets. Further investigation revealed that these individuals worked solely on capital projects and that it was appropriate to capitalise these costs. However without detailed time records the cost cannot be accurately apportioned to the relevant schemes and the practice within housing is inconsistent with the rest of the Council.	• The Council should ensure that all capitalised staff costs are supported by timesheets.
2.	● Deficiency	Accumulated absences The Council has not updated its accumulated absence accrual since 2010/11. Whilst the process of estimation is not unreasonable the Council should periodically review the underlying assumptions to ensure they remain up-to-date.	• The Council should ensure it periodically reviews it accumulated absence accountsto ensure the assumptions remain up-to-date and valid.

Assessment

● Significant – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Council. • In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates for the Business Rate appeals provisions.
4.	**Disclosures**	• Our review found no material omissions in the financial statements. However we noted a number of areas where amendments were needed and the most significant of these are included on page 17.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

Value for Money

Value for money conclusion

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

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

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

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Strategic financial planning
- Financial control

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency and productivity

Using a RAG rating, we have assessed 5 of the 6 themes as green. We have assessed Strategic financial planning as amber, highlighting that we consider a residual risk in this area. This reflects the facts that whilst the Council has a track record of delivering savings year on year , the level of funding reductions affecting the local government sector is such that the current identified savings plans and reserves will not be sufficient to bridge the funding gap by 2017/18 (as identified in the Council's MTFS).

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. Our assessment covers the 2013/14 financial year but also looks forward 12 months. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance. The characteristics we consider include: • Liquidity • Borrowing • Workforce • Performance against budgets • Reserves (including schools)	We have not identified any risks with the Council's liquidity or borrowing levels. In 2012/13 we identified a deterioration in the performance indicators for sickness absence. The Council set itself a target of 9 days sickness for each full time equivalent employee (FTE). The outturn for 2013/14 was 9.52 days. This is the lowest that this has been for over 8 years. In addition the Council has looked at long term and short term sickness absence and whilst long term remains static the short sickness absence has considerably reduced, which was the aim of the new absence management policy. The performance also compares well to the CIPD annual survey on absence management which calculates the average number of days lost per employee as 9 days for local government. Performance against the revenue budget has been good over the last 3 years with the Council achieving its revenue budget and savings plans. An overspend occurred in looked after children during 2013/14 year. The Council was able to mitigate the impact on the overall financial position by redirecting funds from other areas such as dividend receipts from its airport shares. The Council instigated an investigation to look at the underlying reasons behind this and the associated recommendations have been factored into its future years savings plans. On the HRA the 2013/14 outturn position is also more favourable than that budgeted. In relation to capital, the proportion of the capital budget that has been slipped or rephrased is significant in 2013/14 (£10m rephasing of the budget). Whilst the explanations included in the cabinet reports confirm the scheme is progressing and the budget will be spent there has been limited explanation as to why the schemes are delayed. Overall the Council holds an appropriate level of earmaked and general fund reserves. Whilst the Local Management Scheme element of schools balances has reduced as expected, the increase in underspent Dedicated Schools Grant has meant that schools reserves overall have not reduced.	Green	Green

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Strategic financial planning The characteristics we consider include: • Focus of the Medium Term Financial Strategy (MTFS) • Adequacy of planning assumptions • Links to the annual and other plans • Review process • Responsiveness of the plan	The Councils MTFS has been regularly updated throughout the year, in line with the annual planning process. The updates include expected and known changes to government funding arrangements, spending pressures and the impact of implementing transformation plans. The MTFS has led the Council during 2013/4 to consider wider transformation al schemes such as outsourcing and consider the implications of savings plans on staffing levels. We have considered the Council's approach to a range of assumptions including income, inflation and interest rates, investment in assets and borrowing. The council's approach is reasonable. There has been no indication that there is a deterioration in the value of assets that would impact on the Councils MTFS. The 2014/15 budget requires a savings plan of £4.1m which is 2% of the base budget and include a range of schemes to deliver this saving. The MTFS also includes the schemes for the next 3 years and in 2015/16 the Council is required to make savings of £28.6m which is 12% of its base budget. This is significantly higher than any savings plan the Council has attempted to achieve before. Significant elements of the plans include: • £7m savings from the Better Care Fund • £2.5m savings from commissioning of Looked after Children • £3.5m from restructuring the Urban Environment Financial monitoring of 2014/15 indicates that the Directorate of Children's Services is at risk of an overspend in excess of £2m in the current year. That directorate is working on plans to ensure that it gets back on track to deliver savings from children's commissioning from next year onwards. In addition the MTFS highlighted that identified savings and the use of reserves will not be sufficient to fully close the finding gap. For 2017/18 the Council's current MTFS forecasts a deficit budget position of £13.5m. A longer term residual risk therefore exists which is reflected in our Amber rating.	Green	Amber

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial Governance The characteristics we consider include: • Understanding of financial environment • Executive and Member engagement • Budget Reporting • Adequacy of other committee reporting	The Cabinet are regularly informed of the financial position (revenue, capital and HRA). The Quarterly Performance reports include two financial indicators (the speed of payment of invoices and the percentage of debt paid with 6 months). Based on our review, the Cabinet receive a good range of financial information to enable it to manage the financial position of the Council. During our attendance at the meetings of the Audit and Standards Committee we have witnessed members challenging officers in respect of performance and providing leadership on financial governance issues. During 2013/14 the Committee has focused on key risks, inviting management from different directorates, across the Council, to report on the management of risks. The budget setting process for 2014/15 included internal and external consultation on the saving and financial priorities. The saving plans cover all directorates and a wide area of Council services. The Council also performed a detailed consultation exercise in respect of the 2014/15 budget. This involved advertisements in local newspapers and on the website. The Council received 2,488 responses. In addition, the Council also undertook a detailed consultation on the potential closure of the children's centres. It is clear that the Council has consulted widely and has taken into account the views of those who were consulted.	Green	Green
Financial Control The characteristics we consider include: • Budget setting and monitoring • Savings setting and monitoring • Financial Accounting systems • Finance Department Resourcing • Adequacy of Internal Audit • External Audit Conclusions • Assurance Framework	The Council's financial control is demonstrated by its ability to achieve cost savings within the continually challenging environment. Each directorate is tasked with identifying savings projects as part of the annual budget setting exercise. Each directorate is given a savings target that they have to meet and are given authority to determine where and how the savings will be made. Directorates look to make efficiencies first, for example through not filling vacant posts and then at more fundamental changes. The outturn position for 203/14 shows a better than forecast year end position, which evidences the steps the Council has taken to manage in year costs/savings. However, there is no reporting to Cabinet of what savings have actually been achieved against plans for specific schemes and so it is not transparent which activities have under or over performed. As already reported significant savings are required in the period 2015-2018. During this period the identified savings schemes alone are not sufficient and the Council is planning to utilise its reserves. For 2017/18 these reserve will be fully utilised and the Concil is forecasting a £13.5m deficit. A longer term residual risk therefore exists which is reflected in our Amber rating of Strategic financial planning rather than within financial control.	Green	Green

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial Control (continued)	The finance department has a long history of providing good quality, relatively low-cost services. The team are proactive and open to new challenges and ideas and are working closely with us on ensuring we would all be in a position to sign off the financial statement by the end of July (once the new audit regulations come into force). Internal audit are well regarded. They reported that 89% of the planned work had been completed by the end of the year (compared with 93% in 2012/13). The reduction was largely due to staff leaving and Internal Audit appropriately re prioritised their work to focus on high risk areas. Any recommendations made by us are given a high priority and implemented quickly. The Council has sound risk management framework in place .	**Green**	**Green**
Prioritising resources The characteristics we consider include: • Leadership and challenge • Consultation with stakeholders • Basis for decision making • Understanding the impact and outcome of decisions	Our work on financial resilience have not found a lack of leadership on financial issues. The Council has consulted widely with both internal and eternal stakeholder during the production of its 2014/15 budget and MTFS (see financial governance) and taken action to review the cost effectiveness of services and challenge existing delivery models. Our work on Council's savings plans has not identified any evidence that they have inadequate arrangements to monitor achievement of efficiencies and reductions in unit costs, and the impact on service quality and provision. As at the end of April 2014 the Health and Well Being Board had a joint Better Care Fund plan in place and submitted by the required deadline (early April 2014). They had also started to make good progress in identifying its transformational plans for 2015/16.	**Green**	**Green**

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Improving efficiency and productivity The characteristics we consider include: • Understanding costs • IT systems and Data Quality • Delivery of Savings and Service redesign • Effectiveness of key services	We considered the Audit Commissions VFM profiles as part of our risk assessments and there were no indication of excessive high cost services. During the production of the 2014/15 budget and MTFS the Council has taken action to review the cost effectiveness of services and challenge existing delivery models. In particular, the proposal to close the children's centres, the current review of the management structure, consideration of outsourcing and the external review of Looked after Children. Although outsourcing did not identify any significant savings, the review of Looked after Children identified significant changes to the way services are to be delivered and associated savings. There is no indication that the Council has poor data quality or IT systems The Council has achieved its savings plans over the last few years. The 2014/15 budget requires a savings plan of £4.1m which is 2% of the base budget and include a range of smaller schemes. The MTFS also include the schemes for the next 3 years and in 2015/16 the Council is required to make savings of £28.6m which is 12% of its base budget. This is significantly higher than any savings plan the Council has attempted to achieve before. Our work on Council's savings plans has found that it has a good record of achieving planned efficiencies and there is no indication that the effectiveness of key service is being significantly impacted by the level of savings so far. The outturn performance report to Cabinet shows that in the main services are performing well but does identify 10 targets where performance is below expectations. The report identifies detailed action plans and progress to improve performance which appear to be well on track. Given that significant changes are being made to these services it is not unexpected that performance will fluctuate in the short term. It should also be noted that the reductions in performance against the scorecard areas are marginal rather than significant.	Green	Green

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	178,177	179,657*
Grant certification	32,500	21,227**
Total audit fees	**210,677**	**200,884**

*There is additional fee of £1,480 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for metropolitan borough councils and is subject to agreement by the Audit Commission.

** New scale fee set by the Audit Commission. Revised to reflect there is no longer a requirement to certify Teachers Pensions, NDR 3 and the council tax element of the HB and Council Tax Grant.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

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

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

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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

Appendices

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement
Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date and responsibility
1	The Council should ensure that all journals contain an appropriate description.	Deficiency	Agreed. All Accountancy staff will be reminded about the importance of appropriate descriptions.	With immediate effect. Head of Accountancy.
2	The Council should review all land and building assets contained within its asset register to ensure it has the rights (e.g. title deeds) to those assets.	Deficiency	Agreed. All assets in the register will be reviewed to check that the Council has rights to the assets.	March 2015. Head of Property Services
3	The Council should take account of recent claim and settlements patterns when considering the estimate process for the 2014/15 provision.	Deficiency	Agreed. The review will take into account recent claim and settlement patterns when considering the estimate for the 2014/15 unequal pay provision.	March 2015 Head of Accountancy
4	The Council should consider a de minimus policy for smaller transactions at year end.	Deficiency	Agreed. This will be considered as part of our Closedown plan for the 2014/15 accounts.	Autumn 2014 Group Accountant Corporate Finance.
5	The Council should ensure that all capitalised staff costs are supported by timesheets.	Deficiency	Agreed. Supporting documents will be provided for the 2014/15 accounts.	March 2015 Housing Finance Manager
6	The Council should ensure it periodically reviews it accumulated absence accounts to ensure the assumptions remain up-to-date and valid.	Deficiency	Agreed. This will be considered as part of our Closedown plan for the 2014/15 accounts.	Autumn 2014 Group Accountant Corporate Finance.
7	The Council should review is approach to the revaluation of land and buildings in 2014/15.	Deficiency	Agreed. We will review our approach to valuation for 2014-15 accounts against the Accounting Code of Practice.	March 2015. Head of Property Services

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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

Opinion on the Authority financial statements

We have audited the financial statements of Dudley Metropolitan Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurers Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. **This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements.**

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Dudley Metropolitan Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Dudley Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

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

Kyla Bellingall
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Row
Birmingham
B4 6AT

September 2014

Agenda Item No. 6

Audit & Standards Committee – 18th September 2014

Report of the Treasurer

Annual Governance Statement

Purpose of the Report

1. This report deals with the Annual Governance Statement [AGS] that is to accompany the accounts for the financial year 2013/2014.

Background

2. The requirement to produce an AGS is contained in the Accounts and Audit Regulations 2011, guidance from the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA) issued in 2007, and classification to what constitutes “proper practice” from the Department for Communities and Local Government.

3. The AGS encompasses all aspects of good governance.

4. CIPFA/SOLACE guidance on good governance identifies six core principles, focusing on the systems and processes for the direction and control of the organisation and its activities, through which it accounts to, engages with and leads the community, i.e. :-
   a. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
   b. Members and officers working together to achieve a common purpose with clearly defined functions and roles
   c. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
   d. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
   e. Developing the capacity and capability of members and officers to be effective
   f. Engaging with local people and other stakeholders to ensure robust accountability

5. CIPFA/SOLACE provide further guidance in the form of a series of stated expectations around the role of officers and members in the organisation in supporting the governance framework. The Code of Corporate Governance, which sets out the Council’s overall Governance Framework, was approved by Audit & Standards Committee in April 2014.

6. CIPFA also provided technical guidance on the preparation of the AGS in relation to the corporate governance and the guidance was followed in preparing the AGS and principally involves completion of extensive checklists.

In 2010 CIPFA provided guidance on the role of the Chief Finance Officer [CFO] in local government. They produced a series of principles which should define the core activities and behaviours for the CFO. An assessment against current practice indicates the majority of the principles are applied in Dudley. The principles include a requirement that the CFO is a key member of the Leadership Team and should report directly to the Chief Executive with status at least equivalent to other members. They also state that if this is not the case then the reasons should be explained publicly in the AGS. It is considered in Dudley that whilst the Treasurer does not directly report to the Chief Executive he does have a reporting line. He is a full member of Corporate Board and has equivalent status to other members in terms of decision making and access to all confidential papers/matters. The Council is currently consulting on a reorganisation of senior management. Reporting arrangements for the Treasurer and other statutory officers will be considered as part of this exercise.

7. In December 2012 CIPFA/SOLACE issued an addendum review of their original guidance to ensure it remained 'fit for purpose', which they deemed it did. They stated that local government has been undergoing significant change and the environment in which it works is increasing in complexity. In addition to economic and financial challenge, the Localism Act and other key legislation has brought new roles and opportunities and greater flexibility for authorities.

They went on to say that local authorities are changing the way in which they operate and undertake service provision including services delivered directly, through partnerships and collaboration and through commissioning. The introduction of new structures and ways of working provide challenges for managing risk, ensuring transparency and demonstrating accountability. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with control and the management of risk. A one-size-fits-all approach to governance is inappropriate.

8. The new guidance from CIPFA/SOLACE reiterated that the AGS should provide a brief communication regarding the review of governance that has taken place and the role of the governance structures involved (such as the Audit & Standards Committee). It should be high level, strategic and written in an open and readable style. It should be focused on outcomes and value for money and relate to the authority's vision for the area.

9. CIPFA guidance on the AGS assurance gathering process is illustrated in Appendix A, and a map of the assurance process is provided at Appendix B. A Corporate Governance Group of senior officers has assisted the process of producing the proposed AGS set out at Appendix C. The Corporate Governance Group is tasked with :-

a. Collating and reviewing reports from external inspection agencies in terms of impact on control and governance
b. Collating and reviewing information on any significant governance weaknesses, including details of remedial action
c. Reviewing the Code of Corporate Governance.

10. The AGS summarises the governance framework within the Council and highlights any areas of concern. The governance framework includes matters such as :-

Performance management	Business strategy and planning process
Annual budget	Budgetary control
People strategy	Information Governance
Code of Corporate Governance	Constitution
Risk management strategy	Confidential Reporting policy
Standing Orders	Financial Regulations
Anti-Fraud and Corruption	Ethical governance
Financial policies/procedures	Codes of conduct

11. The aim of the various elements of the framework is to ensure that :-
   a. The Council's policies are put into practice
   b. The organisation's values are met
   c. Laws and regulations are complied with
   d. Required processes are adhered to
   e. Financial statements and other published information are accurate and reliable
   f. Human, financial and other resources are managed efficiently and effectively

12. This review of the Council's overall governance arrangements has not identified any significant governance issues requiring attention.

Finance

13. This report has no direct financial implications.

Law

14. The Account and Audit Regulations 2011 require that the relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and the findings of the review shall be considered by a committee of the relevant body. Following that consideration, they shall approve an AGS, prepared in accordance with proper practices. CIPFA have provided guidance to the effect an AGS will incorporate the review of internal control.

Equality Impact

15. This report does not raise any equal opportunities issues.

16. Whilst children and young people are not directly consulted on, or involved with the development of the AGS, it will help ensure their interests are protected.

Recommendations

17. The Committee is recommended to approve the Annual Governance Statement as set out at Appendix C and refer it to the Leader of the Council and Chief Executive for signature.

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Iain Newman

Treasurer

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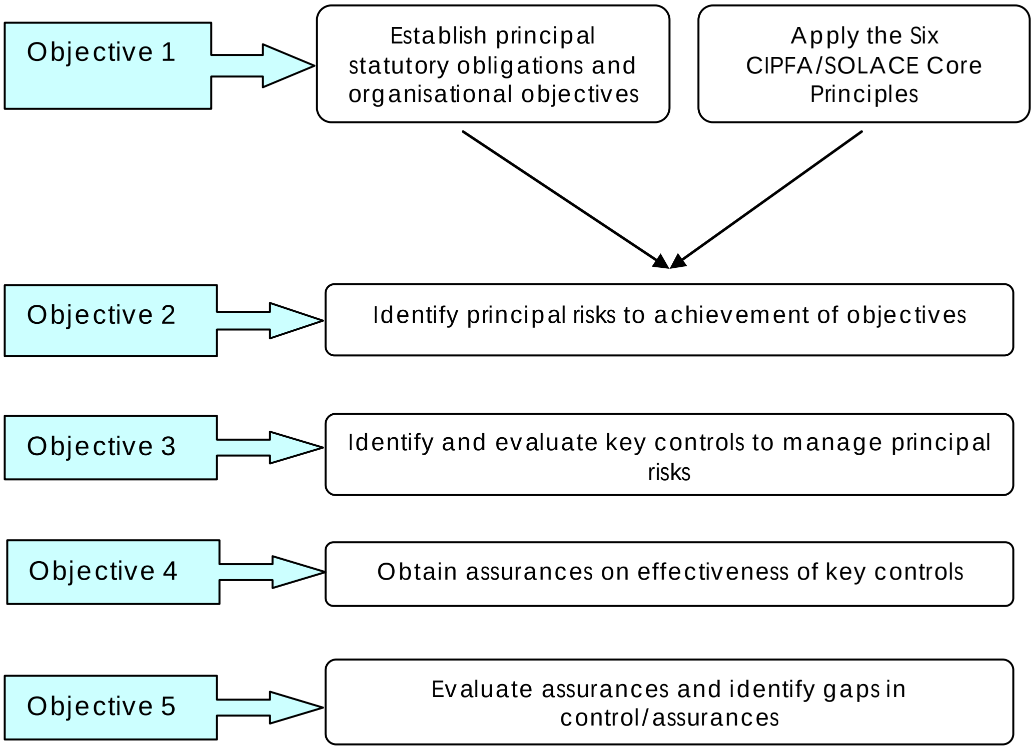
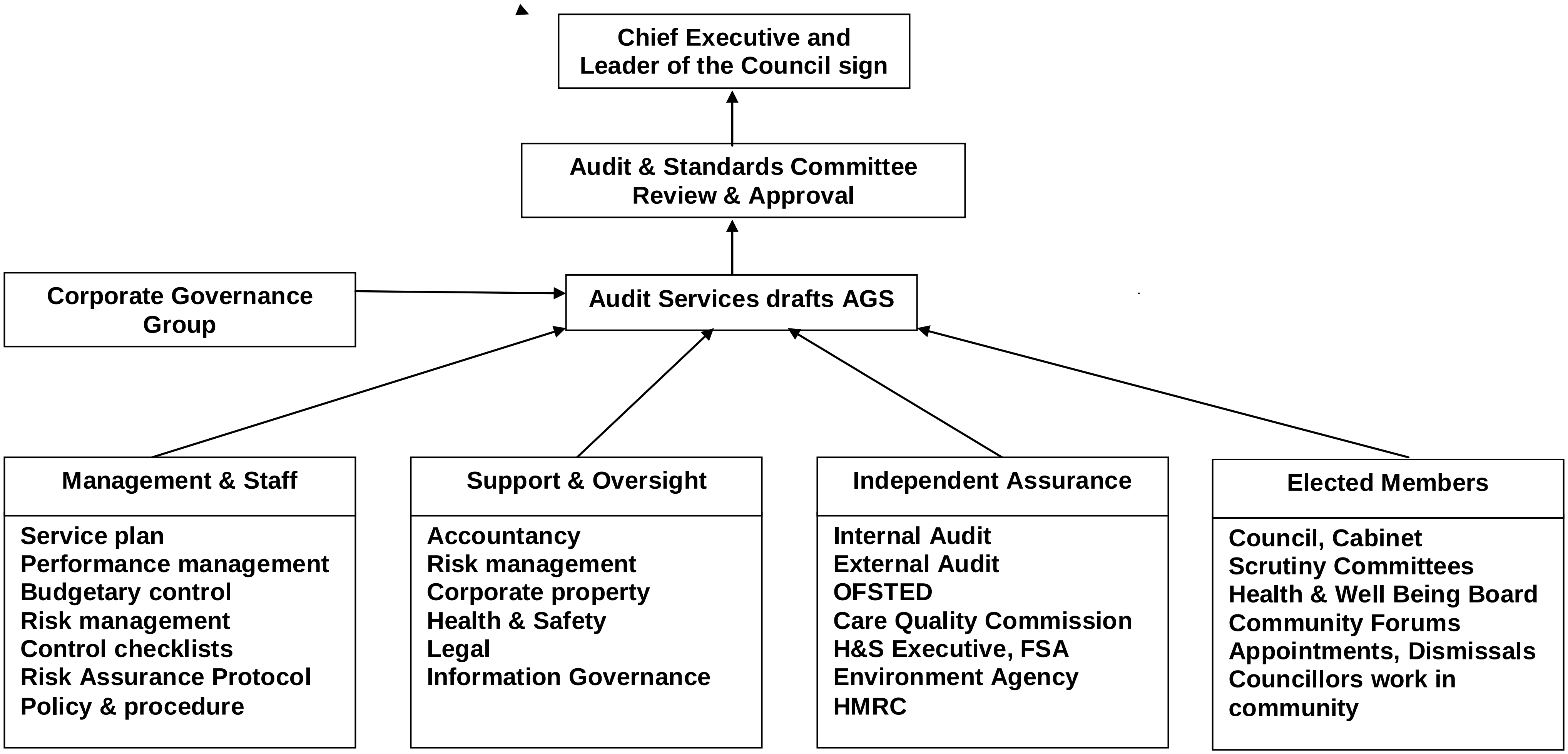
Appendix A : Review of Annual Governance Statement and the Assurance Gathering Process



Appendix B : Assurance Framework in support of the Annual Governance Statement [AGS]



Appendix C : Draft Annual Governance Statement 2013/14

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

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

The Audit & Standards Committee has now approved a revised Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government, and also the Localism Act. A copy of the Code has been placed on the website following full Council approval.

This statement explains how the Council meets the requirements of the Accounts & Audit Regulations 2011, which requires the publication of an annual governance statement.

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

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. They cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The systems of risk management and internal control are based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

A governance framework has been in place at the Council for the year ended 31 March 2014 and up to the date of approval of this statement.

3. The Governance Framework

The cornerstone of the governance framework is the Council's Constitution, which sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by law, while others are a matter for the Council to determine. The Council's Constitution also contains detailed codes and protocols, such as Standing Orders (defining how contracts must be let) and Financial Regulations (setting out procedures and principles for proper financial management).

The Constitution defines and documents the roles and responsibilities of the Cabinet, other Member Committees and senior officer functions, with clear delegation arrangements. The key senior officers identified in the Constitution include statutory positions :-

a. Head of the Paid Service (Chief Executive) must ensure that the Council is properly organised and staffed
b. Monitoring Officer (Director of Corporate Resources) must ensure the lawfulness and fairness of decision-making
c. Chief Finance Officer (Treasurer) must ensure the lawfulness and financial prudence of decision-making. The Treasurer is also responsible for the proper administration of the Council's financial affairs.

