# Solihull Metropolitan Borough Council
# Draft Statement of Accounts 2019/20

# Contents

# Narrative Report

This Narrative Report provides information on the Council and the environment in which it operates, to set the Statement of Accounts into context. In addition to describing the borough of Solihull and its particular strengths and challenges, the Narrative Report summarises some of the key risks and opportunities for the Council and explains how the Council's approach to budgeting contributes to its financial resilience. The Narrative Report provides an overview of the Council's financial performance in 2019/20 to complement the key financial statements and highlights some of the Council's achievements against the 2019/20 priorities. It further outlines the main priorities of the Council Plan and sets out the key objectives for the year ahead.

**Covid-19**

The emergence of Covid-19 as a global pandemic looks set to dominate the national and local agenda for much of 2020/21 and the Council expects significant challenges ahead as it navigates this crisis. Although the uncertainty caused by Covid-19 has affected the Council's planning for 2020/21 and beyond, the full financial impact has yet to materialise and so is not reflected in the Statement of Accounts this year.

The impact of Covid-19 on the Council's finances could be wide-reaching and long-lasting. The initial effects were seen in late March as the national response to the spread of the virus intensified. In common with authorities across the country, the Council began to deliver food parcels to vulnerable residents, provide additional support to adult social care providers and work with partners to establish temporary mortuary facilities and a Nightingale hospital in the borough. The subsequent closure of shops, offices and leisure facilities resulted in some of the Council's key income streams drying up almost overnight, while applications for local council tax support and requests for locally funded business rates relief increased sharply. The administrative burden has been intense, with local authorities on the frontline of distributing grants and awarding business rate relief to local businesses, while reshaping key services to minimise risk and ensure the continuity of essential services.

The Council has received various government grants to mitigate the financial pressures caused by Covid-19, including two tranches of general funding totalling £11.534 million, £2.563 million for infection control and £0.192 million to support the reopening of town centres. In addition, the Council is administering the distribution of around £29 million in business grants and applying centrally funded business rates and council tax relief. However, as reported to Full Cabinet in June 2020, forecast costs and income pressures far exceed the funding received to date. The Council continues to lobby the government for more financial support but our budget strategy reserve and business rates windfall resources provide valuable flexibility and resilience.

As the UK emerges from the first wave of Covid-19 infections, the future looks very different to that envisaged just six months ago. It is clear that many of the services the Council provides will need to be redesigned to accommodate social distancing and infection control requirements, while the economic fallout from the pandemic will leave many residents and businesses requiring additional support. The coming period of reflection, adaptation and recovery could however provide opportunities to develop more sustainable models of work, leisure and transportation.

In response, the Council Plan is being reset and revised for approval in July, with work also beginning on a review of the Medium Term Financial Strategy (MTFS), to ensure the Council is in the best possible place to support the recovery and revitalisation of the borough.

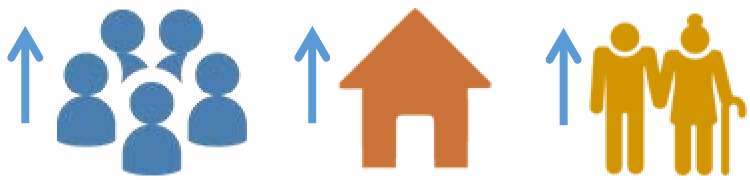
## Organisational Overview and Operating Environment

### Solihull: population and place

The Council serves a broadly affluent borough, characterised by above-average levels of income, employment and home ownership. The living environment, with a mix of urban and rural communities, key strategic sites and transport infrastructure, and large amounts of green space, is one of Solihull's main strengths, as evidenced by high levels of resident satisfaction with the area (84% in the 2018 Place Survey[1]).

The population of the borough has increased at a much slower rate than nationally over recent years but is expected to grow by around 11% between 2018 and 2038.[2] This growth will put considerable pressure on transport, housing, education and public service infrastructure and there is a widespread shortage of affordable homes and homes which are suitable for older people, especially the increasing numbers living alone. Our community is becoming increasingly diverse, with an increasing proportion from a Black, Asian or other Minority Ethnic (BAME) group (11% in the 2011 census). We expect that this trend will continue and our service design needs to be sensitive to this diversity.

The Office for National Statistics projections suggest that the relative ageing of Solihull's population will continue and by 2038 it is likely that those aged 65 and over will account for around 25% of the borough's population. In particular, the growth in the number of residents aged 85 and over, who are expected to account for nearly 5% of the borough's population by 2038, represents a significant challenge in terms of health and social care.[3] The frailties of the social care system have been highlighted by the Covid-19 pandemic and this is likely to become a subject of greater focus nationally in the recovery period.



| | | |
|---|---|