In 2010 CIPFA provided guidance on the role of the Chief Finance Officer [CFO] in local government. They produced a series of principles which, should define the core activities and behaviours for the CFO. An assessment against current practice indicates the majority of the principles are applied in Dudley. The principles include a requirement that the CFO is a key member of the Leadership Team and should report directly to the Chief Executive with status at least equivalent to other members. They also state that if this is not the case then the reasons should be explained publicly in the AGS. It is considered in Dudley that whilst the Treasurer does not directly report to the Chief Executive he does have a reporting line to him. He is a full member of Corporate Board and has equivalent status to other members in terms of decision making and has access to all confidential papers/matters.

Responsibility for reviewing and updating all elements of the Constitution have been delegated to senior officers e.g. the Monitoring Officer has responsibility for operating the Scheme of Delegation.

In identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and services users, the Council engages with all parts of the community, and this now includes a larger number of Community Forums.

The Council's most important objectives are consolidated in the Council Plan, and an associated assurance framework is in place whereby the key objectives of the Council now include formal consideration and documentation of any risks which might prevent objectives being achieved.

In reviewing the authority's vision and its implications for the authority's governance arrangements, the Council carries out an annual review of the Council Plan to ensure it remains focused on current and long term issues. The Constitution is reviewed at least annually to ensure the governance framework is fit for purpose.

The Council Plan is supplemented by strategies and plans within each Directorate.

In measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources the Council uses a Corporate Performance Management system. This is monitored by Corporate Board and Cabinet each quarter. Each Directorate will also set, and monitor, quality of service measures for each service as part of the Corporate Strategic Planning framework.

The Council recognises it has a legal duty to secure economy, efficiency and effectiveness in its use of resources and continuous improvement in its services. This duty is recognised in establishing the Council's policy agenda.

Effective financial management is an essential aspect of the Council's governance framework. This is achieved in particular through :-

a. Comprehensive revenue and capital budgeting and reporting systems
b. A medium term financial planning process
c. Regular reporting and monitoring of actual performance against forecast;

Responsibility for developing, communicating and embedding codes of conduct, which define the standards of behaviour for members and staff has been delegated to the Audit & Standards Committee, which also monitors the Council's Confidential Reporting Policy and Fraud Hotline. The Council also operates a complaints system for the public and the use of the system is monitored by Senior Officers and Members.

The Council has an Audit & Standards Committee with a remit to oversee the effective operation of both the internal and external audit function, and to ensure that appropriate action is taken in relation to audit recommendations. It also has responsibility for corporate governance arrangements, and the promotion and maintenance of high standards of conduct within the Council.

The Audit & Standards Committee annually endorses the Risk Management Strategy which incorporates a Risk Assurance Protocol which requires Senior Officers to regularly certify that risks have been reviewed and mitigating controls are operating as intended. The results are collated and monitored centrally. The Audit & Standards Committee also receive additional reports on risk management throughout the municipal year.

Corporate Board and Cabinet also review the most significant risks in the Corporate Risk Register each quarter.

There is a statutory requirement for the Council to undertake an adequate and effective internal audit of it's accounting record and system of internal control. This is a responsibility delegated to the Treasurer. Internal Audit operates as an independent, objective assurance and consulting service designed to add value and improve an organisation's operations. It operates a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit is under the day-to-day control of the Head of Audit Services who ensures the service operates in accordance with the Public Sector Internal Audit Standards. Internal Audit has a rolling programme of audits that, over a period of years, is intended to review all significant areas of risk, control and governance within the Council. The priority of different areas of the programme is determined by Internal Audit's own assessment of risks [including the Corporate Risk Register], controls and overall assurance framework. Internal Audit plans are approved by the Audit & Standards Committee.

The Account and Audit Regulations 20011 require the Council to conduct a review at least once a year of the effectiveness of it's internal audit and that the findings of the review shall be considered by a committee of the relevant body. The Head of Audit Services has carried out the review and it has been subject to review by the Treasurer, Corporate Governance Group and Audit & Standards Committee. The review determined that Internal Audit is operating effectively. The Audit & Standards Committee also periodically undertakes an exercise to judge it's own effectiveness using a toolkit supplied by CIPFA. The latest review concluded that it was operating effectively.

The Council has a number of Scrutiny Committees that carry out a programme of reviews of Council services and decisions.

The Council operates a comprehensive performance review system for identifying the development needs of senior officers and action plans are produced as appropriate. The Constitution also requires all political groups to identify any development needs of Members and a comprehensive training programme is available to meet their needs.

External Audit conduct annual audits of the Council and external inspectorates perform a number of reviews of Council services. All of these bodies contribute to the Council's governance framework.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework. The review of effectiveness is informed by the work of the Members and Senior Officers within the Council who have responsibility for the development and maintenance of the governance framework.

The Corporate Risk Register currently includes a number of significant risks which could affect the ability of the Council to achieve it's objectives. These risks include :-

a. Information governance
b. Property strategy
c. Energy and carbon reduction
d. Medium term financial strategy
e. Welfare reforms
f. Looked after children
g. Fraud

Reports on these matters are presented to Corporate Board, Cabinet, or Scrutiny Committees as appropriate. A number of the risks are also subject to review by Internal/External Audit and the Audit & Standards Committee.

During 2013/14 Internal Audit carried out 141 planned audit reviews as part of their plan. The findings were reported to relevant line managers and senior management, and appropriate action agreed.

The Audit & Standards Committee receives an annual report summarising the performance of Internal Audit in the previous financial year, and plans for future years. The Committee also receives a series of reports setting out the results of Internal Audit work in each of the Council's Directorates. These reports detail the higher importance findings, any unimplemented recommendations, and management feedback about the action they have taken. The Committee also receives more detailed reports on other areas where they consider it necessary. The Treasurer will, under the Anti-Fraud and Corruption Strategy, report major losses, resulting from fraud and corruption, to the Audit & Standards Committee. No such report was necessary during 2013/14. A report on the prevention and detection of fraud was presented to the Committee, who also approved a revised Anti Fraud & Corruption Strategy.

Audit & Standards Committee approved a revised Code of Corporate Governance in April 2014 and have requested that they be kept informed of the status of actions identified in the Code. The first report will be presented to the September meeting.

When the External Auditors have completed their audit for 2013/14, their Annual Audit and Inspection Letter will be presented to the Audit & Standards Committee and the Cabinet. The Annual Audit and Inspection Letter for the 2012/13 accounts presented an unqualified opinion on the accounts.

A number of other external bodies carried out reviews during the year, including Ofsted and the Care Quality Commission. The findings of their reports were also considered.

The Council's Scrutiny Committees also carried out an extensive programme of reviews of the Council's activities and decisions, and they report their work and findings to the Council. Their work has also been reviewed.

During the year, a number of the documents making up the governance framework were reviewed and any amendments were subject to approval by full Council or delegated Committees e.g. :-

a. Code of Corporate Governance
b. Codes of Conduct
c. Anti Fraud & Corruption Strategy
d. Standing Orders

In carrying out its review of the governance framework, the Council has considered the evidence provided by all of the sources referred to above and has not identified any strategically serious deficiencies that would warrant mention in Section 5 of this report. We aim to ensure continuous improvement of the framework is in place.

There are a number of significant developments affecting local government such as the transfer of public health, welfare reforms, financial cuts, etc. The effects of these developments on the governance of the Council is being monitored.

5. Significant Governance Issues

The review of the effectiveness of the governance framework has not identified any additional strategically significant issues which are not already covered by existing management and/or Member review. We will monitor the situation in 2014/15 to ensure the changes in local government operations do not impact adversely on the governance framework.

Councillor D.Sparks Leader of the Council	J.Polychronakis Chief Executive

Agenda Item No. 7

Audit and Standards Committee – 18th September 2014

Report of the Treasurer

Treasury Management

Purpose of Report

1. To outline treasury activity during the financial year 2013/14 and in the current financial year up to August.

Background

2. The Treasury Management strategy for 2014/15 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011. The Code recommends that members are informed of Treasury Management activities at least twice a year. This report ensures that the Council is embracing best practice in accordance with CIPFA's recommendations.

3. Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.

4. The Council undertakes treasury management activity on its own behalf and as administering authority for the West Midlands Debt Administration Fund *(WMDAF)*. We are responsible for administering capital funding of approximately £765m on our own account and another £172m on behalf of other West Midlands councils in respect of the WMDAF. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.

Treasury activity in 2013/14 on the Dudley fund

5. Our treasury activities were undertaken in the context of the Treasury Strategy Statement 2013/14 approved by Audit Committee and Full Council in February 2013. The Strategy Statement stated:

   "The primary factor in determining whether we undertake new long-term borrowing will be cash flow need. We may elect to borrow one or two years in advance of anticipated need if we judge that this is necessary in order to avoid being forced to borrow at higher rates at a later date"

6. In 2013/14 our investments averaged around £36.4 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.51%. The majority of our investments were for less than one month or were in call accounts[1]. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2013/14. Our investment activity for 2013/14 is set out in more detail in Appendix 1.

7. The average value of long-term borrowings in 2013/14 was £540 million. The average rate of interest on these borrowings was 4.13%. The loans were due to mature on dates ranging from 2014 to 2061. The rate for a 50-year maturity loan from the Public Works Loan Board (PWLB) has fluctuated in 2013/14 between 4.04% and 4.71%. The Council qualifies for borrowing at the PWLB's "certainty rate" which is 0.2% below the standard rates. In addition the "Project Rate" which is set at 0.4% below standard rate, is available for approved single projects identified by Local Enterprise Partnerships (LEPs).

8. In the light of these rates, together with forecasts for future rates and the availability of investment balances to meet cash flow, we did not enter into any new long-term borrowing during the year.

9. Due to cashflow requirements in the second half of 2013/14, it was necessary to undertake short term borrowing on 14 occasions at an average value of £2.8 miilion at 0.36% for an average duration of 9 days. Daily cashflow was managed by the use of call accounts.

Treasury activity in 2013/14 on the WMDAF

10. Our borrowing activities in 2005/6 placed us in a position where it was not necessary to undertake any new longer-term borrowing in the financial years from 2006/7 to 2013/14. Having consulted with our treasury advisors at Arlingclose, we did not identify any opportunities to improve our position by restructuring of debt. It was necessary to undertake short term borrowing on 7 occasions at an average value of £3.4m million at 0.38% for an average duration of 56 days.

Performance comparisons 2013/14

11. We have compared our performance, both for Dudley and the WMDAF, with four of our neighbours in the West Midlands. Two of the neighbours did not send their performance data in time for this report. The results are summarised in the following table:

[1] A call account is a deposit account with a financial institution without a fixed maturity date. The deposit can be "called" (withdrawn) at any time and deposits can also be made at any time. Call accounts and the specific terms associated with them differ depending upon the bank offering the account.

West Midlands performance comparisons 2013/14

	Dudley	WMDAF	West Midlands average
Gross average borrowing rate (the cost of borrowing, ignoring the return on investments)	4.16%	6.36%	4.75%
Investment return rate (the return on investments, ignoring the cost of borrowing)	0.52%	0.37%	0.79%
Net average borrowing rate (a combination of the above, representing the cost of borrowing net of the return on investments)	4.42%	6.38%	6.05%
Lender's Option Borrower's Option (LOBO)[2] loans as a proportion of all borrowing	2%	5%	15%

12. Our cost of borrowing in 2013/14 was lower than the average and the return on our investments was lower than the average of our neighbours. We were less exposed than the average of our neighbours to the potential volatility of LOBO loans (see footnote). The cash flow position during the year constrained both our investment and borrowing activities and our policy on investments has been very cautious. The performance figures for the four other councils included in the performance comparisons are detailed individually in appendix 4 in an anonymised format.

13. In respect of the WMDAF we have been constrained by the statutory timetable for closure of the fund (March 2026) and have not been able to take advantage of very cheap long-term debt that has been available in recent years.

14. It should be remembered that treasury performance measurement is not an exact science. These statistics represent the cumulative effect of decisions dating back over many years and the performance of our neighbours may have been achieved in circumstances different from our own.

<u>Prudential indicators 2013/14</u>

15. The 2003 Prudential Code for Capital Finance in Local Authorities sets out a framework for the consideration and approval of capital spending plans. In so doing, it requires the Council to set a number of prudential indicators, some of which concern matters of treasury management. Appendix 2 outlines those indicators for 2013/14. In all cases, actual outturn was within the targets and limits set by the Council.

[2] The lender has the option (at regular intervals stipulated in the loan agreement) to vary the rate of interest. The borrower then has the option to either accept the new interest rate or repay the loan.

Treasury activity 2014/15 to August

16. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2014/15 approved by Audit Committee and Full Council in February of this year. In that document we anticipated that long term borrowing would be required in the next 12 months due to cash flow need.

17. Our investments up to the end of August have averaged around £20.7 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.62%. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2014/15. Our investment activity for 2014/15 is set out in more detail in Appendix 3.

18. The medium term outlook for interest rates appears to suggest a possible gradual rise in the Bank of England's record low base rate of 0.50% commencing at the end of 2014. Despite recent growth in the UK economy and unemployment falling to 6.4%, the Monetary Policy Committee's general view is that the economy is still not performing at its full potential, whilst wage and price inflation remain low. Therefore, the base rate is likely to remain close to its historic low, and so there is little prospect of a substantial improvement in investment yields this financial year.

19. The average value of long-term borrowings up to the end of August has been £536.0 million. The average rate of interest on Dudley's loans is 4.10%. The maturity dates for the loans range from the current year to 2061. It has not as yet been necessary to undertake any new long-term borrowing in the current year, but we are monitoring interest rates and cash flow closely. We continue to anticipate that action may be required before the financial year end.

20. It has not been necessary to undertake any short-term borrowing in the current year to date. Daily cashflow has been managed through the use of call accounts

21. There has been no change to the position on the WMDAF.

Review of investment strategy

22. The Council's investment strategy, which is set out in the Treasury Strategy Statement 2014/15 and is summarised in Appendix 5 to this report, has been largely unchanged for a number of years. Recent and ongoing legislative changes have prompted a review of this strategy.

23. The Council's existing strategy has been based on investing only in UK financial institutions with a very high credit rating and on the implicit assumption that the UK Government would support these institutions in the event of a major failure. As a result, investments have been concentrated in a very short list of very strongly supported financial institutions (currently five banks and building societies). The strategy has also allowed investments in UK local authorities and in the UK Government's Debt Management Office (DMO) whenever it has not been possible to invest in one of the named financial institutions. The DMO tends to give a lower return than banks, reflecting the lower risk.

24. In order to comply with recommendations from the Independent Commission on Banking and the European Union's Bank Recovery and Resolution Directive, the UK Government has legislated through the Financial Services (Banking Reform) Act 2013 to change the basis on which failing banks will be supported in the future. Secondary legislation, laying out the new arrangements in more detail, is due to be enacted shortly following a period of consultation earlier in the year.

25. The proposed new regulations are complex but in essence, if a bank gets into financial trouble in future, the level of financial assistance that the Government can provide will be severely limited. Losses will in the first instance fall on bank shareholders and bondholders. However, in more serious failures, an element of the losses could fall on institutional investors such as local authorities. In the worst case scenario a local authority could lose all of its investments with a failing institution (albeit this is very unlikely when dealing with a bank of very high credit quality).

26. In order to mitigate the slightly increased risk, we will continue with our existing policy of minimising the level of investments that we hold. This has been, and will continue to be, achieved in the main by delaying any decision to borrow until cash flow dictates and also by electing to pay employer's superannuation contributions in a single annual instalment in exchange for a reduction in those contributions. During the period from April to August of 2013, the average level of investments held by the Council was £62m. During the same period this year, the average level of investments has been £21m. Based on seasonal trends, the level of investments (and therefore the risk) is likely to be significantly lower for the rest of this financial year and into next year.

27. In light of the position set out above, Appendix 5 sets out a number of proposed amendments to the investment strategy. These amendments reflect a reduced level of reliance on government support and will ensure that exposure to a single financial institution has an absolute limit of £5 million at any one time. As there are only five banks and building societies who currently meet our investment criteria, any cash over £25 million will only be invested with other local authorities or the UK Government via the DMO. Given the cash flow position set out above, the actual level of investments will normally be below this level. However, there may be occasional "spikes" in the level of cash that we hold and the proposed changes are to protect us on those occasions. The strategy will be kept under review and, if necessary, any further proposed amendments will be brought back to this committee and Full Council for approval.

28. The investment strategy will continue to recognise that credit ratings are good but not perfect predictors of investment default. Full regard will therefore also be given to other information on the credit quality of the institutions in which the Council invests (e.g. credit default swap prices, financial statements, the financial press and advice from our treasury advisors Arlingclose). No investments will be made with an institution if there are substantive doubts about its credit quality even if it meets the credit rating criteria.

Finance

29. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates.

Law

30. These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Council to do anything which is calculated to facilitate or is conducive or incidental to the discharge of its various statutory functions.

Equality Impact

31. The treasury management activities considered in this report have no direct impact on issues of equality.

Recommendations

32. That the Committee:

- notes the treasury activities outlined in this report;
- approves the amendments to the Council's investment strategy as detailed in Appendix 5.
- refers all of the above for approval by full Council at its meeting on 13th October

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Iain Newman
Treasurer

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List of Background Papers

- Treasury Policy Statement, Treasury Management Practices and Schedules to the Treasury Management Practices.

Appendix 1

Investment Activity 2013/14

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Barclays Treasury Direct	22	6.22	0.36	23
Debt Management Office	42	5.59	0.25	12
Nationwide Building Society	14	6.53	0.38	31
Bank of Scotland Call Account	N/A	9.88	0.43	Call
Santander	N/A	1.08	0.40	Call
Nat West	N/A	0.01	0.51	Call
HSBC	N/A	6.59	0.32	Call
Salford MDC*	1	0.50	11.25	Matures in 2020

This is a fixed term deposit of £500,000.00 with Salford MDC at an interest rate of 11.25% that was made in 1985 and is due to mature in 2020.

Appendix 2

Prudential indicators relating to treasury management 2013/14

External debt

These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. The operational boundary is a lower threshold allowing for a prudent but not worst case scenario for cash flow.

	£m
Authorised limit for external borrowing	951
Operational boundary for external borrowing	819
Outturn - actual maximum external borrowing	736

CIPFA Code of Practice for Treasury Management in the Public Service

The Council adopted the Revised CIPFA Treasury Management in the Public Services Code of Practice in February 2010.

Interest rate exposures and maturity structure of borrowing and investments

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

	Indicator	**Outturn**
Upper limit for fixed interest rate exposure	100%	98.2%
Upper limit for variable rate exposure	10%	1.8%
Upper limit of principal maturing in any one year for sums invested for over 364 days	£10m	nil
Maturity structure of fixed rate borrowing:-		
under 12 months	0-10%	1.3%
12 months and within 24 months	0-10%	1.7%
24 months and within 5 years	0-15%	6.4%
5 years and within 10 years	0-25%	16.1%
10 years and above	40-100%	74.5%

Appendix 3

Investment Activity 2014/15 to August

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Barclays Treasury Direct	4	1.77	0.34	15
Debt Management Office	13	2.87	0.25	10
Nationwide Building Society	1	1.06	0.42	31
Barclays	1	0.814	0.28	22
Bank of Scotland Call Account	N/A	5.50	0.40	N/A
HSBC	N/A	3.05	0.32	N/A
Santander	N/A	5.12	0.40	N/A
Salford MDC*	1	0.50	11.25	Matures in 2020

*This is a fixed term deposit of £500,000.00 with Salford MDC at an interest rate of 11.25% that was made in 1985 and is due to mature in 2020.

Appendix 4

West Midlands performance comparisons 2013/14

	Council					
	Dudley	**WMDAF**	**A**	**B**	**C**	**D**
Gross average borrowing rate (the cost of borrowing, ignoring the return on investments)	4.16%	6.36%	4.83%	4.27%	4.32%	4.54%
Investment return rate (the return on investments, ignoring the cost of borrowing)	0.52%	0.37%	1.66%	0.45%	0.46%	1.29%
Net average borrowing rate (a combination of the above, representing the cost of borrowing net of the return on investments)	4.42%	6.38%	4.95%	4.50%	5.53%	10.54%
Lender's Option Borrower's Option (LOBO) loans as a proportion of all borrowing	2%	5%	0%	18%	16%	53%

Appendix 5

Investment Strategy

	Current Strategy	Comments	Proposed Strategy
1	Investments are allowed for up to <u>1 month</u> in institutions with a minimum short term credit rating of F1 (Fitch), A1 (Standard and Poors), or P1 (Moody's) and a support rating of 1 from Fitch.	These are the second highest short term credit ratings for Fitch and Standard & Poor, and the highest for Moodys which does not have a P1+ rating. The support rating (Fitch) reflects the likelihood of government support and is no longer relevant under the Financial Services (Banking Reform) Act 2013 and proposed regulations.	Investments are allowed for up to <u>1 month</u> in institutions with a minimum short term credit rating of F1 (Fitch), A1 (Standard and Poors), or P1 (Moody's).
2	Investments are allowed for up to <u>3 months</u> in institutions with the highest short term credit ratings i.e. F1+ (Fitch), A1+ (Standard and Poors), P1 (Moody's), and a support rating of 1 from Fitch.	To only invest in the most credit-worthy banks for investments longer than a month. As above, the support rating is no longer relevant.	Investments are allowed for up to <u>3 months</u> in banks with the highest short term credit ratings i.e. F1+ (Fitch), A1+ (Standard and Poors), P1 (Moody's).
3	Investments with a single institution or group of banks should not exceed 20% of the total pool of investments or £5million (whichever is greater) at the time the investment is made.	This limits the Council's exposure to a bank default. An absolute limit for all institutions (other than the UK Government) limits the potential loss to £5m in case of a bank default. As there are currently five private sector counterparties who meet our criteria*, the maximum cash allowed to be invested in private sector institutions would be £25m. Cash flow forecasts indicate that investments will normally be below this level.	Investments with a single institution or group of banks should not exceed £5m at any time.
4	Element 3 of the strategy above applies to investments with other UK local authorities.	This limits the Council's exposure to a single local authority. Note that in the event of Scottish independence, local authorities in Scotland would become ineligible counterparties for investment under this criterion.	No change.

	Current Strategy	Comments	Proposed Strategy
5	No upper limit on the value of investments with the Debt Management Office (UK government)	All surplus cash which cannot be invested with private sector institutions or other local authorities would be deposited at the Debt Management Office. Investments with the UK Government are deemed to be the lowest level of risk.	No change.
6	Investments are not allowed in non-UK institutions	The existing strategy is based on the implicit assumption that the UK Government would support a failing UK bank. This factor is less relevant in light of the Financial Services (Banking Reform) Act 2013 and proposed regulations. That said, current cash flow predictions do not suggest that there is any compelling need to widen the investment strategy to non-UK institutions and so there is no proposal to change. The strategy will be kept under review in light of cash flow movements, changes in bank credit ratings and any impact in the event of Scottish independence.	No change.

*Current list of counterparties:
HSBC plc
Barclays
Nationwide
Bank of Scotland (Lloyds)
Santander

Agenda Item No. 8

Audit and Standards Committee – 18th September 2014

Report of the Treasurer

Statement of Accounts 2013/14

Purpose of Report

1. To present the Statement of Accounts to the Audit and Standards Committee for consideration and approval and to inform the Audit and Standards Committee of the outcome of the audit of the accounts. The Statement of Accounts, and the audit of them, are the main formal and public report on the financial standing of the authority.

Background

2. The Accounts and Audit Regulations 2011 give the requirements for approving and publishing the Council's annual accounts as follows:

   - Unaudited accounts are to be certified by the Treasurer, as the Responsible Financial Officer, no later than 30 June; and

   - Audited accounts are to be re-certified by the Responsible Financial Officer and formally approved by Members, then published no later than 30 September.

3. The audited Statement of Accounts is circulated with the committee papers. There have been a number of minor changes from the unaudited accounts arising from the audit, which mainly comprise expansions of the disclosure notes. These changes are referred to in the auditor's Annual Audit Report. None of these changes affect the general fund balance.

4. These accounts are prepared under International Financial Reporting Standards (IFRS) as adopted for local authorities by the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

General Fund outturn

5. I reported the General Fund outturn to Cabinet on 3rd July 2014 as £243.3m. The Statement of Accounts presented to this Committee is consistent with this outturn position. A reconciliation of the outturn to the Statement of Accounts is included in the explanatory foreword to the Statement of Accounts.

Statement of Accounts

6. The layout of the Statement of Accounts is as last year, with the Movement in Reserves (MiRS), which sets out a summary of the changes to General Fund Balance, Housing Revenue Account (HRA) balance and other reserves over the year, presented as the first key statement.

7. The 2013/14 Code has not introduced significant changes to the accounts. The main changes introduced by the 2013/14 Code concern the analysis and disclosure of pension information. These changes do not affect the balance sheet.

8. A summary of the key financial statements is detailed below:

Movement in Reserves Statement (MiRS)

9. This statement shows the movements on the Authority’s reserves, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable’ reserves.

10. The Surplus or Deficit on Provision of Services shows the true economic cost of providing the authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). Other Comprehensive Income and Expenditure shows unrealised valuation gains and losses on property, and on pension assets and liabilities which only affect the unusable reserves.

11. The accounting charges in the Surplus or Deficit above 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 rent setting purposes. Adjustments between accounting basis and funding basis under regulations reverse out the accounting charges (such as actuarial pensions costs) and insert the statutory ones, such as actual payments for pension provision.

12. After transfers to and from earmarked reserves, the year end balance on the General Fund has increased by £5.7m from £19.4m to £25.1m. This is consistent with the outturn reported to Cabinet.

Comprehensive Income and Expenditure Statement (CIES)

13. This statement agrees to the change in value of the Balance Sheet. In order to be comparable across different authorities, it is based on the CIPFA Service Reporting Code of Practice (SeRCOP), rather than the Council’s directorate structure.

14. The net effect of income and expenditure items results in a deficit on the provision of services of £34.6m. This is a technical deficit intended to represent the Council’s revenue position as it would be if calculated according to IFRS. As such it differs from the movement on the General Fund shown in the MiRS and in the outturn report. This is adjusted by Other Comprehensive Income and Expenditure items (balance sheet adjustments) to arrive at a total Comprehensive Income and Expenditure figure of £(118.5)m. This matches the rise in balance sheet net assets value from £125.8m to £244.3m.

Balance Sheet

15. The Balance Sheet shows that the value of total net assets has increased by £118.5m between 31st March 2013 and 31st March 2014, largely as a result of a decrease in the valuation of pension liabilities due to changing economic conditions.

16. The lower half of the Balance Sheet summarises the usable and unusable reserves held by the Authority. The General Fund balance has increased by £5.7m as discussed above. HRA, Schools and general fund earmarked reserves have all increased. The changes in unusable reserves mirror the main changes described above.

Audit of the Accounts

17. The audit of the accounts for 2013/14 is substantially complete and the audited accounts are expected to be published by 30th September in accordance with regulations.

18. The Code of Audit Practice requires the auditors to report the results of their audit work to the approving body before signing their audit opinion. This report will be presented at this meeting of the Audit and Standards Committee.

19. A management representation letter is provided to the auditors each year, assuring auditors that all material information has been made available to them. This will be signed by the Treasurer, relying in some matters on assurances by the Director of Corporate Resources.

Finance

20. This report is entirely financial in content, but does not give rise to any direct costs.

Law

21. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act, 1998, and regulations made thereunder.

Equality Impact

22. The proposals take into account the Council's Policy on Equality and Diversity.

Recommendation

23. It is recommended that:-

- The Committee consider the Statement of Accounts.
- The Committee approve the Statement of Accounts.
- The Chair of the Committee signs and dates the Statement of Accounts to give evidence of the approval above.

……………………………
Iain Newman
Treasurer

List of Background Papers
Working and supporting papers for the accounts.
Code of Practice on Local Authority Accounting in the UK 2013/14
Service Reporting Code of Practice.

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DUDLEY METROPOLITAN BOROUGH COUNCIL

STATEMENT OF ACCOUNTS FOR THE

YEAR ENDED 31 MARCH 2014

Page No.

EXPLANATORY FOREWORD BY THE TREASURER

The purpose of this foreword is to provide an easily understandable guide to the most significant matters reported in the accounts. The accounts are based on the Code of Practice on Local Authority Accounting in the United Kingdom 2013 (the Code). The 2013 Code did not introduce significant changes to the accounts, but made small changes to the reporting of pension costs. Full details are given in the Statement of Accounting Policies on pages 75.

The analysis by service in the Comprehensive Income and Expenditure Statement on page 12 follows the Service Reporting Code of Practice (SeRCOP). The SeRCOP analysis does not match Dudley's structure of directorates. Results by directorate are shown in this foreword, in Table 1 on page 4.

The pages which follow are the Authority's final accounts for 2013/14, and comprise **the Core Statements**:-

- Movement in Reserves Statement (MiRS)
- Comprehensive Income and Expenditure Statement (CIES)
- Balance Sheet .
- Cash Flow Statement

The Core Statements are followed by **supporting and disclosure notes**, which include the **Statement of Accounting Policies,** which explains the basis of the figures in the accounts, and Notes 34 and 35 give descriptions of the **judgements and estimates** used in preparing the accounts. The accounts can be properly appreciated only if the policies, judgements, and estimates which have been followed in dealing with material items are explained.

The remaining statements are regarded as subsidiary to the core statements:

Housing Revenue Account - this reflects a statutory obligation to account separately for local authority housing provision. These accounts are fully included within the main Movement in Reserves Statement and the Comprehensive Income and Expenditure Statement.

Collection Fund - This shows the transactions of Dudley as a billing authority in relation to non-domestic rates and council tax, and illustrates the way in which these have been distributed to precepting authorities and to Dudley's General Fund.

The **Annual Governance Statement** accompanies the published Statement of Accounts, but is not part of it.

EXPLANATORY FOREWORD BY THE TREASURER – SUMMARY OF THE 2013/14 FINANCIAL YEAR

The accounts distinguish between revenue and capital expenditure. Revenue spending is generally on items which are used within a year. Capital spending is expenditure on the acquisition of new assets or which adds value to existing assets or which extends the life of the asset beyond one year and where it is appropriate to spread the costs across the tax and rent payers who will be receiving benefits over more than one year.

Revenue Spending in 2013/14

In previous years, Business Rate income was pooled nationally and redistributed as part of Formula Grant calculated to equalise for authorities' different spending needs and ability to raise resources from Council Tax. From 2013/14, Formula Grant was replaced by a new system of Government funding, the basic elements of which are as follows:

- Councils retain 50% of Business Rate income, rather than it being pooled nationally. Of the 50% retained overall, in Metropolitan areas 1% is passed to Fire Authorities and 49% retained by Districts.

- The risks and rewards relating to retained Business Rate income being more or less than expected are therefore shared between the Government and individual Councils. In particular, any changes in rateable value as a result of new building, change of use, demolitions, or successful appeals, etc. have a direct impact on the Council's income. In addition to the current effect of appeals, these may also be backdated – sometimes as far as 2005 – giving rise to substantial refunds to ratepayers.

- The 50% pooled Business Rates is used, along with resources from national taxation, to fund Revenue Support Grant (RSG) and continuing Specific Grants.

- Councils receive a Top-Up or pay a Tariff to, in principle, bring total resources initially into line with what would have been received in Formula Grant. Dudley is a recipient of Top-Up funding as our current share of national business rates income is lower than our share of the total national spending need assessment.

The doubling of Small Business Rate Relief (SBRR) was extended to 31st March 2014. The impact of this on authorities' business rate income for 2013/14 was offset by a specific grant.

In addition to New Homes Bonus (NHB) funding, councils received a "refund" of their share of resources top-sliced from RSG nationally to fund NHB in excess of the amount actually required - the New Homes Bonus Adjustment Grant.

The Health and Social Care Act 2012 transferred substantial health improvement duties to councils from 2013/14, i.e. to:

- improve significantly the health and wellbeing of local populations;
- carry out health protection functions delegated from the Secretary of State;
- reduce health inequalities across the life course, including within hard to reach groups;
- ensure the provision of population healthcare advice.

Councils receive a ring-fenced public health grant to support these duties

The Government localised council tax benefit from April 2013. This involved the abolition of the previous national council tax benefit scheme and the introduction of new localised 'council tax support' schemes designed and administered by individual councils. In addition, the Government funding towards the cost of support was rolled into the new business rate retention funding mechanism and no longer changes in line with actual claims. Therefore, the Council is exposed to the impact of any increases (or benefit from any reductions) in the number of eligible claimants and the value of their claims. For 2013/14 Dudley adopted a local scheme in line with the previous national scheme subject to the usual annual uplifting of thresholds etc.

This summary (Table 1) shows the funds allocated to and used by the various Council Services.

Table 1

General Fund Services:	Budget £'000	Outturn £'000	Transfers to or (from) earmarked reserves £'000	Total Outturn £'000	Variance £'000
Adult, Community & Housing	106,102	107,454	(1,386)	106,068	(34)
Children's Services	77,296	78,238	(942)	77,296	0
Urban Environment	55,376	56,169	(797)	55,372	(4)
Chief Executive's	3,783	2,306	1,461	3,767	(16)
Corporate Resources	1,007	1,730	(977)	753	(254)
Total Service Costs	**243,564**	**245,897**	**(2,641)**	**243,256**	**(308)**
Revenue Support Grant	90,443	90,443	0	90,443	0
Business Rates	43,814	43,814	0	43,814	0
Business Rates Grant	1,427	1,539	0	1,539	112
Top Up Grant	14,602	14,602	0	14,602	0
New Homes Bonus	2,468	2,468	0	2,468	0
New Homes Bonus Adjustment Grant	510	510	0	510	0
Other General Grants	0	476	0	476	476
Council Tax Freeze Grant	1,138	1,136	0	1,136	(2)
Collection Fund Surplus	1,142	1,142	0	1,142	0
Council Tax	92,819	92,819	0	92,819	0
Total Funding	**248,363**	**248,949**	**0**	**248,949**	**586**
Net Revenue Expenditure = Change in General Balances	**(4,799)**	**(3,052)**	**(2,641)**	**(5,693)**	**(894)**
HRA:					
Gross Spend	95,227	94,248	(4,957)	89,291	(5,936)
Income from rents etc.	(91,331)	(92,125)		(92,125)	(794)
Net Revenue Expenditure = Change in General Balances	**3,896**	**2,123**	**(4,957)**	**(2,834)**	**(6,730)**

General Fund variances can be summarised as follows.

- The Directorate of Adult Community and Housing freed up £1.797m as a result of reviewing commitments relating to ongoing care packages. Together with extra winter pressures income from the CCG of £0.533m and other net savings of £0.858m, this will be mainly carried forward in directorate earmarked reserves to fund lifetime costs of care for elderly clients, Supporting People, Extra Care, and other initiatives leaving a favourable variance of £0.034m.

- The Directorate of Children's Services received extra Troubled Families grant of £0.924m, and other extra income of £0.523m. Together with other net savings of £0.288m once provision for payment to HMRC in respect of self employed tax status has been made, this will be carried forward in directorate earmarked reserves to fund Troubled Families expenditure and other projects.

- The Directorate of the Urban Environment received "pothole grant" from the Government of £0.319m, which will be carried forward in directorate earmarked reserves for spend in 2014/15. Other unspent resources of £0.111m arising from vacancies and other net savings will be mainly carried forward in earmarked reserves leaving a favourable variance of £0.004m.

- Resources unspent by the Chief Executive's Directorate include £0.825m resulting from slippage in programmed Public Health expenditure, which will be carried forward in directorate earmarked reserves for spend in 2014/15. The £0.043m arising from other net savings will be mainly carried forward in earmarked reserves leaving a favourable variance of £0.016m.

- £1m contingency budget has been used to partly fund the cost of redundancies in respect of budget savings, leaving a further £0.571m of redundancy costs which has been met from extra treasury income, other income, and net savings of £0.852m. After contributions to earmarked reserves of £0.027m to fund specific ICT projects, the resulting net favourable variance in the Directorate of Corporate Resources is £0.254m.

- Total funding was £0.586m higher than forecast mainly as a result of the Council's share of general Government funding previously top-sliced nationally for capitalisation directions but no longer required.

The underspend on the HRA arose from:

- a reduction in rent received, largely owing to increased number or Right to Buy sales, being more than offset by the full provision for bad debts not being required owing to the slower than expected progress of the Government's welfare reforms, specifically Universal Credit;
- additional contributions from tenants and leaseholders in respect of rechargeable works;
- savings on management costs from vacancies and running cost efficiencies.

The transfers from earmarked HRA reserves represent the use of resources previously earmarked for specific projects.

The services are shown here as they were operated by the Council in 2013/14, and do not exactly match the standard definitions in the Comprehensive Income & Expenditure Statement. Also, the figures here show the full expenditure and use of funds by each Directorate including use of or contributions to earmarked reserves and adjustments between accounting basis & funding basis under regulations, whereas the Comprehensive Income & Expenditure Statement excludes these items in order to follow International Financial Reporting Standards.

The above figures can be reconciled to the Comprehensive Income and Expenditure Statement as follows:

Table 2

	Total Outturn £’000
Total General Fund Service Cost (as above)	243,256
Total HRA Service Cost (as above)	(2,834)
Total Service Costs	**240,422**

Table 3

	Net £’000
Cost of Services (Comprehensive Income and Expenditure Statement)	**229,389**
Plus: Other Operating Expenditure	31,899
Plus: Financing and Investment Income and Expenditure	38,742
Income treated as general grant in Income and Expenditure Statement, but included in Total Service Costs in preceding table.	(18,314)
Adjustments between accounting basis & funding basis under regulations	(35,514)
Plus: amount in respect of difference between accounting and statutory treatment of Collection Fund surplus	1,818
Transfers to earmarked reserves	(7,598)
Total Service Costs	**240,422**

EXPLANATORY FOREWORD BY THE TREASURER - CAPITAL SPENDING AND FINANCING IN 2013/14

A summary of the Council's total capital expenditure of £86.251m in the year is shown below.

	2013/14 £'000
Housing	
Central Heating, Electrical Installations & Energy Saving	5,547
External Improvements	9,792
Internal Improvements	4,028
New Council Housing	289
Void Property Improvements	13,985
Adaptations	2,812
Other Public Sector Improvements	4,300
Private Sector Assistance	4,317
	45,070
Children's Services	
Major Secondary School Projects	2,498
Major Primary School Projects	1,292
Major Special School Projects	125
Dudley Grid for Learning refresh	1,085
Other Children's Services Projects	4,147
	9,147
Highways & Transport	
Structural Maintenance of Roads and Bridges	5,028
Street Lighting Improvements	2,191
Pedestrian, Cycling and other Safety Schemes	702
Other Improvements	1,770
	9,691
Other Services	
Economic Regeneration	4,339
Adult Care	1,481
Culture, Leisure, Parks and Open Spaces	1,496
Recycling, Waste Disposal & Environmental	3,578
New Archives	1,609
Vehicle Replacement	7,030
Administrative Building Rationalisation	1,465
ICT Strategy	711
Structural Maintenance of Buildings	634
	22,343
Total Expenditure	**86,251**
Capital Receipts	6,062
Major Repairs Reserve (Housing)	22,203
Revenue	22,456
Grants / Contributions (including Lottery)	20,091
Capital Financing Requirement (*)	15,439
Total Funding	**86,251**

* This was mainly funded internally from the Council's cashflow resources rather than from external debt.

EXPLANATORY FOREWORD BY THE TREASURER
CAPITAL SPENDING AND FINANCING IN 2013/14 (Continued)

Major capital projects completed, or substantially completed, in 2013/14 include:

- Restoration of and improvements to heritage landscape of Priory Ruins and Park;
- Provision of wheeled bins for collection of domestic refuse, replacing previous black-bag collection service, and extension of kerbside recycling service, to include plastic and cardboard, and encourage reduction of residual waste and greater recycling;
- Creation of the Crystal Dementia Gateway to meet the specific social care needs of people with dementia at the former Brettell Lane Day Centre;
- New Archives and Local History Centre, as part of the Castle Hill regeneration project ;
- The "Transforming our Workplace" project to rationalise the Council's administrative buildings, thereby making significant savings in running and maintenance costs.

Reconciliation to Notes on Non-Current Asset Movements

	£'000
Total Capital Expenditure	**86,251**
Less: spending not on the Council's own assets, e.g. spend on Foundation Schools, and grants and loans to other persons and bodies for capital expenditure, etc.	(7,622)
Additions at Cost to Non-current Assets – see Notes 17, 18, 19	**(78,629)**

Borrowing Facilities

At 31 March 2014, the Council's external borrowing amounted to £735.9m (31 March 2013 £737.0m), made up as follows:

	£m
General Fund	86.2
HRA	463.1
Former West Midlands County Council debt for which Dudley is the Debt Administration Authority	186.6
Total	**735.9**

Of the HRA total of £463.1m, £335.6m relates to debt taken on in March 2012 in respect of Self Financing for council housing. This removed the housing subsidy system under which Dudley would have continued to pay "negative subsidy" to the Government each year. The net effect of this change was favourable.

Background and Future Developments

The Council made £11.3m of efficiency and other General Fund revenue savings in 2013/14 as part of a budget strategy set against a background of significant ongoing real annual reductions in the level of Government support, whilst facing spending pressures in particular relating to the support and care of looked after children and services for the increasing number of adults with learning disabilities and elderly clients with dementia.

The Council set its revenue budget for 2014/15 on 3rd March 2014. Details are set out in the Budget Setting Report to the Council.

The budget for 2014/15 reflects further savings of £9.5m as part of a medium term financial strategy which already includes £33.6m of savings over the next 3 years, but which is likely to require further action by 2016/17 to reduce spend to match resources based on current forecasts.

The capital programme for 2014/15 was reviewed by Cabinet on 12th February 2014.

Funding of the approved revenue budget and the capital programme for 2014/15 is as follows:

Revenue	**£'000**
Revenue Support Grant	75,572
Retained Business Rates	45,607
Business Rate Grant	2,865
Top-Up Grant	14,886
New Homes Bonus	3,423
New Homes Bonus Adjustment Grant	206
Council Tax Freeze Grant	1,146
Collection Fund Surplus	1,559
Council Tax	94,629
Use of General Balances	4,145
Total Service Revenue Budget	**244,038**

Capital	**£'000**
Revenue	22,400
Major Repairs Reserve (Housing)	22,273
Capital Receipts	14,751
Grants and Contributions (including Lottery)	25,365
Capital Financing Requirement (*)	15,864
Total Capital Programme	**100,653**

* This will be funded internally from the Council's cashflow resources as far as possible, rather than from external debt.

General Principles of Accounting Policies and Changes for 2013/14 -

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Council is required to prepare an annual statement of accounts, in accordance with proper accounting practices, by the Accounts and Audit Regulations 2011. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP), supported by International Financial Reporting Standards (IFRS). The council has adopted SeRCOP 2014/15 in advance – this makes no difference at the level of reporting in the statement of accounts. Some roundings necessarily remain.

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

The main changes introduced by the 2013/14 Code concern the analysis and disclosure of pension information. These changes do not affect the balance sheet. The Council has also changed the policy on certain access agreements, changing the classification from intangible to investment assets, on the grounds that this would give better information to users of the accounts.

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, known as unusable, 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. This true cost is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the change in the year to the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

2013/14	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
	£’000	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**
Balance at 31/3/13	**19,400**	**64,234**	**2,574**	**5,161**	**4,127**	**306**	**95,802**	**30,021**	**125,823**
Surplus or (deficit) on Provision of services	(31,889)	0	(2,695)	0	0	0	**(34,582)**	0	**(34,582)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	153,126	**153,126**
Total Comprehensive Income and Expenditure	**(31,889)**	**0**	**(2,695)**	**0**	**0**	**0**	**(34,582)**	**153,126**	**118,544**
Adjustments between accounting basis and funding basis under regulations (Note 1)	34,941	0	573	0	4,921	(164)	**40,271**	(40,271)	**0**
Net increase or (decrease) before transfers to/from earmarked reserves	**3,052**	**0**	**(2,122)**	**0**	**4,921**	**(164)**	**5,687**	**112,855**	**118,544**
Transfers to or from earmarked reserves (Note 16)	2,642	(2,642)	4,957	(4,957)	0	0	**0**	0	**0**
Increase or (decrease) in year	**5,694**	**(2,642)**	**2,835**	**(4,957)**	**4,921**	**(164)**	**5,687**	**112,855**	**118,544**
Balance at 31/3/14	**25,094**	**61,592**	**5,409**	**204**	**9,048**	**142**	**101,489**	**142,876**	**244,365**

MOVEMENT IN RESERVES STATEMENT (Continued)

2012/13 Restated	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31/3/12	**12,204**	**61,844**	**2,197**	**3,409**	**259**	**0**	**79,913**	**205,155**	**285,068**
Surplus or (deficit) on Provision of services	(15,437)	0	(55,549)	0	0	0	**(70,987)**	0	**(70,987)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	(88,259)	**(88,259)**
Total Comprehensive Income and Expenditure	**(15,437)**	**0**	**(55,549)**	**0**	**0**	**0**	**(70,987)**	**(88,259)**	**(159,245)**
Adjustments between accounting basis and funding basis under regulations (Note 1)	25,022	0	57,678	0	3,868	306	**86,874**	(86,874)	**0**
Net increase or (decrease) before transfers to/from earmarked reserves	**9,585**	**0**	**2,128**	**0**	**3,868**	**306**	**15,889**	**(175,134)**	**(159,245)**
Transfers to or from earmarked reserves (Note 16)	(2,390)	2,390	(1,752)	1,752	0	0	**0**	0	**0**
Increase or (decrease) in year	**7,195**	**2,390**	**376**	**1,752**	**3,868**	**306**	**15,889**	**(175,134)**	**(159,245)**
Balance at 31/3/13	**19,400**	**64,234**	**2,574**	**5,161**	**4,127**	**306**	**95,802**	**30,021**	**125,823**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
for the year ended 31 March 2014

This is a summary of the funds raised and used by the council in the year. It shows the net cost for the year of the functions for which the council is responsible and demonstrates how that cost has been financed from general Government grants and income from local taxpayers. The CIES follows International Financial Reporting Standards, and reconciles to the change in the year of the net worth as shown in the balance sheet.

	2013/14 Expenditure	2013/14 Income	2013/14 Net	2012/13 Expenditure	2012/13 Income	2012/13 Net Restated
	£'000	£'000	£'000	£'000	£'000	£'000
Education and Children's services	315,076	(246,805)	**68,271**	314,599	(254,316)	**60,283**
Schools that converted to academy status during 2013/14 - Note6	5,611	(356)	**5,255**	13,790	(806)	**12,984**
Sub-total - Education and children's services	320,687	(247,161)	**73,526**	328,389	(255,122)	**73,267**
Local authority housing (HRA)	79,757	(93,333)	**(13,576)**	139,453	(89,772)	**49,681**
Other housing services	113,270	(103,060)	**10,210**	112,617	(103,635)	**8,982**
Sub-total - Housing	193,027	(196,393)	**(3,366)**	252,070	(193,407)	**58,663**
Central services to the public	7,640	(5,054)	**2,586**	31,697	(28,163)	**3,534**
Corporate and Democratic Core	3,800	(174)	**3,626**	4,023	(484)	**3,539**
Non-distributed costs	0	(2,060)	**(2,060)**	2,118	0	**2,118**
Sub-total – Central Services	11,440	(7,288)	**4,152**	37,838	(28,647)	**9,191**
Adult social care	116,049	(22,450)	**93,599**	110,076	(32,016)	**78,060**
Public Health	18,060	(19,858)	**(1,798)**			
Cultural and Related	23,031	(4,534)	**18,497**	22,236	(5,017)	**17,219**
Environmental and Regulatory	27,487	(6,942)	**20,545**	29,464	(9,377)	**20,087**
Planning and Development	8,684	(2,280)	**6,404**	7,749	(1,975)	**5,774**
Highways and Transport Services	21,762	(3,932)	**17,830**	21,439	(3,221)	**18,218**
Net Expenditure of Continuing Operations	**740,227**	**(510,838)**	**229,389**	**809,261**	**(528,782)**	**280,479**
Other Operating Expenditure - Note 2			31,899			14,325
Financing and Investment Income and Expenditure – Note 3			38,742			41,316
Taxation and Non-Specific Grant Income – Note 4			(265,446)			(265,133)
(Surplus) or Deficit on Provision of Services			**34,584**			**70,987**
Other Comprehensive Income and Expenditure (Note 5)			(153,126)			88,259
Total Comprehensive Income and Expenditure			**(118,542)**			**159,246**

BALANCE SHEET

This sets out the authority's year end financial position. It shows the balances and reserves at the authority's disposal and its long-term indebtedness, the long-term and net current assets employed in its operations, and summarised information on the property, plant and equipment and other long-term assets held. It includes the Collection Fund, but excludes Trust Funds.

	31 March 2014	31 March 2013
	£'000	£'000
Property, Plant and Equipment (Note 17)	1,187,772	1,210,807
Heritage Assets (Note 18)	22,689	22,581
Investment Property (Note 19)	11,247	10,576
Intangible Assets - Software & rights over use of land	23	402
Long Term Investments - Non property Investments (Note 20)	22,583	22,583
Long Term Debtors (Note 21)	166,956	174,070
Long Term Assets	**1,411,270**	**1,441,019**
Inventories	1,764	1,604
Short Term Debtors (Note 21)	35,801	30,685
Cash and Cash Equivalents, etc. (Note 22)	2,526	15,281
Assets held for sale (Note 23)	4,559	270
Current Assets	**44,650**	**47,840**
Short Term Borrowing (Note 20)	(27,220)	(22,892)
Short Term Creditors (Note 24)	(73,925)	(67,255)
Short Term Deferred Liabilities (Note 20)	(2,898)	(3,024)
Provisions (< 1 year) (Note 25)	(21,436)	(43,494)
Capital Grants Received in Advance (Note 13)	(450)	(1,412)
Revenue Grants Received in Advance (Note 13)	(359)	(391)
Current Liabilities	**(126,288)**	**(138,468)**
Long Term Deferred Liabilities (Note 20)	(29,213)	(30,807)
Provisions (> 1 Year) (Note 25)	(3,905)	(3,919)
Long Term Borrowing (Note 20)	(710,614)	(719,578)
Long Term Creditors (Note 24)	-	(168)
Net Pension Liabilities (Note 28)	(339,854)	(469,247)
Capital Grants Received in Advance (Note 13)	(1,681)	(849)
Long Term Liabilities	**(1,085,267)**	**(1,224,568)**
Net Assets	**244,365**	**125,823**
Total Usable Reserves (Note16)	101,489	95,802
Total Unusable Reserves (Note 26)	142,876	30,021
Total Reserves	**244,365**	**125,823**

CASH FLOW STATEMENT

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

	2013/14 £'000	2012/13 Restated £'000
Net (Surplus) or Deficit on the Provision of Services	34,584	70,987
Adjustments to Net Surplus or Deficit on the Provision of Services for Non Cash Movements and Other Movements (Note 30)	(107,537)	(169,542)
Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities (Note 30)	25,906	29,487
Net Cash Flows from Operating Activities	**(47,047)**	**(69,068)**
Investing Activities (Note 31)	50,666	39,388
Financing Activities (Note 32)	9,135	19,593
Net (Increase) or Decrease in Cash and Cash Equivalents	**12,754**	**(10,087)**
Cash and Cash Equivalents at the Beginning of the Reporting Period	(15,279)	(5,192)
Cash and Cash Equivalents at the End of the Reporting Period (Note 22)	**(2,525)**	**(15,279)**

NOTES TO THE CORE STATEMENTS

Page No.

MiRS Notes

CIES Notes

Balance Sheet Notes

MiRS Notes

Note 1: Adjustments between Accounting Basis and Funding Basis under Regulations (7)

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

2013/14	Usable reserves				Unusable Reserves
	General Fund Balance £'000	**Housing Revenue Account £'000**	**Capital Receipts Reserve £'000**	**Major Repairs Reserve £'000**	**Movement in Unusable Reserves £'000**
Adjustments primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and amortisation of non-current assets	25,962	22,039			**(48,001)**
Revaluation losses on Property Plant and Equipment and heritage assets	10,602	15,658			**(26,260)**
Movements in the market value of Investment Properties Impairment	(30)				**30**
Capital grants and contributions applied	(19,873)	(217)			**20,090**
Revenue expenditure funded from capital under statute	6,409	420			**(6,829)**
Amounts of non-current assets written off on disposal or sale as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Statement	14,988	6,183			**(21,171)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Provision for the financing of capital investment	(17,775)	(1,083)			**18,858**
Capital expenditure charged against the General Fund and HRA Balances	(8,497)	(13,960)			**22,457**

2013/14 continued	Usable reserves				Unusable reserves
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Movement in Unusable Reserves £'000
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Statement	(826)	(9,840)	10,666		0
Use of the Capital Receipts Reserve to finance new capital expenditure			(6,063)		**6,063**
Use of the Capital Receipts Reserve to repay debt					**0**
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals		263	(263)		**0**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,861		(1,861)		**0**
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			2,349		**(2,349)**
Write down of Capital Debtors			91		**(91)**
Adjustments primarily involving the Deferred Capital Receipts Reserve:					
Transfer of deferred sale proceeds credited as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Statement	(650)	0			**650**
Adjustments primarily involving the Major Repairs Reserve:					
Transfer of Depreciation to Major Repairs Reserve		(22,039)		22,039	0
Use of the Major Repairs Reserve to finance new capital expenditure				(22,202)	**22,202**
Adjustments primarily involving the Financial Instruments Adjustments Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(502)	(297)			**799**
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement Note 26	44,313	6,394			**(50,707)**
Employer's pensions contributions and direct payments to pensioners payable in the year	(22,454)	(2,948)			**25,402**

2013/14 continued	**Usable reserves**				**Unusable Reserves**
	General Fund Balance £'000	**Housing Revenue Account £'000**	**Capital Receipts Reserve £'000**	**Major Repairs Reserve £'000**	**Movement in Unusable Reserves £'000**
Adjustments primarily involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,818				**(1,818)**
Adjustment primarily involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(404)				**404**
Total Adjustments 2013/14 between accounting basis and funding basis under regulations	**34,942**	**573**	**4,919**	**(163)**	**(40,271)**

2012/13	**Usable reserves**				**Unusable Reserves**
	General Fund Balance £'000	**Housing Revenue Account £'000**	**Capital Receipts Reserve £'000**	**Major Repairs Reserve £'000**	**Movement in Unusable Reserves £'000**
Adjustments primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and amortisation of non-current assets	25,255	21,793			(47,048)
Revaluation losses on Property Plant and Equipment and heritage assets	21,169	80,070			(101,239)
Movements in the market value of Investment Properties	(861)				861
Capital grants and contributions applied	(18,852)	(7,594)			26,446
Revenue expenditure funded from capital under statute	2,432	283			(2,715)
Amounts of non-current assets written off on disposal or sale as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Statement	2,344	3,403			(5,747)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Provision for the financing of capital investment	(15,280)				15,280
Capital expenditure charged against the General Fund and HRA Balances	(8,576)	(12,248)			20,824

2012/13 continued	Usable reserves				Unusable reserves
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Movement in Unusable Reserves £'000
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Statement	(306)	(7,914)	8,220		0
Use of the Capital Receipts Reserve to finance new capital expenditure			(1,070)		1,070
Use of the Capital Receipts Reserve to repay debt					0
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals		1,781	(1,781)		0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,619		(1,619)		0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			21		(21)
Write down of Capital Debtors			98		(98)
Adjustments primarily involving the Deferred Capital Receipts Reserve:					
Transfer of deferred sale proceeds credited as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Statement	(96)	(2,331)			2,427
Adjustments primarily involving the Major Repairs Reserve:					
Transfer of Depreciation to Major Repairs Reserve		(21,793)		21,793	
Use of the Major Repairs Reserve to finance new capital expenditure				(21,487)	21,487
Adjustments primarily involving the Financial Instruments Adjustments Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(511)	(325)			836
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement Note26	39,995	5,500			(45,495)
Employer's pensions contributions and direct payments to pensioners payable in the year	(21,868)	(2,948)			24,816

2012/13 continued	Usable reserves				Unusable Reserves
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Movement in Unusable Reserves £'000
Adjustments primarily involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(810)				810
Adjustment primarily involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(631)				631
Total Adjustments 2012/13 between accounting basis and funding basis under regulations	**25,022**	**57,678**	**3,870**	**306**	**(86,874)**

CIES Notes

Note 2: Other Operating Expenditure (9)

	2013/14 £'000	2012/13 £'000 Restated
Levy – Environment Agency	101	101
West Midlands Integrated Transport Authority Levy	16,636	17,075
Pension Administration Expense	426	420
Payments to the Government Housing Capital Receipts Pool	1,860	1,619
(Gains) or losses on the disposal of non-current assets	12,876	(4,890)
Total	**31,899**	**14,325**

Note 3: Financing and Investment Income and Expenditure (10)

	2013/14 £'000	2012/13 £'000 Restated
Interest payable on debt	22,558	22,854
Interest element of finance leases	582	771
Interest payable on PFI unitary payments	2,237	2,303
Pensions Net Interest Cost	18,832	17,407
Dividends receivable	(4,772)	(661)
Interest receivable and similar income	(116)	(167)
Sub-total	**39,321**	**42,507**
Income and expenditure in relation to investment properties and changes in their fair value (details in Note19)	(579)	(1,193)
Total	**38,742**	**41,414**

Note 4: Taxation and Non Specific Grant Income (11)

	2013/14 £'000	2012/13 £'000
Council tax income	94,968	112,860
Distribution from Non Domestic (business) Rates pool	-	119,418
Locally retained Non Domestic Rates	40,988	-
Non Ring Fenced Government Grants (details in Note 13)	113,819	10,477
Capital grants and contributions (further details in Note 13)	15,671	22,378
Total	**265,446**	**265,133**

The changes in the financing regime are described in the Explanatory Foreword

Note 5 (New Note); Other Comprehensive Income and Expenditure

	2013/14 £'000	2012/13 £'000
Revaluation gains (Note 26)	**(3,282)**	**(14,091)**
Revaluation losses (chargeable to revaluation reserve) (Note 26)	**4,854**	**9,547**
Remeasurement of net pension liabilities (Note 28)	**(154,698)**	**92,803**
Other Comprehensive (Income) and Expenditure	**(153,126)**	**88,259**

Note 6: Combinations of Public Bodies (29)

Three primary and two secondary schools converted to academy status in 2013/14. Converting to academy status takes them entirely out of the local authority accounts from the date of conversion, but as they remain part of the public provision the proposed change is reported as a combination of public bodies rather than as a discontinued operation.

The activities of these five schools are shown on a separate line in the Cost of Services in the Statement of Comprehensive Income and Expenditure, to allow a valid year on year comparison of the results of the services remaining within the council.

Where the buildings the new academies used were on the Council balance sheet, these have been written out as losses on disposal.

School	New Status	Date of Change	Value of Land and Buildings to be written out of Council Balance Sheet £000s
Bramford Primary	Academy	1 June 2013	2,845
Redhill School and Specialist Language College	Academy	1 July 2013	None – previously Foundation school
Bishop Milner RC Secondary	Academy	1 September 2013	None – previously Voluntary Aided
St Chad's RC Primary	Academy	1 September 2013	None – previously Voluntary Aided
St Josephs Dudley RC Primary	Academy	1 September 2013	None – previously Voluntary Aided

Note 7: Partnerships and Pooled Budgets (31)

The Health and Social Care Act 2012 transfers substantial health improvement duties to local authorities from 2013/14. Local authorities receive a ring-fenced public health grant to support these duties. The allocation for Dudley is £18.457m for 2013/14, rising to £18.974m in 2014/15.

Dudley has pooled budget arrangements with Dudley Clinical Commissioning Group(CCG) and previously with Dudley Primary Care Trust (PCT), under Section 31 of the Health Act 1999, as follows:

Pooled Budget 2013/14	Dudley Funding £000's	Contributing Body (Dudley CCG) Funding £000's	Total Funding £000's	Dudley Expenditure £000's	Contributing Body (Dudley PCT) Expenditure £000's	Total Expenditure £000's
Substance Misuse	133	14	147	62	6	68
Acquired Brain Injury (ABI)	104	30	134	101	29	130
Community Equipment Store	911	478	1,389	907	476	1,383
Placements of Children with Disabilities	502	119	621	472	112	585
	1,650	**641**	**2,291**	**1,542**	**623**	**2,166**

Dudley also has 3 partnerships with West Midlands Joint Commitee (WMJC) & City Region, the Black Country Consortium and Safe and Sound Crime Reduction Partnership.

Note 8: Members' Allowances (32)

	2013/14 £'000	2012/13 £'000
Basic Allowance	665	661
Responsibility Allowance	162	174
Mayor and Deputy Mayor	24	21
Total	**851**	**856**

View Members' web-site here

Note 9: Officers' Remuneration (33)

The Accounts and Audit Regulations 2011 require additional disclosure of remuneration of senior employees in local authority accounts.

The table below gives the required details. In compliance with legislation, those with salary over £150,000 per annum are named; others are listed by post only.

Post		Note	Salary	Expense Allowances	Total remuneration excluding Pension Contributions	Pension Contributions	Total remuneration Including Pension Contributions
			£'000	£'000	£'000	£'000	£'000
Chief Executive	**2013-14**	**1**	161	0	**161**	18	**179**
(J Polychronakis)	**2012-13**	**1**	161	0	**161**	18	**179**
Director of Corporate Resources	**2013-14**		105	0	**105**	12	**117**
	2012-13		105	0	**105**	12	**117**
Treasurer	**2013-14**		89	0	**89**	10	**99**
	2012-13		89	0	**89**	10	**99**
Director of Adult, Community & Housing	**2013-14**		105	0	**105**	12	**117**
Services	**2012-13**		105	1	**106**	12	**118**
Director of the Urban Environment	**2013-14**		105	0	**105**	12	**117**
	2012-13		105	0	**105**	12	**117**
Director of Children's Services	**2013-14**	**2a**	76	0	**76**	9	**85**
Interim Director of Children's Services	**2013-14**	**2b**	29	0	**29**	3	**32**
Director of Children's Services	**2012-13**		105	0	**105**	12	**117**
Director of Public Health	**2013-14**		101	1	**102**	14	**116**
	2012-13	**3**	0	0	**0**	0	**0**

Note 1: The salary for the Chief Executive included payments of £4,000 for additional duties which were recharged to the Black Country Consortium.
Note 2a & 2b: Director of Children's Services (a) is salary for person in post until 19/12/2013 (b) is salary for person in post from 20/12/2013.
Note 3: Dudley Public Health transferred from Dudley Primary Care Trust to Dudley MBC on 1st April 2013.

The number of staff whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

Payroll Bands	2013/14 Schools Number	2013/14 Non-Schools Number	2013/14 Total Number	2012/13 Schools Number	2012/13 Non-Schools Number	2012/13 Total Number
£50,000 - £54,999	44	64	108	34	43	77
£55,000 - £59,999	27	17	44	38	14	52
£60,000 - £64,999	32	5	37	27	7	34
£65,000 - £69,999	18	8	26	14	2	16
£70,000 - £74,999	8	12	20	10	16	26
£75,000 - £79,999	4	1	5	4	1	5
£80,000 - £84,999	3	1	4	2	0	2
£85,000 - £89,999	4	1	5	3	0	3
£90,000 - £94,999	0	1	1	1	0	1
£95,000 - £99,999	1	0	1	1	0	1
£100,000 - £104,999	0	0	0	0	0	0
£105,000 - £109,999	0	0	0	0	0	0
£110,000 - £114,999	1	0	1	1	0	1
£115,000 - £119,999	0	0	0	0	0	0
£120,000 - £124,999	0	0	0	0	0	0
£125,000 - £129,999	0	0	0	0	0	0
£130,000 - £134,999	0	1	1	0	0	0
£135,000 - £139,999	0	0	0	0	0	0
£140,000 - £144,999	0	0	0	0	0	0
£145,000 - £149,999	0	0	0	0	0	0
	142	**111**	**253**	**135**	**83**	**218**

These numbers exclude the senior employees listed in the previous table, and staff whose contract of employment is not with the Council, i.e. staff at foundation and voluntary aided schools. The figures include staff who received payments in addition to normal remuneration. In 2013/14 this applied to 7 members of staff (2012/13 = 9).

The contracts of a number of employees have been terminated, or planned to be terminated, in 2013/14, mainly in order to make savings necessary to deliver the Council's 2014/15 revenue budget. As a result it incurred anticipated liabilities of £2.445m for redundancy payments and £0.915m for capitalised pension costs. Redundancy payments agreed but not actually paid before 31st March 2014 have been accrued as creditors; redundancy payments agreed, or anticipated to be agreed, after 31st March 2014 have been accrued as provisions. Pension costs have been accounted for in accordance with normal pension arrangements.

The table below sets out the numbers of such exit packages (including those for staff at foundation and voluntary aided schools) with total cost per band and total cost of the compulsory and other redundancies:

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**	
	2013/14	**2012/13**	**2013/14**	**2012/13**	**2013/14**	**2012/13**	**2013/14 £000**	**2012/13 £000**
£ 0 - £ 20,000	56	22	94	68	150	90	919	721
£ 20,001 - £ 40,000	11	2	28	32	39	34	1,092	1,042
£ 40,001 - £ 60,000	-	-	13	13	13	13	635	611
£ 60,001 - £ 80,000	-	-	6	2	6	2	409	131
£ 80,001 - £100,000	-	-	1	2	1	2	85	175
£100,001 - £150,000	-	-	1	-	1	-	108	-
Total	**67**	**24**	**143**	**117**	**210**	**141**	**3,248**	**2,680**

In addition to the £3.248m in the table above, a further £0.112m has been provided for as the estimated cost of terminations not yet finalised in terms of the individual contacts concerned.

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Note 10: Pensions Schemes Accounted for as Defined Contribution Schemes (43)

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

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

In 2013/14, the council paid £11.871m to Teachers' Pensions in respect of the teachers' retirement benefits, based on a contribution rate of 14.1% of pensionable pay. The figures for 2012/13 were £12.541m and 14.1%. There were no contributions remaining payable at the year-end. The payment in 2014/15 is anticipated to be £11.770m at 14.1% of pensionable pay.

Similar arrangements exist for former NHS staff who transferred to Dudley with the Public Health function. In 2013/14, the council paid £0.420m to NHS Pensions Scheme, based on a contribution rate of 14.0%. The payment in 2014/15 is anticipated to be £0.420m at 14.0% of pensionable pay.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 28, under the unfunded scheme.

Note 11: External Audit Costs (34)

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

	2013/14	**2012/13**
	£'000	**£'000**
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	178	162
Fees payable to Grant Thornton for the certification of grant claims and returns for the year	32	41
Total	**210**	**203**

Note 12: Use of Dedicated Schools Grant (35)

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2012. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2013/14 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2013/14	23,097	211,226	**234,323**
Academy figure recouped for 2013/14	0	(34,469)	**(34,469)**
Total DSG after Academy recoupment for 2013/14	23,097	176,757	**199,854**
Brought forward from 2012/13	6,821	0	**6,821**
Agreed initial budgeted distribution in 2013/14	**29,918**	**176,757**	**206,675**
In year adjustments	1,791	(1,791)	**0**
Final budgeted distribution for 2013/14	**31,709**	**174,966**	**206,675**
Less Actual central expenditure	(22,341)	0	**(22,341)**
Less Actual ISB deployed to schools	0	(174,966)	**(174,966)**
Carry forward to 2014/15	**9,368**	**0**	**9,368**

Details of the deployment of DSG receivable for 2012/13 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2012/13	20,219	209,417	**229,636**
Academy figure recouped for 2012/13	(149)	(25,156)	**(25,305)**
Total DSG after Academy recoupment for 2012/13	20,070	184,261	**204,331**
Brought forward from 2011/12	4,551	0	**4,551**
Agreed initial budgeted distribution in 2012/13	**24,621**	**184,261**	**208,882**
In year adjustments	(403)	403	**0**
Final budgeted distribution for 2012/13	**24,218**	**184,664**	**208,882**
Less Actual central expenditure	(17,397)	0	**(17,397)**
Less Actual ISB deployed to schools	0	(184,664)	**(184,664)**
Carry forward to 2013/14	**6,821**	**0**	**6,821**

Note 13: Grant Income (36)

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

Credited to Taxation and Non Specific Grant Income:	**2013/14 £'000**	**2012/13 £'000**
Revenue Grants		
Council Tax Freeze Grant	1,136	2,783
New Homes Bonus	2,979	1,561
Local Authority Central Spend Equivalent Grant	70	1,252
Local Services Support Grant	77	580
Revenue Support Grant	90,443	2,315
P.F.I. Credit	1,986	1,986
Top Up Grant	14,602	0
Small Business Rate Relief Grant	1,540	0
Other Grants	986	0
Total Revenue Grants	**113,819**	**10,477**
Capital Grants		
Department for Education	4,840	6,826
Department for Transport	1,295	350
Department for Health	840	834
Primary Care Trust	0	247
Centro	4,886	4,728
Other Grants	3,474	1,658
Total Capital Grants	**15,335**	**14,643**
Contributions		
Fuel Switch & Community Energy Savings Programme (E-On)	217	7,594
Other Contributions	119	141
Total Contributions	**336**	**7,735**
Total Capital Grants, Contributions and Donations	**15,671**	**22,378**
Total Revenue & Capital Grants, Contributions and Donations credited to Taxation and Non Specific Grant Income	**129,490**	**32,855**

The changes in the financing regime and revenue support grant are described in the Explanatory Foreword.

Credited to Services:	2013/14 £'000	2012/13 £'000
Department for Education	215,648	229,468
Department for Works and Pensions	102,673	125,777
~~Young People's Learning Agency (closed March 2012)~~		
Department of Health	18,792	12,330
Department for Communities and Local Government	511	110
Home Office	402	285
Skills Funding Agency (replaces Learning Skills Council)	554	992
Rural Payments Agency	132	131
Department for Innovation, Universities and Skills	27	27
Department for Transport	44	120
Other	31,169	31,286
Total Revenue Grants Credited to Services	**369,952**	**400,526**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that would require the monies or property to be returned to the giver if the condition were not complied with. The balances at the year-end are as follows:

	31 March 2014 £'000	31 March 2013 £'000
Revenue Grants Receipts in Advance (current liabilities):		
Adult Learning academic year grants	355	299
Children's Services academic year grants	4	92
	359	**391**
Capital Grants Receipts in Advance:		
Children's services grants (current liabilities)	451	1,412
Children's services grants (long term liabilities)	1,681	849
	2,132	**2,261**

Note 14: Related Parties (37)

Members and Officers of the Authority

In respect of the 2013/14 financial year, works and services to the value of £22.515m were commissioned from organisations and companies in which Members or Officers of the Authority had an interest by way of ownership, or as a director, trustee, governor, partner or member. Income received from these organisations was £3.348m.

The value for Members interests is £19.823m (£3.194m income) and the value for Officers interests is £2.692m (£0.159m income)

The table below shows the organisations to which the Council made payments in the year of over £1m and where Officers of the Authority had an interest.

Related Party	Nature of Officer's Interest	Nature of Transaction with Council	Payments made by Council £'000
Excel 2000 Windows Ltd	Family member Employment with sub-contractor	Contract Payments	2,255

There was no case where the Council made payments over £1m to an organisation where a Member had an interest.

Contracts were entered into in full compliance with the Council's Standing Orders. No income was received from these organisations.

It may be noted that all members' financial and other interests which could conflict with those of the Council are open to public inspection as required by section 81(1) of the Local Government Act 2000 and the Local Authorities (Model Code of Conduct) (England) Order 2001.

Central Government

The UK Government is a related party to Dudley Metropolitan Borough Council.

Other Public Bodies

The following material transactions with other public bodies, under common government control, took place during the year:

Body	Nature of Transaction with Council	Payments made by Council £'000	Payments made to Council £'000
Centro – West Midlands Integrated Transport Authority	West Midlands Integrated Transport Levy	16,636	
Centro – West Midlands Integrated Transport Authority	Income / Expenditure	29	114
West Midlands Police and Crime Commissioner	Precept	8,448	
West Midlands Fire and Rescue Services	Precept	4,356	
NHS	Income / Expenditure	1,596	2,619

Related companies, partnerships and trust funds are disclosed separately, related companies in Note 40, partnerships in Note 7, and trust funds in Note 41

Note 15: Amounts Reported for Resource Allocation Decisions (28)

The following table is an enhanced version of the Council's revenue outturn statement reported to Cabinet which is deemed to be its chief operating decision maker for resource allocation. The operating segments are the directorates of the Council and this summary is based on the directorates' outturns reported through its Financial Monitoring Management Regime (FMMR) process.

2013/14

Service	Adult, Community & Housing	Children's Services	Urban Environment	Chief Executive's	Corporate Resources	Housing Revenue Account	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees charges & other service income	(22,944)	(21,104)	(14,996)	(1,424)	(5,411)	(92,613)	(158,492)
Government Grants	(3,310)	(224,257)	(1,566)	(18,809)	(102,715)	(311)	(350,968)
Total Income	**(26,254)**	**(245,361)**	**(16,562)**	**(20,233)**	**(108,126)**	**(92,924)**	**(509,460)**
Employee Expenses	38,085	208,616	36,558	6,748	29,191	29,955	**349,153**
Other operating expenses	88,033	108,029	28,484	16,647	103,805	55,732	**400,730**
Support Service Recharges	6,204	6,012	6,891	2,183	5,811	4,403	**31,504**
Recovery of support service recharges	0	0	0	(1,577)	(29,927)	0	**(31,504)**
Total Operating Expenses	**132,322**	**322,657**	**71,933**	**24,001**	**108,880**	**90,090**	**749,883**
Net Cost of Services	**106,068**	**77,296**	**55,371**	**3,768**	**754**	**(2,834)**	**240,423**

Reconciliation to Subjective Analysis – 2013/14

	Service Analysis £'000	Reported to Mgmt but adjusted in CIES £'000	Reported to Mgmt but below net cost of services in CIES £'000	Net Cost of Service £'000	Corporate Amounts £'000	TOTAL £'000
Fees, charges & other service income	(158,492)	0	0	**(158,492)**	0	**(158,492)**
Specific Government grants and contributions	(350,968)	0	18,315	**(332,653)**	0	**(332,653)**
Interest and investment income	0	0	5,209	**5,209**	(5,209)	**0**
Income from Investment Properties	0	0	820	**820**	(820)	**0**
Council Tax Income	0	0	0	**0**	(94,968)	**(94,968)**
Retained Non-Domestic Rates	0	0	0	**0**	(40,988)	**(40,988)**
General grants	0	0	0	**0**	(113,819)	**(113,819)**
Capital Grants & Contributions	0	0	0	**0**	(15,671)	**(15,671)**
Total Income	**(509,460)**	**0**	**24,344**	**(485,116)**	**(271,475)**	**(756,591)**
Employee expenses	349,153	0	0	**349,153**	0	**349,153**
Other service expenses	400,730	0	0	**400,730**	0	**400,730**
Depreciation, Amortisation & Impairment	0	74,262	0	**74,262**	0	**74,262**
Interest Payments	0	0	(25,698)	**(25,698)**	25,698	**0**
Precepts & Levies	0	0	(16,737)	**(16,737)**	16,737	**0**
Payments to Housing Capital Receipts Pool	0	0	(1,860)	**(1,860)**	1,860	**0**
Gain or loss on disposal of non current assets	0	0	(12,876)	**(12,876)**	12,876	**0**
Other	0	(40,563)	(11,902)	**(52,465)**	19,500	**(32,965)**
Total operating expenses	**749,883**	**33,699**	**(69,073)**	**714,509**	**76,671**	**791,180**
Surplus or deficit on the provision of services	**240,423**	**33,699**	**(44,729)**	**229,393**	**(194,804)**	**34,589**

2012/13

Service	Children's Services	Adult, Community & Housing	Urban Environment	Chief Executive's	Corporate Resources	Housing Revenue Account	TOTAL
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fees charges & other service income	(21,580)	(23,493)	(14,811)	(878)	(5,616)	(81,923)	(148,301)
Government Grants	(231,814)	(12,714)	(488)	(3,134)	(144,380)	(7,669)	(400,199)
Total Income	**(253,394)**	**(36,207)**	**(15,299)**	**(4,012)**	**(149,996)**	**(89,592)**	**(548,500)**
Employee Expenses	206,177	36,918	34,352	3,435	28,249	26,976	**336,107**
Other operating expenses	120,375	90,372	29,922	4,813	139,809	57,793	**443,084**
Support Service Recharges	5,839	6,011	7,241	1,870	4,883	4,446	**30,290**
Recovery of support service recharges	0	0	0	(1,637)	(28,653)	0	**(30,290)**
Total Operating Expenses	**332,391**	**133,301**	**71,515**	**8,481**	**144,288**	**89,215**	**779,191**
Net Cost of Services	**78,997**	**97,094**	**56,216**	**4,469**	**(5,708)**	**(377)**	**230,691**

Reconciliation to Net Cost of Services in Comprehensive Income & Expenditure Account (CIES)

Adjustments between amounts reported to management and the Comprehensive Income and Expenditure Statement:

	2012/13
	£'000
Cost of Services in Service Analysis	**230,691**
Income treated as general grant in CIES but included in Net Cost of Services for management	26,196
Adjustments between accounting basis and funding basis under regulations (Note 7)	74,570
Amount in respect of difference between accounting and statutory treatment of Collection Fund surplus	812
Other Operating Expenditure	(13,905)
Financing & Investment Income & Expenditure	(34,797)
Income and expenditure in relation to investment properties and their fair value	1,191
Use of Reserves	(4,279)
Net Cost of Services in CIES	**280,479**

Reconciliation to Subjective Analysis – 2012/13

	Service Analysis £'000	Reported to Mgmt but adjusted in CIES £'000	Reported to Mgmt but below net cost of services in CIES £'000	Net Cost of Service £'000	Corporate Amounts £'000	TOTAL £'000
Fees, charges & other service income	(148,301)	0	0	**(148,301)**	0	**(148,301)**
Specific Government grants and contributions	(400,199)	0	26,196	**(374,003)**	0	**(374,003)**
Interest and investment income	0	0	1,155	**1,155**	(1,155)	**0**
Income from Investment Properties	0	0	801	**801**	(801)	**0**
Council Tax Income	0	0	0	**0**	(112,860)	**(112,860)**
Distribution from National Non-Domestic Rates Pool	0	0	0	**0**	(119,418)	**(119,418)**
General grants	0	0	0	**0**	(10,477)	**(10,477)**
Capital Grants & Contributions	0	0	0	**0**	(22,378)	**(22,378)**
Total Income	**(548,500)**	**0**	**28,152**	**(520,348)**	**(267,089)**	**(787,437)**
Employee expenses	336,107	0	0	**336,107**	0	**336,107**
Other operating expenses	443,084	0	0	**443,084**	0	**443,084**
Depreciation, Amortisation & Impairment	0	148,287	0	**148,287**	0	**148,287**
Other adjustments between accounting basis & funding basis under regulations	0	(73,717)	0	**(73,717)**	0	**(73,717)**
Amount in respect of difference between accounting and statutory treatment of Collection Fund surplus	0	812	0	**812**	0	**812**
Use of Reserves	0	0	(4,279)	**(4,279)**	0	**(4,279)**
Precepts & Levies	0	0	(17,176)	**(17,176)**	17,176	**0**
Payments to Housing Capital Receipts Pool	0	0	(1,619)	**(1,619)**	1,619	**0**
Gain or Loss on Disposal of non-current assets	0	0	4,890	**4,890**	(4,890)	**0**
Interest Payments	0	0	(26,255)	**(26,255)**	26,255	**0**
Finance cost re Pensions	0	0	(9,697)	**(9,697)**	9,697	**0**
Expenditure & changes in fair value of Investment properties	0	0	390	**390**	(390)	**0**
Total operating expenses	**779,191**	**75,382**	**(53,746)**	**800,827**	**49,467**	**850,294**
Surplus or deficit on the provision of services	**230,691**	**75,382**	**(25,594)**	**280,479**	**(217,622)**	**62,857**

Balance Sheet Notes

Note 16: Usable 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 2013/14. It also sets out the school reserves which are committed to be spent in the education service and are not available to the council for general use, and capital receipts which can be used only for specified purposes, mainly capital expenditure.

	Balance at 31 March 2014 £'000	Transfer Out 2013/14 £'000	Transfer In 2013/14 £'000	Balance at 31 March 2013 £'000	Transfer Out 2012/13 £'000	Transfer In 2012/13 £'000	Balance at 31 March 2012 £'000
General Fund Balance	**25,093**	**0**	**5,693**	**19,400**	**0**	**7,196**	**12,204**

Earmarked General Fund Reserves:							
Insurance & Risk Management	4,831		653	4,178	(305)	0	4,483
Working Capital	2,000			2,000	0	0	2,000
Other Corporate Reserves	512	(400)		912	(525)	514	923
DGfL & Paragon Equalisation	11,928	(1,373)	445	12,856	(167)	442	12,581
Lifetime Costs	2,890	(3,299)	2,516	3,673		269	3,404
Public Health	2,033		2,033	0			0
Supporting People	999		461	538	(38)		576
Other Directorate Reserves	7,139	(5,823)	1,796	11,166	(1,285)	2,167	10,284
Total Earmarked General Fund Reserves	**32,332**	**(10,895)**	**7,904**	**35,323**	**(2,320)**	**3,392**	**34,251**
Schools Reserves:							
LMS Reserves including Foundation Schools	16,617	(3,915)	639	19,893	(3,226)	2,950	20,169
Other Schools Reserves	3,277	(167)	1,247	2,197	(1,173)	497	2,873
Dedicated Schools Grant	9,368	(928)	3,475	6,821	(264)	2,534	4,551
Total Schools Reserves	**29,262**	**(5,010)**	**5,361**	**28,911**	**(4,663)**	**5,981**	**27,593**
HRA Reserves:							
General Reserve	5,409	0	2,835	2,574	0	377	2,197
Housing Repairs Account	0	(2,800)	0	2,800	0	1,156	1,644
Other HRA Earmarked Reserves	204	(2,232)	75	2,361	(594)	1,190	1,765
Total HRA Earmarked Reserves	***204***	***(5,032)***	***75***	***5,161***	***(594)***	***2,346***	***3,409***
Major Repairs Reserve	142	(22,203)	22,039	306	(21,487)	21,793	0
Total HRA Reserves	**5,755**	**(27,235)**	**24,949**	**8,041**	**(22,081)**	**24,516**	**5,606**
Usable Capital Receipts Reserve	**9,047**	(8,185)	13,105	**4,127**	(4,471)	8,339	**259**
Total Usable Reserves	**101,489**	**(51,325)**	**57,012**	**95,802**	**(33,535)**	**49,424**	**79,913**

Local Management of Schools (LMS) - These relate to preserved funds of schools for use in future years, under the terms of Dudley's budget delegation scheme. Of the net balance of £16.617m at 31 March 2014, £16.752m relates to credit, and £0.135m to debit (overdrawn) balances.

Other Schools Reserves - These include reserves relating to Community and Extended Use activities, etc. Of the net balance of £3.277m at 31 March 2014, £3.323m relates to credit, and £0.046m to debit (overdrawn) balances.

Dedicated Schools Grant (DSG) – This reflects the roll forward of unspent grant into the following year. Note 12 to the statements shows how the DSG was used in the year.

The Insurance reserve is maintained at a level consistent with the insurable risks borne by the Council, including those residual risks relating to the Council's interest in Municipal Mutual Insurance (MMI) and will fluctuate accordingly.

The Working Capital reserve is specifically held to cover unforeseen expenditure or shortfalls in income of an exceptional nature, and is not anticipated to be utilised under normal circumstances.

The DGfL (Dudley Grid for Learning) and Paragon equalisation reserves represent Government revenue support for these PFI schemes received early in the projects, which will be expended over their remaining life.

The Lifetime Costs reserve funds ongoing adult social care placements.

The Public Health Grant reserve was established to carry forward mainly ring-fenced funding pursuant to the Council's taking on of Public Health functions from 1st April 2013.

The Supporting People reserve carries forward unused resources to fund future spend.

Note 17: Property, Plant and Equipment (12)

Movements on Balances

Movements in 2013/14:	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment	PFI Assets Included in Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2013	626,833	423,731	41,239	245,427	6,928	7,671	7,894	**1,359,723**	38,195
additions	40,370	9,581	12,698	10,903	0	0	4,955	**78,507**	353
Revaluation increases or (decreases) recognised in the Revaluation Reserve	0	(4,145)	0	0	0	69	0	**(4,076)**	0
Revaluation increases or (decreases) recognised in the Surplus/Deficit on the Provision of Services	(37,091)	(11,179)	0	0	0	(77)	0	**(48,347)**	0
Derecognition - disposals	(6,183)	(16,671)	(864)	0	0	0	0	**(23,718)**	0
Assets reclassified (to) or from Assets Held for Sale	0	(7,256)	0	0	0	(124)	0	**(7,380)**	0
Other reclassifications	1,356	5,356	0	395	0	(448)	(7,827)	**(1,168)**	0
At 31 March 2014	**625,285**	**399,417**	**53,073**	**256,725**	**6,928**	**7,091**	**5,022**	**1,353,541**	38,548

Movements in 2013/14:	**Council Dwellings**	**Other Land and Buildings**	**Vehicles, Plant, Furniture & Equipment**	**Infrastructure Assets**	**Community Assets**	**Surplus Assets**	**Assets Under Construction**	**Total Property, Plant & Equipment**	**PFI Assets Included in Property, Plant & Equipment**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accumulated Depreciation and Impairment									
At 1 April 2013	(21,490)	(39,235)	(23,761)	(63,714)	(713)	(6)	0	**(148,919)**	(3,562)
Depreciation charge	(21,897)	(12,572)	(6,327)	(6,811)	(370)	0	0	**(47,977)**	(1,073)
Depreciation written out to the Revaluation Reserve	0	2,504	0	0	0	0	0	**2,504**	0
Depreciation written out to the Surplus or Deficit on the Provision of Services	21,491	3,618	0	0	0	0	0	**25,109**	0
Derecognition - disposals	0	1,808	860	0	0	0	0	**2,668**	0
Reclassifications	0	846	0	0	0	0	0	**846**	0
At 31 March 2014	**(21,896)**	**(43,031)**	**(29,228)**	**(70,525)**	**(1,083)**	**(6)**	**0**	**(165,769)**	**(4,635)**
Net Book Value at 31 March 2014	**603,389**	**356,386**	**23,845**	**186,200**	**5,845**	**7,085**	**5,022**	**1,187,772**	**33,913**
Net Book Value at 31 March 2013	**605,343**	**384,496**	**17,478**	**181,713**	**6,215**	**7,665**	**7,894**	**1,210,804**	**34,634**

Note: only those schools in the ownership of the council are included, not the Foundation and voluntary controlled ones. For an indication of the effect of this judgement, please see the table in Note 34.

Movements on Balances

Movements in 2012/13:	**Council Dwellings**	**Other Land and Buildings**	**Vehicles, Plant, Furniture & Equipment**	**Infrastructure Assets**	**Community Assets**	**Surplus Assets**	**Assets Under Construction**	**Total Property, Plant & Equipment**	**PFI Assets Included in Property, Plant & Equipment**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost or Valuation									
At 1 April 2012	683,401	431,254	43,892	240,015	6,838	8,127	2,919	**1,416,446**	38,181
additions	41,203	13,829	2,496	7,135	0	7	4,975	**69,645**	15
Revaluation increases or (decreases) recognised in the Revaluation Reserve	0	2,590	0	0	0	(94)	0	**2,496**	
Revaluation increases or (decreases) recognised in the Surplus/Deficit on the Provision of Services	(94,623)	(22,289)	0	0		(283)	0	**(117,195)**	
Derecognition - disposals	(3,403)	(1,323)	(87)	(1,723)	0	(86)	0	**(6,622)**	
Derecognition - other	0	0	(5,245)	0	0	0	0	**(5,245)**	
Assets reclassified (to) or from Assets Held for Sale	0	(60)	0	0	0	0	0	**(60)**	
Other reclassifications	255	(270)	0	0	90	0	0	**75**	
Other movements in cost or valuation	0	0	183	0	0	0	0	**183**	
At 31 March 2013	**626,833**	**423,731**	**41,239**	**245,427**	**6,928**	**7,671**	**7,894**	**1,359,723**	**38,196**

Movements in 2012/13:	**Council Dwellings**	**Other Land and Buildings**	**Vehicles, Plant, Furniture & Equipment**	**Infrastructure Assets**	**Community Assets**	**Surplus Assets**	**Assets Under Construction**	**Total Property, Plant & Equipment**	**PFI Assets Included in Property, Plant & Equipment**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accumulated Depreciation and Impairment									
At 1 April 2012	(14,525)	(29,699)	(22,873)	(57,802)	(344)	(29)	0	**(125,272)**	(2,490)
Depreciation charge	(21,487)	(12,325)	(6,027)	(6,628)	(369)	0	0	**(46,836)**	(1,072)
Depreciation written out to the Revaluation Reserve	0	1,104	0	0	0	19	0	**1,123**	
Depreciation written out to the Surplus or Deficit on the Provision of Services	14,525	1,452	0	0	0	0	0	**15,977**	
Derecognition - disposals	0	230	78	716	0	4	0	**1,028**	
Derecognition - other	0	0	5,245	0	0	0	0	**5,245**	
Reclassifications	(3)	3	0	0	0	0	0	**0**	
Other movements in depreciation and impairment	0	0	(183)	0	0	0	0	**(183)**	
At 31 March 2013	**(21,490)**	**(39,235)**	**(23,760)**	**(63,714)**	**(713)**	**(6)**	**0**	**(148,918)**	**(3,562)**
Net Book Value at 31 March 2013	**605,343**	**384,496**	**17,479**	**181,713**	**6,215**	**7,665**	**7,894**	**1,210,805**	**34,634**
Net Book Value at 31 March 2012	**668,876**	**401,555**	**21,019**	**182,213**	**6,494**	**8,098**	**2,919**	**1,291,174**	**35,691**

Note: only those schools in the ownership of the council are included, not the Foundation and voluntary controlled ones. For an indication of the effect of this judgement, please see the table in Note 35

Depreciation
Assets are depreciated using the following methods and over the following periods:

Asset Type	Depreciation Method	Period of Years
Buildings	Straight line	Useful Economic Life, up to 60 years.
Infrastructure (e.g. roads)	Straight line	40 years or Estimated life if shorter
Mobile Plant &Vehicles	Straight line	Useful Economic Life, usually between 5 and 20 years
Council Dwellings	The Major Repairs Allowance figure (calculated by the Department for Communities and Local Government to cover the cost of maintaining housing stock over a long period) is used as a reasonable proxy for depreciation of the same stock.	Not Applicable

Effects of Changes in Estimates
There were no significant changes in accounting estimates used in calculating fair values of properties.

Revaluations
The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations, other than of Council dwellings, were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of plant and equipment, where appropriate, are included in the valuation of the buildings. Specialised plant is valued as separate items in the Depreciated Replacement Cost.

Council dwellings were revalued by an external valuer as at 1st April 2012 at fair value on the basis of Existing Use Value for Social Housing, and in accordance with guidance from the Department for Communities and Local Government. For 2013/14 the 2012 values have been indexed to values appropriate as at 1 April 2013.

Short-lived assets such as vehicles are carried at depreciated historic cost as a proxy for current value. Community Assets (e.g. parks) and Infrastructure Assets (e.g. roads) have not been valued, but are included at historic cost, net of depreciation, in accordance with the Accounting Code of Practice.

The significant assumptions applied in estimating the fair values
For specialised property, or assets for which there is little or no market evidence of value, and which therefore have been valued on the basis of Depreciated Replacement Cost (DRC), it is assumed that there will be continuing occupation.

No account has been taken of flooding the market, each property or group of properties being assumed to stand alone.

Where properties have been valued on the basis of DRC, or for redevelopment purposes, it is assumed that the location of services and ground conditions would not adversely affect the layout of buildings, that all relevant services are of adequate capacity and proximate, and that all necessary consents and approvals would be forthcoming.

Components
Where identifiable and significant components of a building have a shorter life than the building itself, they should be depreciated separately, to ensure that the annual charge to revenue fully reflects the use of the building. In Dudley, the overall difference between asset lives and actual replacement periods is such that there would not be a significant effect on the accounts if components were separately depreciated. Therefore, it has been decided to apply componentisation on the largest assets only.

<u>Estimation methodology for Components</u>

For newly built assets, and identifiable new blocks, over £1m in cost, a component will be identified, based on the cost of electrical and mechanical works and superstructures (generally between 30% and 50% of building cost), and depreciated over 30 years. Subsequent revaluations will be taken to refer to the host asset only.

At post-completion review of major enhancement or refurbishment schemes, an assessment will be made of the carrying value of any identifiable parts removed. If these have a value over £10k, they will be formally derecognised from the balance sheet. If the host asset has a life longer than 30 years, and a value above £2.5m, then the new spend will be set up as a component.

As assets are revalued through the five year rolling programme, if the new valuation of a building is over £2.5m, it is assessed for components, based on current replacement cost of whole building or block, indexed back, and allowing for actual history of building as far as this is available.

Dates of Valuation of Properties within Plant, Property and Equipment

	Council Dwellings	Other Land and Buildings	Vehicles Plant and Equipment	Surplus Assets	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Carried at Depreciated Historical Cost			23,844		**23,844**
Valued at fair value as at:					
1 April 2013	589,743	51,907		1,485	**643,135**
1 April 2012		52,339		360	**52,699**
1 April 2011		64,157		18	**64,175**
1 April 2010		98,893		814	**99,707**
1 April 2009		122,204		3,121	**125,325**
Total Cost or Valuation	**589,743**	**389,500**	**23,844**	**5,798**	**1,008,885**

N.B. This table does not show movements in the carrying value of assets since the valuation dates given.

Note 18: Heritage Assets (13)

Movements on Balances
Movements in 2013/14:

	Assets at Valuation	Assets at Cost	Total Heritage Assets
	£'000	£'000	£'000
Cost or Valuation			
At 1st April 2013	17,872	4,709	**22,581**
Additions	0	108	**108**
At 31st March 2014	**17,872**	**4,817**	**22,689**

Movements in 2012/13:

	Assets at Valuation	Assets at Cost	Total Heritage Assets
	£'000	£'000	£'000
Cost or Valuation			
At 1st April 2012	17,033	4,687	**21,720**
Additions	6	12	**18**
Revaluations	833	10	**843**
At 31st March 2013	**17,872**	**4,709**	**22,581**

5 year summary In the five years including 2013/14, £1.658m has been spent on heritage assets, largely on improving access and interpretation at the Wrens Nest National Nature Reserve.

Further Information

Much information on the heritage assets, the policies which inform the holdings, and access arrangements, are available on the web-sites below:

- http://www.dudley.gov.uk/see-and-do/

for museum collections, landscapes, and public art.

- http://www.dudley.gov.uk/leisure-and-culture/local-history--heritage/archive-and-local-history/

for the local archives.

Alternatively, information can be obtained through Dudley Council Plus on 0300 555 2345.

Note 19: Investment Properties (14)

In 2013/14, the calculated value of certain access agreements, which were carried on the balance sheet as intangible assets, has been reclassified as investment properties. The effect of this change in accounting policy is to reduce the opening balance of intangible assets by £0.354m, from £0.402m to £0.048m, and to increase investment properties by the same amount, from £10.576m to £10.930m. The change is not large enough to require restatement of the previous year's accounts.

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

	2013/14 £'000	2012/13 £'000
Rental income from investment property	(820)	(801)
Direct operating expenses arising from investment property	272	471
Total	**(548)**	**(330)**
Net (gains) or losses from fair value adjustments and disposals	(30)	(861)
Net (gain) or loss recognised in CIES	**(578)**	**(1,191)**

Investment properties are valued at fair (i.e. market) value, reflecting conditions at the balance sheet date (31st March 2014). The valuation is carried out by an internal valuer, appropriately qualified and with local knowledge, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

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

	2013/14 £'000	2012/13 £'000
Balance at start of the year	**10,930**	**10,244**
Purchases	15	(1)
Disposals	(218)	(110)
Net gains or (losses) from fair value adjustments	248	873
Transfers (to) or from Property, Plant and Equipment	272	(76)
Balance at end of the year	**11,247**	**10,930**

Note 20: Financial Instruments (16)

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Current	
	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000
Investments				
Loans and Receivables				
Loans to Other Local Authorities	500	500	1	2
Available for Sale Financial Assets				
(Birmingham Airport Shares (Note 40))	22,083	22,083		
Total Investments	**22,583**	**22,583**	**1**	**2**
Non-Statutory Debtors - Note 21				
Loans and Receivables				
Soft Loans Provided *	1,351	1,212		
Other Long Term Debtors **	5,384	4,777		
Financial assets carried at contract amounts				
Short term Non-Statutory Debtors			30,852	28,570
Total Included in Debtors	**6,735**	**5,989**	**30,852**	**28,570**
Borrowings				
Financial Liabilities at Amortised Cost				
Dudley Borrowing	533,840	535,598	15,393	6,899
Ex WMCC Borrowing	179,256	186,638	7,382	7,876
Dudley Accrued Interest		0	3,174	6,708
Ex WMCC Accrued Interest		0	1,271	1,409
Dudley Premiums Adjusting Carrying Value	(764)	(787)		
Ex WMCC Premiums Adjusting Carrying Value	(1,718)	(1,871)		
Total Borrowings	**710,614**	**719,578**	**27,220**	**22,892**
Long Term Deferred Liabilities				
PFI Liabilities (Note 39)	23,090	24,441	1,352	1,381
Finance Lease Liabilities (Note 38)	6,123	6,366	1,546	1,642
Total Long Term Deferred Liabilities	**29,213**	**30,807**	**2,898**	**3,023**
Non-Statutory Creditors included in Note 24				
Financial Liabilities at amortised cost	0	168		
Financial Liabilities at contract amount			62,402	57,473
Total Non-Statutory Creditors included in Note 21	**0**	**168**	**62,402**	**57,473**

Investments

The council invests its day to day cash balances in order to generate income by earning interest. At 31st March 2014 such balances amounted to £0.247m and were all held in call accounts, which are classed as cash equivalents. Accrued interest on long term investments is shown as short term investments.

The Council's shareholding investment in Birmingham Airport cost £7.675m. It was revalued as at 31st March 2012 to £22.083m for Dudley's 5.58% ordinary shareholding and 11% preference shareholding.

* Soft Loans are those advanced at below market rates in support of the Council's service priorities.
****** Other Long Term Debtors are mainly home improvement loans.

Borrowings
This table shows the source of long-term borrowing and short-term borrowing including debt formerly held by the West Midlands County Council (WMCC), to be serviced by the West Midlands Borough Councils and Joint Boards, under the terms of the Local Government Reorganisation (Debt Administration) (West Midlands) Order 1986 which designated Dudley as being responsible for the administration of the debt.

All these items are financial liabilities held at amortised cost; the balance sheet figures include amounts relating to premiums occasioned by restructuring of debt. Maturity loans repayable within 12 months and principal on annuity loans repayable within 12 months are classed as short term borrowing. The table below shows the underlying borrowing, and separately the amounts relating to premiums.

Income, Expense, Gains and Losses
Interest income and expense is disclosed in Note 3, and gains on revaluation of assets held for sale on the face of the CIES.

Fair Values
The fair value of assets and liabilities (at balance sheet dates) is shown in the table below. Fair value (i.e. reflecting market values) is defined as the value at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. It reflects changes in expectation of interest rates. The fair values of the Public Works Loan Board loans have been valued by discounting at rates for new certainty rate loans on 31 March. Other long-term loans and investments have been discounted at the market rates for similar instruments on 31 March.

Fair Value of Assets & Liabilities carried at Amortised Cost

Assets	31 March 2014		31 March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Loans to other Local Authorities	500	742	500	816
Birmingham Airport Shares	22,083	22,083	22,083	22,083
Total Assets	**22,583**	**22,825**	**22,583**	**22,899**

Liabilities	31 March 2014		31 March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Dudley Public Works Loan Board	518,760	493,827	525,534	529,534
Dudley Other debt	30,473	34,457	16,963	23,313
Ex WMCC Public Works Loan Board	169,854	195,916	177,730	219,910
Ex WMCC Other debt	16,784	20,642	16,784	22,429
PFI Scheme Liabilities	24,442	30,774	25,882	34,353
Finance Lease Payables	7,669	9,681	8,008	10,454
Total Liabilities	**767,982**	**785,297**	**770,901**	**839,993**

Nature and Extent of Risks Arising from Financial Instruments

The Council's Treasury Policy Statement states that "the Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured." The Council's approach to the management of this risk is set out in its Treasury Management Practices and in its annually-approved Treasury Strategy Statement.

The council's treasury activities expose it to a variety of 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.

Credit risk: Investments

Credit risk arises from deposits with banks, other financial institutions, other local authorities that are from treasury activities, and from trade customers. The Council manages credit risk by ensuring that investments are only placed with banks and financial institutions of high credit quality as detailed in the Treasury Management Strategy :

http://www.dudley.gov.uk/EasysiteWeb/getresource.axd?AssetID=257873&type=full&servicetype=Attachment

These include commercial entities with a minimum short term credit rating of F1 (Fitch), P1 (Moody's), and A1 (Standard and Poors), and a support rating of 1 from Fitch, as well as the UK government and other local authorities. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap, equity prices, economic fundamentals, sovereign support and market developments.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but no breaches of counterparty criteria occurred during the reporting period and the Council does not expect any losses in relation to its deposits.

Category of Investment	Maximum proportion of total investments	Amount of Investment at 31 March 2014 £'000
Specified Investments		
Banks, building societies, and schemes with the credit ratings given above	No more than the greater of 20% or £5m with any one institution or group of banks	247
UK Government and other local authorities	No more than the greater of 20% or £5m with any one institution – except that the Government Debt Management Office is not limited	0

In addition to the above, there is an outstanding long-term investment of £0.500m with the City of Salford that was entered into in 1985 and is due to mature in 2020.

Credit Risk: Trade Receivables

The Council's trade invoices are due in 30 days, so any debt over 30 days may be considered impaired. A prudent provision is made for these trade debtors based on historic collection rates. Therefore credit risk only arises on unpaid debt over 30 days old (that is not secured) for which no provision against doubtful debts has been made. The amounts in this category are shown below.

Age of debt	31 March 2014 £'000	31 March 2013 £'000
1 – 3 months	589	738
4 – 12 months	797	853
Over 12 months	0	121
Total overdue but not provided for	**1,386**	**1,712**

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 Public Works Loan Board, other local authorities and financial institutions. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Market risk

The Council is exposed to the risk of interest rate movements on its borrowings and investments. It manages those risks as follows:

- The Council undertakes new long-term borrowing only where this is justified by its forecast cash flow over the current and following financial year.
- As part of its annual Treasury Strategy Statement, the Council sets limits for the proportion of its borrowing maturing in different periods:

Maturity within:	Limit %	Actual 31 March 2014 £'000	Actual 31 March 2014 %
12 months	0-10%	9,069	1.26%
1-2 years	0-10%	11,958	1.66%
2-5 years	0-15%	46,488	6.44%
5-10 years	0-25%	116,492	16.13%
more than 10 years	40-100%	538,263	74.52%

- Lenders Option Borrowers Option (LOBO) loans, which expose the Council to the risk that the lender will raise the interest rate at a point in the future, constitute less than 3% of the Council's long-term borrowing. The vast majority of the rest of the borrowing (98%), and all investments, are fixed rate, so there is no need for a sensitivity analysis.

- The Council's strategy is not to enter into an investment where its cash flow forecast indicates that as a result of that investment it would be necessary to borrow money in a future year that it would not otherwise have had to borrow.

The Council is exposed to price risk through its shareholding in Birmingham Airport, see Note 40. The Council is consequently exposed to losses arising from movements in the prices of the shares. The shares are all classified as 'available for sale', meaning that any movement in price would impact on gains and losses recognised in the Comprehensive Income & Expenditure Account. As the shareholding has arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

The implicit interest rates within the finance lease elements of the unitary payments for PFI schemes are fixed for the duration of the schemes thereby limiting any exposure to external interest rate movement.

Note 21: Debtors (18)

An analysis of debtors which fall due within one year is shown below.

	31 March 2014 £'000	31 March 2013 £'000
1. General		
Council Tax, Community Charge and Non-Domestic Rate Payers	9,029	5,824
Other Public Bodies – ex WMCC debt, see below	7,861	7,145
Statutory Debtors	16,890	12,969
Housing Tenants	5,582	4,822
Central Government Bodies	4,326	7,449
Other Public Bodies	773	1,553
NHS Bodies	7,132	829
Other Debtors	13,039	13,917
Non-Statutory Debtors	30,852	28,570
Total	**47,742**	**41,539**
Less Provisions for Doubtful Debts:		
Council Tax, Community Charge and Non- Domestic Rate Payers	(6,461)	(5,279)
Housing Tenants	(4,399)	(4,291)
Other Debtors	(6,658)	(6,046)
Total Provisions for Doubtful Debts	**(17,518)**	**(15,616)**
Total General	**30,224**	**25,923**
2. Payments in Advance		
Total Payments in Advance	**5,577**	**4,762**
Total Current Debtors	**35,801**	**30,685**

The value of debts impaired but not provided for is disclosed in Note 20.

The table below analyses debtors which fall due after a period of at least one year. They include liabilities of West Midlands District Councils and Joint Boards to service debt formerly held by the West Midlands County Council (WMCC), under the terms of the Local Government Reorganisation (Debt Administration) (West Midlands) Order 1986 which designated Dudley as being responsible for the administration of the debt.

	31 March 2014 £'000	31 March 2013 £'000
Long Term Debtors		
Ex WMCC Debtor Authorities	160,220	168,080
Non-Statutory Debtors	6,736	5,989
Total Long Term Debtors	**166,956**	**174,069**

Note 22: Cash and Cash Equivalents (19)

	31 March 2014 £'000	31 March 2013 £'000
Cash balances	2,278	2,681
Short-term deposits with approved bodies, etc.	248	12,598
Total Cash and Cash Equivalents	**2,526**	**15,279**

Note 23: Assets Held for Sale (20)

	Current Assets	
	2013/14 £'000	2012/13 £'000
Balance at start of year	270	374
Assets newly classified as held for sale from Property, Plant and Equipment	7,430	60
Revaluation losses	(3,021)	(10)
Assets sold	(120)	(154)
Balance at end of year	**4,559**	**270**

Note 24: Creditors (21)

An analysis of short term creditors is shown below.

	31 March 2014 £'000	31 March 2013 £'000
1. General		
Central Government Bodies	15,397	9,894
Other Local Authorities	4,011	5,880
NHS Bodies	1,120	504
Public Corporations and Trading Funds	11	7
Council Tax Payers	625	565
Rent Payers	799	545
Other Creditors	41,864	41,188
General Total	**63,827**	**58,583**
2. Receipts in Advance		
Central Government Bodies	130	207
Other Local Authorities	80	56
NHS Bodies	288	671
Public Corporations and Trading Funds	71	68
Other Receipts in Advance	9,529	7,670
Receipts in Advance Total	**10,098**	**8,672**
Total Creditors	**73,925**	**67,255**

In addition, the following long term creditors have been recognised:

	31 March 2014 £'000	31 March 2013 £'000
Other Receipts in Advance	0	168
Total Long Term Creditors	**0**	**168**

Note 25: Provisions (22)

Provisions are raised where a liability has been incurred, and it is more likely than not that a payment will be required. Provisions are reviewed annually and returned to revenue if they are no longer required for their original purposes.

2013/14	Unequal Pay £'000	Employment Status £'000	Insurance £'000	Business Rate Appeals £'000	Other Provisions £'000	Total Provisions £'000
Balance at 31 March 2013	**41,243**	**0**	**4,426**	**0**	**1,744**	**47,413**
Additional provisions	0	1,261	30	3,283	1,139	5,713
Amounts used	(25,554)	0	0	0	(1,112)	(26,666)
Unused amounts reversed	(774)	0	(14)	0	(330)	(1,118)
Balance at 31 March 2014	**14,915**	**1,261**	**4,442**	**3,283**	**1,441**	**25,342**
Shown as current liability in balance sheet	14,915	1,261	536	3,283	1,441	21,436
Shown as non-current liability in balance sheet	0	0	3,905	0	0	3,905
Total in balance sheet at 31 March 2014	**14,915**	**1,261**	**4,441**	**3,283**	**1,441**	**25,341**

Unequal Pay
The council has made provision for outstanding settlements with current and former employees in respect of actual or potential claims under Equal Pay legislation. The nature of the settlement process and ongoing litigation means that the ultimate amounts involved and payment timescale remain uncertain. The provision has been calculated prudently on the basis of previous settlement experience and the best information available.

Employment Status
The council has been conducting a review of the employment status of individuals across all services. The provision represents a prudent estimation of the backdated Tax and National insurance liability that may be due following discussions with HMRC.

Insurance
The provision reflects the value of known outstanding claims against the Council.

Business Rate Appeals
Under the Business Rates Retention arrangements, the council became liable for 49% of refunds of business rates arising from appeals against the ratings list. The provision reflects an estimate of the outstanding liability associated with appeals based on the Council's experience of appeals to date.

Other Provisions
Other provisions at the year end include £0.551m for liabilities under the Carbon Reduction Commitment Scheme, and £0.659m being a prudent estimate of the likely cost of redundancies agreed after 31 March 2014 which the council committed itself to, mainly in order to make savings necessary to deliver the 2014/15 revenue budget.

Note 26: Unusable Reserves (24)

These reserves reflect the difference in timing between the recognition of items in the Comprehensive Income and Expenditure Statement in accordance with proper accounting practice and their treatment as specified by statutory provisions. They are not therefore available for immediate use by the Council.

	31 March 2014 £'000	31 March 2013 £'000
Revaluation Reserve	105,791	110,955
Available for Sale Financial Instruments Reserve	14,408	14,408
Capital Adjustment Account	380,532	389,593
Financial Instruments Adjustment Account	(13,471)	(14,270)
Deferred Capital Receipts Reserve	1,487	3,185
Pensions Reserve	(339,854)	(469,247)
Collection Fund Adjustment Account	(41)	1,777
Accumulated Absences Account	(5,976)	(6,380)
Total Unusable Reserves	**142,876**	**30,021**

Revaluation Reserve

The Revaluation Reserve contains the gains made by Dudley arising from increases in the value of its Property, Plant and Equipment, Heritage Assets, Intangible Assets, and certain loans. 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.

Revaluation Reserve	**2013/14**		**2012/13**	
	£'000	**£'000**	**£'000**	**£'000**
Balance at start of year		**110,955**		**109,111**
Upward revaluation of assets	3,282		14,091	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(4,854)		(9,547)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		**(1,572)**		**4,544**
Difference between fair value depreciation and historical cost depreciation	(2,227)		(2,477)	
Accumulated gains on assets sold or scrapped	(1,365)		(223)	
Amount written off to the Capital Adjustment Account		**(3,592)**		**(2,700)**
Balance at end of year		**105,791**		**110,955**

Available for Sale Financial Instruments Reserve.

The Available for Sale Financial Instruments Reserve contains the gains made by Dudley arising from increases in the value of its investments that have no quoted market prices i.e. its shares in Birmingham Airport. There was no change in value in 2013/14.

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 Dudley as finance for the costs of acquisition, construction and enhancement.
The Account contains accumulated gains and losses on Investment Properties. 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 1 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

Capital Adjustment Account	**2013/14**		**2012/13**	
	£'000	**£'000**	**£'000**	**£'000**
Balance at start of year		**389,593**		**457,772**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and amortisation of non-current assets	(48,001)		(47,048)	
Revaluation losses on Property, Plant and Equipment	(26,261)		(101,239)	
Revenue expenditure funded from capital under statute	(6,829)		(2,715)	
Amounts of non-current assets written off on disposal or sale as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Statement.	(21,171)		(5,747)	
Sub-total		**(102,262)**		**(156,749)**
Adjusting amounts written out of the Revaluation Reserve (Depreciation and Disposal)		3,592		2,700
Net written out amount of the cost of non-current assets consumed in the year		**(98,670)**		**(154,049)**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	6,063		1,070	
Use of the Capital Receipts Reserve to repay debt	0		0	
Use of the Major Repairs Reserve to finance new capital expenditure	22,203		21,487	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	20,090		26,446	
Statutory & voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	18,857		15,280	
Capital expenditure charged against the General Fund and HRA balances	22,457		20,824	
Sub-total		**89,670**		**85,107**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		30		861
Write down of capital debtors		(91)		(98)
Balance at end of year		**380,532**		**389,593**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the Account to manage premiums paid on the early redemption of loans, and the effects of granting loans in furtherance of council objectives at less than commercial rates of interest.

Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In Dudley's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2014 will be charged to the General Fund over the next 41 years.

Financial Instruments Adjustment Account	**2013/14**		**2012/13**	
	£'000	**£'000**	**£'000**	**£'000**
Balance at start of year		**(14,270)**		**(15,106)**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	794		778	
Effect of granting loans at less than commercial rates of interest	5		58	
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		**799**		**836**
Balance at end of year		**(13,471)**		**(14,270)**

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. Dudley accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service; the liabilities recognised are updated to reflect inflation, changing assumptions and investment returns on resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as Dudley 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 Dudley 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.

Pensions Reserve	**2013/14**		**2012/13 restated**	
	£'000	**£'000**	**£'000**	**£'000**
Balance at start of year		**(469,247)**		**(355,765)**
Remeasurements of the net defined liability / asset	154,698		(92,803)	
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	(50,707)		(45,495)	
Employer's pensions contributions and direct payments to pensioners payable in the year	25,402		24,816	
Balance at end of year		**(339,854)**		**(469,247)**

Deferred Capital Receipts Reserve

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

Deferred Capital Receipts Reserve	**2013/14**		**2012/13**	
	£'000	**£'000**	**£'000**	**£'000**
Balance at start of year		**3,185**		**779**
Transfer of deferred sale proceeds credited as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Statement	650		2,427	
Transfer to the Capital Receipts Reserve upon receipt of cash	(2,348)		(21)	
Balance at end of year		**1,487**		**3,185**

Collection Fund Adjustment Account

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

Collection Fund Adjustment Account	**2013/14**		**2012/13**	
	£'000	**£'000**	**£'000**	**£'000**
Balance at start of year		**1,777**		**967**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,818)		810	
Balance at end of year		**(41)**		**1,777**

Accumulated Absences Account

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

Accumulated Absences Account	**2013/14**		**2012/13**	
	£'000	**£'000**	**£'000**	**£'000**
Balance at start of year		**(6,380)**		**(7,011)**
Settlement or cancellation of accrual made at the end of the preceding year	6,380		7,011	
Amounts accrued at the end of the current year	(5,976)		(6,380)	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		**404**		**631**
Balance at end of year		**(5,976)**		**(6,380)**

Note 27: Capital Expenditure and Capital Financing (38)

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 similar contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2013/14 £'000	2012/13 £'000
Opening Capital Financing Requirement	**756,544**	**769,268**
Capital investment		
Property, Plant and Equipment	78,507	69,644
Heritage Assets	108	18
Investment Properties	15	(1)
Capital Advances	19	8
Revenue Expenditure Funded from Capital under Statute	7,603	5,156
Adjustment to Revenue Expenditure Funded from Capital under Statute (decapitalisation of Unequal Pay Back Pay)	(774)	(2,442)
Sources of finance		
Capital receipts (including set aside to repay debt)	(6,063)	(1,070)
Government grants and other contributions	(20,091)	(26,446)
Sums set aside from revenue:		
Direct revenue contributions	(22,457)	(20,824)
Major Repairs Allowance	(22,203)	(21,487)
Minimum/Voluntary Revenue Provision	(18,858)	(15,280)
Closing Capital Financing Requirement	**752,350**	**756,544**
Explanation of movements in year		
Capital expenditure funded by borrowing and credit unsupported by government financial assistance	15,438	4,998
Adjustment to capital expenditure funded by borrowing and credit (decapitalisation of Unequal Pay Back Pay)	(774)	(2,442)
Capital receipts set aside to repay debt	0	0
Minimum/Voluntary Revenue Provision	(18,858)	(15,280)
(Decrease)/Increase in Capital Financing Requirement	**(4,194)**	**(12,724)**

Capital Commitments

At 31st March 2014, Dudley had entered into major contractual and other commitments relating to capital expenditure (including spending not on the Council's own assets, e.g. spend on Foundation Schools, and grants and loans to other persons and bodies for capital expenditure, etc.) as follows:

	£'000
Housing	1,454
Adult and Community	911
Environmental Management	683
Children's Services	7,439
Other Projects	1,111
Total	**11,598**

Comparable commitments at 31st March 2013 were £18.462m.

Note 28: Defined Benefit Pension Schemes (44)

Participation in Pension Schemes

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

The council participates in two post employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Wolverhampton City Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. The award of such discretionary benefits for LGPS ended in 2008, but some discretionary benefits continue to be granted to teachers.

Transactions Relating to Post-employment Benefits

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

	Local Government Pension Scheme - Funded		Discretionary Benefits Arrangements - Unfunded	
	2013/14	**2012/13 restated**	**2013/14**	**2012/13 restated**
	£'000	**£'000**	**£'000**	**£'000**
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	33,759	25,898	0	0
Past service costs	63	29	88	0
Settlements and curtailments	(2,461)	602	0	1,138
Other Operating Expenditure				
Pension Administration Expense	426	420	0	0
Financing and Investment Income and Expenditure:				
Net Interest cost	17,558	15,908	1,274	1,499
Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	**49,345**	**42,857**	**1,362**	**2,637**
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement				
Remeasurements (gains) and losses	(154,155)	88,767	(543)	4,037
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**(104,810)**	**131,624**	**819**	**6,674**

	Local Government Pension Scheme - Funded		Discretionary Benefits Arrangements - Unfunded	
	2013/14	2012/13	2013/14	2012/13
	£'000	£'000	£'000	£'000
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	(49,345)	(42,857)	(1,362)	(2,637)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	22,876	22,239		0
Retirement benefits payable to pensioners	0	0	2,526	2,577

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31st March 2014 is a loss of £233.83m.

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits Arrangements	
	2013/14	2012/13 restated	2013/14	2012/13
	£'000	£'000	£'000	£'000
Balance at start of year	**1,201,834**	**1,006,281**	**37,404**	**33,307**
Current service cost	33,759	25,898	0	0
Interest on Pension Liabilities	49,814	49,462	1,274	1,499
Contributions by scheme participants	9,284	8,881	0	0
Remeasurements (gains) or losses	(153,758)	139,830	(543)	4,037
Benefits paid	(34,266)	(29,149)	(2,526)	(2,577)
Past service costs or (gains)	63	29	88	0
Curtailments and settlements	(3,863)	602	0	1,138
Balance at end of year	**1,102,867**	**1,201,834**	**35,697**	**37,404**

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

Local Government Pension Scheme	2013/14 £'000	2012/13 restated £'000
Balance at start of year	**769,991**	**683,824**
Interest on Plan Assets	32,256	33,554
Remeasurements gains or (losses)	397	51,063
Employer contributions	22,876	22,238
Contributions by scheme participants	9,284	8,881
Settlements	(1,402)	0
Administration Expense	(426)	(420)
Benefits paid	(34,266)	(29,149)
Balance at end of year	**798,710**	**769,991**

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

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

The actual return on scheme assets in the year was £23.5m (2012/13: £84.6m).

Scheme History

	2013/14 £'000	2012/13 £'000	2011/12 £'000	2010/11 £'000	2009/10 £'000
Present value of liabilities:					
Local Government Pension Scheme	(1,102,867)	(1,201,834)	(1,006,281)	(916,445)	(948,187)
Discretionary Benefits Arrangements	(35,697)	(37,404)	(33,307)	(37,176)	(41,164)
Fair value of assets in the Local Government Pension Scheme	**798,710**	**769,991**	**683,824**	**630,957**	**578,366**
Surplus or (deficit) in the scheme:					
Local Government Pension Scheme	(304,157)	(431,843)	(322,457)	(285,488)	(369,821)
Discretionary Benefits Arrangements	(35,697)	(37,404)	(33,307)	(37,176)	(41,164)
Total	**(339,854)**	**(469,247)**	**(355,764)**	**(322,664)**	**(410,985)**

The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total deficit of £340m has a substantial impact on the net worth of the council as recorded in the Balance Sheet, reducing the overall balance by some three fifths. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy: the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary. Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.
The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2015 are £22.9m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2015 are £2.5m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in 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 the scheme actuary, an independent firm of actuaries. Estimates for Dudley's share of the Fund are based on the latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000
Long-term expected rate of return on assets in the scheme:				
Equities	7.0%	7.0%		
Government Bonds	3.4%	2.8%		
Other Bonds	4.3%	3.9%		
Property	6.2%	5.7%		
Cash/Liquidity	0.5%	0.5%		
Other	7.0%	7.0%		
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	22.9	22.1	22.9	22.1
Women	25.5	24.8	25.5	24.8
Longevity at 65 for future pensioners				
Men	25.1	23.9		
Women	27.8	26.7		
Financial assumptions:				
Rate of CPI inflation	2.4%	2.4%	2.4%	2.4%
Rate of increase in salaries	4.15%	4.15%		
Rate of increase in pensions	2.4%	2.4%	2.4%	2.4%
Rate for discounting scheme liabilities	4.5%	4.2%	4.5%	3.7%
Take-up of option to convert annual pension into retirement lump sum	50% take maximum cash, 50% take 3/80ths cash	50% take maximum cash, 50% take 3/80ths cash		

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

	Local Government Pension Scheme	
	2013/14	**2012/13**
	%	**%**
Equities	55.4%	42.1%
Government Bonds	8.8%	9.0%
Other Bonds	11.4%	12.0%
Property	8.5%	9.0%
Cash/Liquidity	3.3%	2.2%
Other	12.6%	25.7%
Total	**100%**	**100%**

Note 29: Contingent Liabilities (45)

A number of compensation claims have been initiated, or are likely to be initiated, as a consequence of the Council's ongoing major transport, regeneration and schools projects. The extent to which any of these potential claims will be substantiated cannot be assessed at present, and therefore only estimated sums are included in the budgets which are likely to be affected. The budgets are kept under regular review and, where appropriate, indemnities are obtained from partners in those schemes.

The Council has made provision for potential unequal pay settlements for its employees, as set out in Note 25. The Council understands that liability in relation to potential unequal pay claims from support staff at Community and Voluntary Controlled schools rests with the Schools Budget. However, the Council continues to have responsibility to ensure that back pay costs do not prejudice the ability of schools to develop pupil provision and raise standards.

There are a number of closed landfill sites and other contaminated sites owned by the council. It is proposed to review these sites through the Council's ongoing risk assessment process.

Cash Flow Statement Notes

Note 30: Cash Flow Statement - Operating Activities (25)

A. Adjust Net Surplus or Deficit on the Provision of Services for Non Cash Movements

	2013/14 £'000	2012/13 £'000
Non Cash Movements		
Depreciation and Amortisation	(48,001)	(47,047)
Transfer to Major Repairs Reserve	22,039	21,793
Impairment and Downward Valuations	(26,260)	(101,239)
Movements in Market Value of Investment Properties	100	861
Carrying Amount of Non Current Assets Sold	(21,241)	(5,747)
Net Charges Made for Retirement Benefits in Accordance with IAS 19	(50,707)	(45,495)
Other Non Cash Movements	(818)	347
Changes to Grants Received in Advance	32	1,296
Changes in Provisions for Bad Debts	22,072	3,270
Changes to Creditors	(6,458)	4,439
Changes to Debtors	(2,744)	(2,127)
Changes to Assets Held for Sale within 12 Months and Inventories	4,449	107
Total Non-Cash Movements and Adjustments to the Net Surplus or Deficit	**(107,537)**	**(169,542)**

B. Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities

	2013/14 £'000	2012/13 £'000
Capital Grants Credited to the Surplus or Deficit on the Provision of Services	15,671	22,378
Proceeds from the Sale of Non - Current Assets	13,014	8,891
Billing Authorities - Council Tax and NNDR Adjustment	(2,779)	(1,782)
Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities Total	**25,906**	**29,487**

C. Interest Received, Interest Paid and Dividends Received

	2013/14 £'000	2012/13 £'000
Interest Paid	23,687	24,238
Interest Received	(144)	(195)
Dividends Received	(4,772)	(661)
Net Cash Flows from Operating Activities	**18,771**	**23,382**

Note 31: Cash Flow Statement - Investing Activities (26)

	2013/14 £'000	2012/13 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	78,585	70,276
Purchase of Short Term and Long Term Investments	0	0
Other payments for Investing Activities	207	141
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(12,420)	(8,891)
Proceeds from Short Term and Long Term Investments	0	0
Other Receipts from Investment Activities	(15,706)	(22,138)
Net Cash Flows from Investing Activities	**50,666**	**39,388**

Note 32: Cash Flow Statement - Financing Activities and Non-Cash Movements (27)

Financing Activities

	2013/14 £'000	2012/13 £'000
Cash Receipts of Short and Long Term Borrowing	0	0
Other Receipts from Financing Activities	(4,328)	0
Cash Payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,720	2,645
Repayment of short and long term borrowing	8,964	15,166
Other payments for financing activities	2,779	1,782
Net Cash Flows from Financing Activities	**9,135**	**19,593**

Other Notes

Note 33: Accounting Policies (1)

1. General Principles and Changes for 2013/14

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Council is required to prepare an annual statement of accounts, in accordance with proper accounting practices, by the Accounts and Audit Regulations 2011. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP), supported by International Financial Reporting Standards (IFRS). The council has adopted SeRCOP 2014/15 in advance – this makes no difference at the level of reporting in the statement of accounts. Some roundings necessarily remain

The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts are prepared on the basis that the authority is a going concern.

The main changes introduced by the 2013/14 Code concern the analysis and disclosure of pension information. These changes do not affect the balance sheet. The Council has also changed the policy on certain access agreements, changing the classification from intangible to investment assets, on the grounds that this would give better information to users of the accounts.

2. Accruals of Income and Expenditure

Activity is accounted for in the year in which it takes place, not when money is paid or received. In particular:

- Fees, charges, and rents due from customers and tenants are accounted for as income at the date the council provides the relevant goods, services, or accommodation.
- 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 payable on borrowings and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment, rather than cash movements.
- Amounts due from customers which have been secured on property are shown in the balance sheet as loans rather than debtors.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Provisions for doubtful debts are netted off the balance sheet value of the relevant debtors, and a charge made to revenue for the income that might not be collected.
- The provisions relating to council tax and National Non-Domestic Rates (NNDR) are based on historical cash flows, aged debt, and forecast collection levels; that for general debtors is based on full provision for aged debt; and that for housing is calculated by providing for 20% of all current tenants arrears & 100% of all former tenants arrears. These accounting provisions do not affect the Council's policy and practice in collecting income due to it.

3. Provisions and Contingent Liabilities

Provisions are made for liabilities that have been incurred, but are of uncertain timing or amount. There are three criteria:

- the council has a present obligation (legal or constructive) as a result of a past event;
- it is probable (i.e. more likely than not) that money will be needed to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

If any of these criteria are not met, no provision will be made in the accounts, but a contingent liability may be disclosed in a note. Where the liability is due to be settled within the next financial year, the provision is shown as a current liability in the balance sheet. Otherwise provisions are shown as long term liabilities.

The obligation can be "constructive" e.g. the council has publicly expressed an intention to do something, and other parties have acted in expectation of this.

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. Details of provisions held at 31 March 2014 are shown in Note 25 to the statements.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated obligations are reviewed at the end of each financial year; where it becomes less than probable that money will be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Provision for Back Pay Arising from Unequal Pay Claims.
The council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred in the past, and has been given directions by the Government to treat these costs as capital expenditure, to be funded from prudential borrowing.

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the balance sheet but disclosed in Note 29 to the statements.

4. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance (GFB) in the Movement in Reserves Statement (MiRS). When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account 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 GFB through the MiRS so that there is no net charge against council tax for the expenditure.

Reserves designated as Local Management of Schools relate to preserved funds of schools for use in future years, under the terms of Dudley's *Fair Funding LMS Scheme for Financing Schools*. These reserves are committed to be spent in the education service and are not available to the council for general use.

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

5. Government and other Grants and Contributions

Government grants and third party contributions and donations are recognised as due to Dudley at the date that there is reasonable assurance that the monies will be received and that any conditions will be satisfied, but will not be credited to the Comprehensive Income and Expenditure Statement (CIES) until any conditions are satisfied. Conditions are stipulations that allow the grant-giver to recover the grant if it is not used as specified.

Monies advanced to the Council as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors; where there is reasonable assurance that the conditions will be complied with, in the grouping Grants Receipts in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or to Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the CIES.

Capital grants and contributions are treated in a similar way, i.e. they are credited to CIES as Taxation and Non-specific Grant Income as soon any conditions are complied with and there is reasonable assurance that the money will be received.

Any capital grants or contributions received with conditions where the council does not have reasonable assurance that those conditions will be complied with are carried in the balance sheet as creditors: where there is reasonable assurance that the conditions will be complied with, in the Capital Grants Receipts in Advance account.

Where capital grants and contributions are credited to the CIES, they are reversed out of the General Fund balance through the Movement in Reserves Statement (MiRS) to the Capital Adjustment Account (CAA).

6. Employee Benefits

Benefits Payable during Employment

Short term employee benefits, i.e. those due to be settled within 12 months of the year end, include wages and salaries, paid annual leave and paid sick leave, and bonuses. They are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of entitlements (e.g. for holidays or flexi leave) earned but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the rates applicable in the year in which the entitlement is earned, being a reasonable approximation to the rates in the following year in which the employee will take the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services (SDPS) in the Comprehensive Income and Expenditure Statement (CIES), but then reversed out through the Movement in Reserves Statement (MiRS), so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service line, or to the Non Distributed Costs line in the CIES, at the point when the council has communicated a detailed plan for the termination of the employment of an officer or group of officers or for offers to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, e.g. through early access to earned pension, statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to accounting standards. To achieve this, appropriations in the MiRS are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid or payable to the pension fund and pensioners.

Post Employment Benefits

Employees of the council are entitled to be members of one of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Business Services Authority (for staff who transferred with the Public Health function).
- The Local Government Pension Scheme, administered by Wolverhampton City Council as the West Midlands Metropolitan Authorities Pension Fund.

All three schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council. However, the arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot be identified to the council. These schemes are therefore accounted for as if they were defined contributions schemes – no liability for future payments of benefits is recognised in the balance sheet. The Children's and Education Services and Public Health revenue accounts are charged with the employer's contributions payable to Teachers' and NHS Pension Schemes in the year. Details are given in Note 10 to the statements.

The Local Government Pension Scheme

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

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

Liabilities are discounted to their value at current prices, using a discount rate based on a weighted average of the indicative rate of return on high quality corporate bonds of appropriate period.

The assets of the West Midlands Metropolitan Authorities Pension Fund attributable to the Council are included in the balance sheet at their fair value. Details are given in Note 28 to the statements. Quoted securities held as assets in the scheme are valued at bid price.

The annual change in the net pensions liability is analysed as follows:

Service costs

- current service cost – the increase in liabilities as a result of years of service earned this year - allocated in the CIES to the revenue accounts of the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, and curtailments or events that reduce the expected future service or accrual of benefits of employees – debited to the SDPS in the CIES as part of Non Distributed Costs
- any gain or loss on settlement – the result of actions to relieve the council of liabilities, - debited to the SDPS in the CIES as part of Non Distributed Costs

Net interest on net defined liability – the change during the period in the net defined benefit liability (asset) that arises from the passage of time. It comprises interest income on the plan assets, net of interest cost on the defined benefit obligation – debited (credited) to Financing and Investment Income and Expenditure in the CIES.

Remeasurements

- return on plan assets, less items included in the net interest above – credited to Other Comprehensive Income and Expenditure (OCIE) in the CIES
- 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 – recognised in OCIE in the CIES.

Contributions paid by the employer

- contributions paid to the West Midlands Metropolitan Authorities Pension Fund – cash paid as employer's contributions to the pension fund – not accounted for as an expense.

Statutory provisions in relation to retirement benefits require the council to charge General Fund with the amounts payable by the council to the pension fund in the year. This means that in the MiRS there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance on the Pension Reserve measures the beneficial effect on the General Fund of accounting for pensions on the basis of cash paid, rather than a calculation of benefits earned.

Discretionary Benefits

The council 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. VAT

Only irrecoverable VAT payable is included in the accounts.

8. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received. The exceptions are the following two categories of cost which are not recharged to services:

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early, and charges relating to unused or unusable assets where no service receives benefit.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the CIES, as part of Cost of Services.

9. Property, Plant and Equipment (PPE)

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

Assets are then carried in the Balance Sheet using the following measurement bases:
- infrastructure and community assets (except land) – depreciated historical cost
- assets under construction and community assets land – historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at fair value are revalued on a rolling programme, sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. {This is not in strict compliance with the revised IAS16, which specifies that all assets within a category are revalued within a short period, but has no material effect on the balance sheet}. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the CIES where they reverse a loss previously charged to the SDPS. Property assets whose revalued amount falls below the de-minimis level of £10,000 are excluded from the Balance Sheet. However there is not a formal de-minimis for initial recognition of assets.

Where decreases in value are identified, they are accounted for as follows:
- 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 CIES.

The Revaluation Reserve contains only revaluation gains recognised since 1 April 2007, 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 such indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:
- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the 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 CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, 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 Community Asset land) and assets that are not yet available for use (i.e. assets under construction).

Assets are depreciated using the following methods and over the following periods:

Asset Type	Depreciation Method	Period of Years
Buildings	Straight line	Useful Economic Life, up to 60 yeas
Infrastructure (e.g. roads)	Straight line	40 years or Estimated life if shorter
Mobile Plant & Vehicles	Straight line	Useful Economic Life, usually between 5 and 20 years
Council Dwellings	The Major Repairs Allowance figure (calculated by the Department for Communities and Local Government to cover the cost of maintaining housing stock over a long period) is used as a reasonable proxy for depreciation of the same stock.	Not Applicable

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, unless the difference to the depreciation charge would not be significant. This is not needed for Council Dwellings, as the calculation of the Major Repairs Allowance, used as a proxy for depreciation, takes account of differing replacement periods.

For newly built assets, and identifiable new blocks, over £1m in cost, a component will be identified, based on the cost of Electrical, Mechanical and Superstructures (generally between 30% and 50% of building cost), and depreciated over 30 years. Subsequent revaluations will be taken to refer to the host asset only.

At post-completion review of major enhancement or refurbishment schemes, an assessment will be made of the carrying value of any identifiable parts removed. If these have a value over £10k, they will be formally derecognised from the balance sheet. If the host asset has a life longer than 30 years, and a value above £2.5m, then the new spend will be set up as a component.

As assets are revalued through the five year rolling programme, if the new valuation of a building is over £2.5m, it is assessed for components, based on current replacement cost of the whole building or block, indexed back, and allowing for the actual history of the building as far as this is available.

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, and it is probable that the sale will be completed within 12 months, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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 CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES 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 expected receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment, or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement (MiRS).

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

10. Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one financial year. Such assets are usually short-lived, and as such are not revalued. The calculated value of certain access agreements, which were carried on the balance sheet as intangible assets, have now been reclassified as investment properties. The effect of this change in accounting policy is to reduce the opening balance of intangible assets by £0.354m, from £0.402m to £0.048m, and to increase investment properties by a similar amount, but is not material and so does not require restatement of the previous year's accounts. The intangible asset balances are amortised to the relevant service revenue account over the economic life of the assets, using the straight-line method over 5 years, to reflect the pattern of consumption of benefits.

11. Charges to Revenue for Non-current Assets (Property, Plant, and Equipment, and intangible Assets)

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

- depreciation attributable to the assets used by the relevant service
- impairment and revaluation losses which exceed any balance of accumulated gains in the Revaluation Reserve against which they can be written off
- amortisation of intangible assets attributable to the service.

The council is not required to raise council tax to cover depreciation, impairment or revaluation losses, or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the 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.

Separate rules apply for non-dwelling assets within the Housing Revenue Account; for these assets, depreciation, impairment or revaluation losses, and amortisations are treated as charges to the HRA.

12. Revenue Expenditure Funded from Capital under Statute

Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes although it does not result in the creation of a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year’s council tax. These items are generally grants and expenditure on property not owned by the council, and amounts directed under section 16(2) of Part 1 of the Local Government Act 2003. Such expenditure is charged to the CIES in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance through the Movement in Reserves Statement (MiRS).

13. 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. (For vehicles, this applies when vehicles are leased for the greater part of their working lives.) All other leases are classified as operating leases.

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

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

The Council as Lessee, i.e. paying for the use of assets

Finance Leases

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

Lease payments are apportioned between:

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

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period). The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced 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 benefiting 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).

<u>The Council as Lessor i.e. receiving rents for property</u>

Operating Leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

14. Financial liabilities
Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Account (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest payable). Interest charged to the CIES is the amount payable for the year in the loan agreement.

Discounts and premiums on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the CIES in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the CIES is spread over the life of the loan by an adjustment to the effective interest rate.

Regulations allow the impact of premiums and discounts on the General Fund Balance to be spread over future years. This is managed by a transfer to or from the Financial Instruments Adjustment Account, through the Movement in Reserves Statement.

15. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus accrued interest receivable. The interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the council has made certain loans to organisations at less than market rates (soft loans), where this furthers the objectives of the council. When soft loans are made, a loss is recorded in the CIES 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 a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, 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 CIES 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 MiRS.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the CIES.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the CIES.

16. Inventories (Stocks and Stores)

Inventories are included in the balance sheet at the lower of cost and net realisable value, except that inventories of items to be distributed without charge are valued at the lower of cost and current replacement value.

17. Interests in Companies and Other Entities

Information relating to individual companies is shown in Note 40 to the statements.

18. Private Finance Initiative (PFI) and similar schemes

PFI contracts are agreements to receive services, where the responsibility for making available the plant, property and equipment needed to provide the services passes to the PFI contractor. In cases where the Council is deemed to control the services that are provided, and where ownership of the fixed asset will pass to the Council at the end of the contract without further payment, the Council has included these assets in the balance sheet. Details are shown in Note 39 to the statements.

The entries are calculated as if the original recognition of the plant, property and equipment was balanced by a liability for amounts due to the scheme operator to pay for the assets.

Plant, property and equipment recognised on the balance sheet is revalued and depreciated in the same way as any other Council-owned property.

Payments made by the Council under a contract are analysed as follows:

- fair value of services received during the year – debited to the relevant service in the CIES
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable in the CIES
- payment towards liability – applied to write down the Balance Sheet liability to the PFI or other contractor
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

PFI Credits

Government Grants received for PFI schemes, in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future contract expenditure. The grant is treated as a general grant in the CIES.

19. Accounting for Council Tax

The Council Tax income included in the CIES is the accrued income for the year, and not the amount required under regulation to be transferred from the Collection Fund to the General Fund (the Collection Fund Demand). The difference is taken to the Collection Fund Adjustment Account through the MiRS.

As the collection of Council Tax for preceptors (the West Midlands Police and Crime Commissioner, and West Midlands Fire & Rescue Authority) is an agency arrangement, the cash collected belongs proportionately to Dudley as the billing authority and to the preceptors. This gives rises to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation.

20. Accounting for Collection of National Non-Domestic Rates (NNDR)

From 1st April 2013, the treatment of NNDR changed as Government legislation localised a proportion (49%) to the Council. In accounting terms from 1st April 2013, Dudley collects NNDR partly as an agent of central government, and of the Fire and Rescue Authority, and partly on its own account. As with council tax, the cash collected belongs proportionately to Dudley as the billing authority, and to central government and the Fire and Rescue Service as preceptors. This gives rises to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation.

21. Cash and Cash Equivalents

Cash in hand, cash in bank, and cash in call accounts, are counted as cash equivalents, as readily converted to a fixed amount of cash.

22 Investment Properties

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

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

However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Rentals received in relation to investment properties are also credited (and expenditure debited) to the Financing and Investment Income and Expenditure line in the CIES, and result in a net gain or loss for the General Fund Balance.

23 Carbon Reduction Commitment Energy Efficiency Scheme

The council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is in the last year of its introductory phase which ends on 31 March 2014. The council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the council is recognised and reported in the costs of the council's services and is apportioned to services on the basis of energy consumption.

24 Heritage Assets

The Council's Heritage Assets are held in support of the objectives of increasing knowledge, understanding and appreciation of the Borough's history and the local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment, with some relaxations shown below.

Asset type	Accounting Treatment
Collections of art, glass, geological items and related archive materials held in the museums	Insured value which is based on market values.
Local archive collections held in the new Archive Centre in Tipton Road.	Not included in the accounts, as there is neither acquisition cost nor value associated with these items.
Historic Landscapes, particularly The Leasowes, and National Nature Reserves.	Held at cost, which largely consists of recent works of restoration and development.
Statues and other art works in parks and public spaces, art works associated with road schemes, war memorials	Held at an internal valuation, where the value can be reasonably estimated, or at cost if that is known.
Local nature reserves which are also public parks, such as Saltwells and Fens Pools.	Treated as operational assets, not as heritage assets.

Note 34: Accounting Standards that have been issued but have not yet been adopted (2)

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014 Code) has introduced a number of minor changes in accounting policy from 1 April 2014 by adopting amendments to several IFRS and IAS issued from December 2011 to December 2012. It is not considered likely that there will be any material impact on the Council's financial statements.

Note 35: Critical Judgements in Applying Accounting Policies (3)

In applying the accounting policies set out in Note 1 to the statements, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.
The critical judgements made in the Statement of Accounts are:

1. The council accept the Major Repairs Allowance figure (calculated by the Department for Communities and Local Government to cover the cost of maintaining housing stock over a long period) as a reasonable proxy for depreciation of the same stock.

2 Estimation of the net liability to pay for 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. (Details of the assumptions used are given in Note 28 and an estimate of the effects of changes to assumptions in Note 36).

3. The valuation of council housing stock requires a judgement about the effect of ongoing social tenancies on value. Dudley accepts the regional valuation factors set out by the Department for Communities and Local Government as a reasonable approximation to this effect.

4 Schools are only included in the balance sheet in so far as the Council has legal ownership. Thus schools in Foundation Trusts, voluntary aided schools and some of the voluntary controlled schools are excluded, although they are used in providing education within the Borough.

To give an indication of the scale involved, the table below shows the numbers of pupils, and the expenditure on education, split between schools on and off the balance sheet.

	Number of schools (excluding academies)	Funding provided in 2013/14 - revenue and capital	Number of pupils at January 2013 count	Carrying Value 31 March 14
		£'000		£'000
On balance sheet	73	118,295	25,536	189,710
Off balance sheet	22	53,142	10,257	0

5. There is a high degree of uncertainty about future levels of funding for local government. However, this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

6. The council has determined that there is no group relationship with Birmingham Airport Holdings Ltd. The basis for this conclusion was that the council had insufficient voting power to affect any decision changes, has no material transactions and does not provide essential technical information. The investments are classified as available for sale financial assets as a recent valuation is available. This valuation is based on earnings per share.

7. In accounting for liabilities relating to equal pay, the council has had to judge areas of liability where there is a potential for future claims but none have yet been received. It has judged on the balance of probabilities that provision should be made for such liabilities.

Note 36: Assumptions Made About the Future, and Other Major Sources of Estimation Uncertainty (4)

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

The items in the Council's Balance Sheet at 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Pensions Liability. At 31st March 2014, the net liability for pensions was £339.9m. The effect on the pensions liability of changes in individual assumptions can be measured (see table below).

West Midlands Pension Fund Sensitivity Analysis as at 31 March 2014

Disclosure item	Central £000s	Sensitivity 1 +0.1% p.a discount rate £000s	Sensitivity 2 +0.1% p.a inflation £000s	Sensitivity 3 +0.1% p.a. Pay growth £000s	Sensitivity 4 1 year increase in life expectancy £000s
Liabilities	1,113,012	1,092,333	1,134,082	1,119,088	1,133,875
Assets	(798,721)	(798,721)	(798,721)	(798,721)	(798,721)
Deficit/(Surplus)	314,291	293,612	335,361	320,367	335,154
Projected Service Cost for next year	28,655	27,873	29,467	28,655	29,291
Projected Net Interest Cost for next year	13,573	12,923	14,537	13,863	14,528

- Provisions for Doubtful Debts - Impairment of outstanding debtors. At 31st March 2014, the Council had outstanding debtors of £47.741m, and a provision for impairment of debtors of £17.518m. The level of this provision is reviewed in the light of actual experience for the various categories of income, but necessarily involves assumptions as to whether past patterns will continue or change. If it was found that payment rates were worsening, the allowances would have to be increased. For example, if 5% of the general debt now expected to be paid were judged to be doubtful, an increase of £0.487m in the provision for impairment would be needed.

- Property values for buildings other than housing stock. At 31st March 2014, the book value, net of depreciation, of the buildings other than housing stock was £254.550m. Buildings are depreciated over useful lives that are dependent on various factors, including assumptions about the level of repairs and maintenance that will be carried out in relation to individual assets. The current funding 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 lives of assets were to be reduced, depreciation would increase and the carrying amount of the assets would fall. It is estimated that the if the useful life of each building was reduced by one year, the annual charge for depreciation of buildings would increase by £1.399m, and the carrying value therefore decrease by the same amount. It should be noted that the depreciation charge does not have any effect on the general fund balance.

- Provision for Business Rate Appeals. At 31st March 2014, a provision for of £3.283m has been made, being the Council's 49% share of the overall estimated liability of £6.7m. This provision has been made based on the Council's experience of appeals to date. However, past experience of appeals may not be an accurate guide to the outcome of remaining appeals and that the actual impact may be greater or less than the amount provided for. We have conducted sensitivity testing based on what we consider to be a reasonable range of assumptions for the numbers of appeals, proportion of successful appeals, impact on rateable value and period of backdating. This gives a range of around £3m between the lowest (around £2m) and highest (around £5m) scenario for the Council's share of the liability.

Note 37: Events after the Balance Sheet Date (6)

The Statement of Accounts was authorised for issue by the Treasurer on 18th September 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 38: Leases (39)

Authority as Lessee, i.e. paying for use of assets

Finance Leases

Dudley has acquired much of its vehicle fleet and a number of buildings under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

Assets Acquired	31 March 2014 £'000	31 March 2013 £'000
Other Land and Buildings	2,865	3,002
Vehicles, Plant, Furniture and Equipment	5,070	5,336
Total	**7,935**	**8,338**

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

Cash Flows	31 March 2014 £'000	31 March 2013 £'000
Finance lease liabilities (net present value of minimum lease payments):		
Current	1,595	1,642
Non-current	6,062	6,362
Finance costs payable in future years	4,434	4,762
Minimum lease payments	**12,091**	**12,766**

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

Actual Minimum Lease Payments and Associated Liabilities	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000
Not later than one year	2,040	2,122	1,595	1,642
Later than one year and not later than five years	4,864	5,314	3,601	4,004
Later than five years	5,187	5,330	2,461	2,362
	12,091	**12,766**	**7,657**	**8,008**

Operating Leases
The Council has rented a number of properties by entering into operating leases.
The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2014 £'000	31 March 2013 £'000
Not later than one year	1,052	1,288
Later than one year and not later than five years	1,596	2,195
Later than five years	1,120	1,386
Total Minimum lease payments	**3,768**	**4,869**

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

	31 March 2014 £'000	31 March 2013 £'000
Minimum lease payments	1,668	1,560
Sublease payments receivable	(118)	(118)
	1,550	**1,442**

Council as Lessor i.e. receiving rents for assets

Finance Leases
The Council has not entered into any finance lease arrangements.

Operating Leases
The Council leases out property and equipment under operating leases for the following purposes:
The provision of community services, such as sports facilities, tourism services and community centres
Economic development purposes to provide suitable affordable accommodation for local businesses.
The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March 2014 £'000	31 March 2013 £'000
Not later than one year	1,606	1,607
Later than one year and not later than five years	2,872	3,062
Later than five years	31,807	32,079
Total Minimum lease payments	**36,285**	**36,748**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

The assets use for these operating leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

Assets Acquired	31 March 2014 £'000	31 March 2013 £'000
Other Land and Buildings	22,310	24,710

Note 39: PFI and Similar Contracts (40)

Summary information for PFI and similar contracts is given below for continuing schemes. The figures given on future liabilities assume full performance; failure of performance will attract penalties from the contractors.

Paragon
This project was a Design, Build, Finance and Operate (DBFO) scheme to provide two schools (Colley Lane Primary and The Summerhill). The contract with the operator Newmount covers 27 years and expires in 2031 when the schools transfer to Council ownership.

Waste to Energy Plant
The Council contracted out its waste disposal service to Dudley Waste Services Ltd in 1996 which included the Design, Build, Finance and Operation of a waste to energy plant at the Lister Road Depot. The plant has been operational since 1998 and processes the vast majority of waste collected by the Council. The Waste Disposal Contract covers operation of the plant for 25 years and expires in 2023 when ownership of the plant transfers to the Council. The operator is obligated to use the plant primarily for Dudley's waste although it does receive waste from other sources.

The balance sheet movements and entries for Paragon and the Waste to Energy Plant are detailed below:

	Paragon Schools		Waste to Energy Plant	
	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000
Cost or Valuation				
At 1 April	18,591	18,576	19,604	19,604
Additions	353	15	0	0
At 31 March	18,944	18,591	19,604	19,604
Depreciation				
At 1 April	(1,466)	(1,094)	(2,096)	(1,396)
Charge for year	(373)	(372)	(700)	(700)
At 31 March	(1,839)	(1,466)	(2,796)	(2,096)
Balance sheet amount at 31 March	**17,105**	**17,125**	**16,808**	**17,508**

PFI Finance Lease Creditor Liabilities

	Paragon Schools		Waste to Energy Plant	
	2013/14	2012/13	2013/14	2012/13
	£'000	£'000	£'000	£'000
At 1 April	12,162	12,582	13,661	14,496
Principal Repaid in year	(470)	(420)	(911)	(835)
Balance sheet amount at 31 March	**11,692**	**12,162**	**12,750**	**13,661**

Breakdown of PFI Finance Lease Creditor Liabilities

	Long-term		Current	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
	£'000	£'000	£'000	£'000
Paragon Schools	11,335	11,692	358	470
Waste to Energy Plant	11,755	12,749	994	911
	23,090	**24,441**	**1,352**	**1,381**

The carrying value of the PFI liabilities is recorded at amortised cost in the balance sheet. There is no reliable market value for these liabilities therefore their fair value is deemed to be their carrying value.

The breakdown of the unitary payment (or equivalent) into service charges, repayment of principal and finance costs for the life of the schemes, at 2013/14 prices, are detailed below.

Payments for Paragon Schools

Period	Unitary Payment	Service Charges	Repayments of Liability	Finance Costs	Contingent Rents
	£'000	£'000	£'000	£'000	£'000
Within One Year	3,027	1,724	358	667	278
2-5 years	12,824	6,986	1,954	2,416	1,468
6-10 years	17,776	10,045	3,019	2,318	2,394
11-15 years	19,955	11,046	4,185	1,369	3,355
16-20 years	9,028	4,951	2,177	185	1,715
Total	**62,610**	**34,752**	**11,693**	**6,955**	**9,210**

Payments for Waste to Energy Plant

Period	Unitary Payment	Service Charges	Repayments of Liability	Finance Costs
	£'000	£'000	£'000	£'000
Within One Year	4,304	2,149	994	1,161
2-5 years	17,513	8,894	4,967	3,652
6-10 years	18,002	9,653	6,788	1,561
Total	**39,819**	**20,696**	**12,749**	**6,374**

The Waste Disposal Contract is not a PFI scheme therefore the “unitary payment” is deemed to be the annual cost of incineration as per the original contract excluding costs for items required to comply with environmental legislation and other “pass through” costs which are the Council’s responsibility.

Unitary payments for Paragon are based on a fixed annual charge and payments for Waste Disposal are based on a gate fee dependent on waste tonnages. The whole of the payments for the Waste Disposal Contract and 90% of the payments for Paragon are subject to annual inflationary uplifts.

Note 40: Investments in Companies (47)

Birmingham Airport
The Council’s shareholding investment in Birmingham Airport Holdings Ltd cost £7.675m. It is revalued annually using an earnings based approach. The value as at 31st March 2014 for Dudley’s 5.58% ordinary shareholding and 11% preference shareholding is £22.083m; see also Note 20.

Dudley and West Midlands Zoological Society Limited
Dudley Council holds all the shares in a company known as Dudley and West Midlands Zoological Society Limited (Registered address: Castle Hill, Dudley, West Midlands, DY1 4QF). This company is engaged in zoological activities, and, through a wholly owned subsidiary, the provision of catering services, the operation of gift shops, and related activities on the Dudley Zoo site.

The company's financial position for its two most recent accounting periods is summarised below. The figures are based on the latest accounts of the company, copies of which can be obtained from the Society at the above address.

	Year Ended 31 December 2013 £’000	**Year Ended 31 December 2012 £’000**
Total Assets less Liabilities	1,462	994
Surplus or (Loss) on Ordinary Activities	468	75
Dividends Paid	Nil	Nil
Status of Accounts	audited	audited

The Company and its subsidiary are dependent for financial support on the Council. The Council is committed to providing additional support to ensure its ability to continue to trade.

New Heritage Regeneration Limited
The Council has a maximum of 20% of the voting rights in this company limited by guarantee. (Registered address: 3 St. James’s Road, Dudley, West Midlands, DY1 1HZ). It was established in August 2008 as a project management agent, liaising with the private sector to deliver the social, environmental and economic regeneration aspirations of the Council. It does not itself engage directly in regeneration activity such as acquisition and disposal of property, or works.

The company’s accounts for the period ended 31st March 2014 are not yet available. However the total amount paid by the Council for the company’s services, and included in the Council’s Income and Expenditure account for 2013/14 was £168,000 (£149,000 in 2012/13). The company’s financial position for the year ended 31st March 2013 is summarised below.

	Year Ended 31 March 2013 £’000	**Year Ended 31 March 2012 £’000**
Turnover	145	159
Cost of sales	(143)	(156)
Gross Profit	2	3
Status of Accounts	audited	audited

PSP Dudley Limited Liability Partnership (LLP)

The Council is a member of this LLP and has 50% of the voting rights. (Registered address: Ground Floor, 30 City Road, London EC1Y 2AB). It was established in July 2009 primarily to develop sites with the aim of securing improvements to the economic, social or environmental well-being of the Borough of Dudley.

The LLP's financial position for the year ended 31st March 2014 is summarised below.

	11 months to 31 March 2014 £'000	Year ended 31 April 2013 £'000
Stock of Properties	406	256
Costs incurred	61	89
Status of Accounts	draft management accounts	audited

Group Accounts
Dudley Council does not prepare group accounts, as the effect on the standing of the Council of the three related companies above is not material.

Note 41: Trust Funds (50)

The Council acts as trustee for the various funds detailed below. These funds have not been consolidated in the accounts of the Council, in order to comply with the Accounting Code of Practice.

	Balance at 31st March 2014	Expenditure And Other Losses 2013/14	Income and Other Gains 2013/14	Balance at 31st March 2013	Expenditure And Other Losses 2012/13	Income and Other Gains 2012/13	Balance at 31st March 2012
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Stevens Trust – provides amenities in Stourbridge & Lye	3,003	(154)	198	2,959	(164)	206	2,917
Other Children's Services Funds	257	(35)	55	237	(55)	58	234
Housing Leaseholder Funds	520	(450)	239	731	(212)	225	718
Adult and Community Funds – mainly held on behalf of residents	5,623	(4,585)	4,922	5,286	(4,575)	4,551	5,310
Other Funds	353	0	62	291	(307)	15	583
Total	**9,756**	**(5,224)**	**5,476**	**9,504**	**(5,313)**	**5,055**	**9,762**

The Ernest Stevens Trust comprises 4 separate trusts. Only the Stevens Park & Recreation Ground Foundation has investments which generate income. It also has land & property valued at £0.491m at 1st April 2013 in accordance with the RICS Appraisal & Valuation manual. The other 3 trusts have land & property valued on a similar basis totalling £2.514m at 1st April 2013.

In compliance with the Statement of Recommended Practice for Charities, the accounts of the Stevens Trust show investments and property at appropriate current value. This has not resulted any significant unrealised gain or losses.

The Council is the Trustee of several trusts which administer public open spaces. The only assets of these trusts are the land and property concerned and no value is included in the table above.

The Council also administers some trust funds, the value of which is considered immaterial. They have therefore not been included above.

Note 42: Prior Period Adjustments

Prior Period adjustments have been made to the Council's 2012/13 published financial statements in relation to changes required by the CIPFA Accounting Code to comply with revisions to International Accounting Standard IAS19, relating to Post-Employment Benefits (pensions). Together with certain presentational changes, the amended Standard alters the entries of the first of the tables contained in Note 28 relating to Defined Benefit Pension Schemes. This table shows the transactions which have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year. There is no effect upon the Balance Sheet. In making the required changes, it has been necessary to restate some of the 2012/13 amounts. The impact of these changes on the published 2012/13 statements is shown in the table below.

	2012/13 as published £'000	Change £'000	Restated Amount £'000
Movement in Reserves Statement			
Surplus or Deficit on Provision of Services - General Fund Balance	(8,338)	(7,099)	(15,437)
Surplus or Deficit on Provision of Services - Housing Revenue Account	(54,518)	(1,031)	(55,549)
Other Comprehensive Income and Expenditure	(96,389)	8,130	(88,259)
Adjustments between accounting basis and funding basis under regulations - General Fund Column	17,923	7,099	25,022
Adjustments between accounting basis and funding basis under regulations - Housing Revenue Account	56,647	1,031	57,678
Adjustments between accounting basis and funding basis under regulations - Unusable Reserves	(78,744)	(8,130)	(86,874)
Comprehensive Income and Expenditure Statement			
Other Operating Expenditure	13,905	420	14,325
Financing and Investment Income and Expenditure	33,606	7,710	41,316
Surplus or Deficit on Provision of Services	62,857	8,130	70,987
Other Comprehensive Income and Expenditure	96,389	(8,130)	88,259
Cash Flow Statement			
Net (Surplus) or Deficit on the Provision of Services	62,857	8,130	70,987
Net Adjustments to Net Surplus or Deficit on the Provision of Services	(131,925)	(8,130)	(140,055)
Adjustments between Accounting Basis and Funding Basis under Regulations (Note 1) - Adjustments primarily involving the Pensions Reserve:			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement - General Fund Balance	32,896	7,099	39,995
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement - HRA	4,469	1,031	5,500

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement - Movement in Unusable Reserves	(37,365)	(8,130)	(45,495)
Note 2: Other Operating Expenditure			
Pension Administration Expense - **new item**	0	420	420
Note 3: Financing and Investment Income and Expenditure			
Expected Return on pensions assets - *deleted*	(41,264)	41,264	0
Pensions interest Cost - *deleted*	50,961	(50,961)	0
Pensions Net Interest Cost - *new item*		17,407	17,407
Note 30: Cash Flow Statement - Operating Activities			
Non Cash Movements			
Net Charges Made for Retirement Benefits in Accordance with IAS 19	(37,365)	(8,130)	(45,495)
Note 28: Defined Benefit Pension Schemes			
Transactions Relating to Post-employment Benefits - Funded			
Interest Cost - Funded Scheme - *deleted*	49,462	(49,462)	0
Expected Return on pensions assets - *deleted*	(41,264)	41,264	0
Net Interest Cost - Funded Schemes - *new item*		15,908	15,908
Pension Administration Expense - *new item*		420	420
Actuarial Gains and Losses - Funded schemes - *deleted*	96,897	(96,897)	0
Remeasurements (gains) and losses - Funded Schemes - *new item*		88,767	88,767
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code - Funded Schemes	(34,727)	(8,130)	(42,857)
Assets in Relation to Post-employment Benefits			
Expected Return on pensions assets - *deleted*	41,264	(41,264)	0
Actuarial Gains and Losses - *deleted*	42,933	(42,933)	0
Interest on Plan Assets		33,554	33,554
Actuarial gains or (losses)		51,063	51,063
Pension Administration Expense - *new item*		(420)	(420)

HOUSING REVENUE ACCOUNT INCOME & EXPENDITURE STATEMENT

This reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure - maintenance, administration, and capital financing costs - and how these are met from rents, subsidy, and other income. The layout of this account is an HRA Income and Expenditure Statement, followed by a Movement on the HRA Statement. These accounts are fully included within the main Movement in Reserves Statement and the Comprehensive Income and Expenditure Statement.

	2013/14 £'000	2012/13 £'000
Income		
Dwellings Rent	(90,326)	(87,124)
Non-Dwellings Rent	(678)	(692)
Charges for services and facilities	(245)	(231)
Contribution towards expenditure	(897)	(848)
Supporting People Grant	(575)	(697)
Total Income	**(92,721)**	**(89,592)**
Expenditure		
Repairs & Maintenance	23,671	20,138
Supervision and Management	15,274	15,107
Rent, Rates, Taxes & Other Charges	1,371	1,144
Movement in Provision for Bad Debts	623	525
Depreciation & Impairments of Property (Note 7 & Note 8)	37,697	101,863
Debt Management Costs	13	12
Total Expenditure	**78,650**	**138,789**
Net of (Income) & Expenditure	**(14,071)**	**49,197**
HRA share of Corporate & Democratic Core	473	530
HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services	18	62
Net Expenditure on HRA services	**(13,580)**	**49,789**
(Gain)/ loss on sale of HRA non-current assets	(3,656)	(6,842)
Interest payable & similar charges	17,962	18,080
HRA Investment Income (including Mortgage Interest)	(30)	(37)
Finance Cost of Pensions	2,216	1,122
Recognised capital grants and contributions	(217)	(7,594)
Deficit for the year on HRA services	**2,695**	**54,518**

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

A proportion of receipts from the sale of council houses is contributed to a national pool. This contribution is shown in the Comprehensive Income and Expenditure Statement.

Movement on the HRA Statement

	2013/14		2012/13	
	£'000	£'000	£'000	£'000
Balance on the HRA at the end of the previous year		(2,574)		(2,197)
(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	2,695		54,518	
Adjustments between accounting basis and funding basis under statute	(573)		(56,647)	
Net decrease before transfers to or from reserves		**2,122**		**(2,129)**
Transfers to or (from) Housing Repairs Account	(2,800)		1,156	
Transfers to or (from) earmarked reserves	(2,157)		596	
(Increase) in year on the HRA balance		**(2,835)**		**(377)**
Balance on the HRA at end of the current year		**(5,409)**		**(2,574)**

Note 1: Adjustments between accounting basis and funding basis under statute

This note shows the adjustments which are needed to determine the final balance on the statutory account.

	2013/14 £'000	2012/13 £'000
Difference between amounts charged to Income and Expenditure for amortisation of premiums and discounts and the charge for the year determined in accordance with statute	(297)	(325)
Charge for depreciation, impairment and amortisation of non-current assets, plus capital expenditure funded from revenue under statute, net of depreciation and recognised capital grants.	15,860	72,761
(Gain) / loss on sale of HRA non-current assets	(3,657)	(6,842)
Disposal costs charged to capital receipts	263	1,781
HRA share of contributions to or from the Pensions Reserve (net figure)	3,446	1,520
Voluntary Revenue Provision	(1,082)	0
Capital expenditure funded by the HRA	(13,960)	(12,248)
Total	**573**	**56,647**

Note 2: Housing Stock

The Council was responsible for managing on average 22,809 dwellings during 2013/14. The stock at the year end was made up as follows:

	31 March 2014	31 March 2013
Traditional Houses and Bungalows	14,006	14,163
Non-traditional Houses and Bungalows	908	921
Flats	7,808	7,812
Total Stock	**22,722**	**22,896**

The change in stock can be summarised as follows:

	2013/14	2012/13
Stock at 1st April	22,896	22,987
Less: Sales, Demolitions etc.	(207)	(118)
Add: New Build properties	33	27
Stock at 31st March	**22,722**	**22,896**

Note 3: Plant Property and Equipment, and other assets

Total Balance sheet value of land, houses & other property within the HRA.

	31 March 2014 £'000	1 April 2013 £'000	31 March 2013 restated £'000
Operational Assets, comprising:			
Dwellings	603,388	589,743	605,343
Other Land & Buildings	3,198	3,174	2,757
Other Assets	1,597	1,395	1,488
	608,183	**594,312**	**609,588**

The change in values between 31st March 2013 and 1st April 2013 reflects the revaluation as at 1st April 2013

The vacant possession value of dwellings within the council's HRA at 1st April 2013 was £1,735m compared with a social housing value of £590m.
The difference between these two values shows the economic cost to Government of providing council housing at less than open market rents.

Note 4: Major Repairs Reserve Movement

	2013/14 £'000	2012/13 £'000
Balance on the Major Repairs Reserve at start of year	306	0
Amount transferred to the Major Repairs Reserve during the financial year	22,039	21,793
Debits to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses & other property within the council's Housing Revenue Account	(22,203)	(21,487)
Balance on the Major Repairs Reserve at end of year	**142**	**306**

Note 5: Capital Expenditure

Summary of total accrued capital expenditure on land, houses & other property within the HRA during the financial year by sources of funding.

	2013/14 £'000	2012/13 £'000
Usable Capital Receipts	4,373	0
Revenue Contribution	13,960	12,248
Major Repairs Reserve	22,203	21,487
Grants & Contributions	217	7,593
	40,753	**41,328**

Note 6: Capital Receipts

Summary of total capital receipts from disposals of land, houses & other property within the Housing Revenue Account during the financial year.

Net Capital Receipts	2013/14 £'000	2012/13 £'000
Dwellings	9,066	5,339
Other land & buildings	2,859	814
	11,925	**6,153**

Note 7: Depreciation & Amortisation

The total charge for depreciation within the Housing Revenue Account.

Depreciation of Operational assets	2013/14 £'000	2012/13 £'000
Dwellings	21,897	21,487
Other land & buildings e.g. shops	118	116
	22,015	**21,603**

The total charge for amortisation within the Housing Revenue Account.

Amortisation of Intangible assets	2013/14 £'000	2012/13 Restated £'000
Intangible assets	**24**	**24**

Note 8: Revaluation and Impairment Losses

	2013/14 £'000	2012/13 £'000
The value of revaluation losses for the financial year in respect of land, houses & other property charged to the council's Housing Revenue Account.	15,658	80,070
Total	**15,658**	**80,070**

Note 9: Rent Arrears

	31 March 2014 £'000	31 March 2013 £'000
Current Tenants	1,630	1,371
Former Tenants	3,615	3,516
Total	**5,245**	**4,887**

A bad debt provision has been made in the accounts in respect of potentially uncollectable rent arrears. The value of this provision was £3.941m at 31st March 2014 (£3.791m at 31st March 2013).

COLLECTION FUND

This shows the transactions of Dudley as a billing authority in relation to non-domestic rates and council tax, and illustrates the way in which these have been distributed to precepting authorities and to Dudley's General Fund.

	Business Rates 2013/14 £'000	**Council Tax 2013/14 £'000**	**2012/13 £'000**
Council Tax (net)		(108,903)	(104,745)
Transfers from General Fund: Net Benefits			(23,565)
Business Rates (net of provisions and reliefs)	(92,881)		(94,143)
Adjustments of Community Charges for Previous Year			
Total Income	**(92,881)**	**(108,903)**	**(222,453)**
Precepts and Demands:			
West Midlands Police Precept		8,448	9,837
West Midlands Fire & Civil Defence Precept	894	4,356	4,731
Central Government	44,708		
Dudley MBC General Fund Demand	43,813	92,819	111,321
	89,415	**105,623**	**125,889**
Business Rates:			
Payment to National Pool (Note 2)			90,925
Costs of Collection	439		439
	439		**91,364**
Increased/(Decreased) Provision for Doubtful Debts:	605	440	264
Write Offs	1,488	395	3,183
Increased Provision for Appeals	6,700		
	8,793	**835**	**3,447**
Transfer to General Fund & Preceptors – Prior Year's Estimated Surplus		1,292	824
Total Expenditure	**98,647**	**107,750**	**221,524**
Collection Fund Surplus (Deficit) for the year	**(5,766)**	**1,153**	**929**
Surplus at 1st April brought forward	0	2,022	1,093
Total Collection Fund Surplus at 31st March	**(5,766)**	**3,175**	**2,022**
Surplus (-) Deficit (+) to be distributed to preceptors	2,941	(391)	(245)
Dudley MBC Collection Fund Surplus/(Deficit)	**(2,825)**	**2,784**	**1,777**

Note 1: Council Tax

Council tax charges are calculated by estimating the amount of income required from the Collection Fund by the Council and precepting authorities for the forthcoming year and dividing this by the Council Tax base (*i.e. the equivalent number of Band D dwellings*). The Council Tax base for 2013/14 was 82,478.38 calculated as follows:

Band	Number of Dwellings (adjusted for discounts, exemptions etc)	Multiplier	Band D Equivalent
A Disabled	**90.49**	5/9	**50.27**
A	**22,035.53**	6/9	**14,690.35**
B	**27,374.15**	7/9	**21,291.01**
C	**24,152.88**	8/9	**21,469.23**
D	**13,719.41**	1	**13,719.41**
E	**5,958.88**	11/9	**7,283.08**
F	**2,178.94**	13/9	**3,147.36**
G	**871.97**	15/9	**1,453.28**
H	**103.75**	18/9	**207.50**
Total Band D equivalent			**83,311.49**
Assumed Collection Rate			**99.0%**
Net Band D Equivalent			**82,478.38**

Note 2: National Non-Domestic Rates (Business Rates)

Non-Domestic Rates are collected locally on the basis of a nationally determined rate in the pound of 47.1p (or 46.2p if the property qualifies for small business relief) for 2013/14, charged on the rateable value of the property. The Council is responsible for collecting rates due from ratepayers in its area. Under the Business Rates Retention programme, from 1st April 2014, the Council retains 49% of the income, 1% goes to the Fire and Rescue service, and 50% is paid to the Government.

Total non-domestic rateable value at 31st March 2014 was £242.047m (31st March 2013 = £241.149m). The amount actually collectable by the Council is less, by the net amount of Transitional Relief and other allowances, than the product of the non-domestic rateable value and the poundage.

Note 3: Write Offs

Following every effort to recover monies due, some debts are eventually deemed to be uncollectable and are written off. In 2013/14 the following sums were written off:

Council Tax	£0.395m	(2012/13 £0.404m)
National Non-Domestic Rates	£1.488m	(2012/13 £2.779m)

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities:

The Council 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. This council has designated the Treasurer as the responsible officer;

- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- to approve the Statement of Accounts.

APPROVAL OF THE STATEMENT OF ACCOUNTS

I confirm that that these accounts were considered and approved by Dudley Metropolitan Borough Council's Audit and Standards Committee at the meeting held on 18th September 2014.

Signed on behalf of Dudley Metropolitan Borough Council:

Councillor Jackie Cowell
Chair of the Audit and Standards Committee

Date: 18th September 2014

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS (Continued)

The Treasurer's Responsibilities:

The Treasurer is responsible for the preparation of the council's Statement of Accounts which, in terms of the Code of Practice on Local Authority Accounting in the United Kingdom, is required to present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31st March 2014.

CERTIFICATE OF THE TREASURER

I certify that in preparing this Statement of Accounts:

- I have selected suitable accounting policies and applied them consistently,
- I have made reasonable and prudent judgements and estimates,
- I have complied with the Code of Practice on Local Authority Accounting in the United Kingdom.

I have also kept proper and up-to-date accounting records, and taken reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts set out in the following pages give a true and fair view of the financial position of Dudley Metropolitan Borough Council at 31st March 2014, and its income and expenditure for the year then ended.

I authorise this Statement of Accounts for issue on the date below. This is the date up to which events after the balance sheet date have been considered for their possible effect on the accounts.

....
Iain Newman,
Treasurer

Date: 18th September 2014

INDEPENDENT AUDITOR'S REPORT TO DUDLEY METROPOLITAN BOROUGH COUNCIL

Opinion on the Authority financial statements

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

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

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Treasurer;
- and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Dudley Metropolitan Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

INDEPENDENT AUDITOR'S REPORT TO DUDLEY METROPOLITAN BOROUGH COUNCIL

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

INDEPENDENT AUDITOR'S REPORT TO DUDLEY METROPOLITAN BOROUGH COUNCIL

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Dudley Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

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

Signed

Kyla Bellingall
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

18th September 2014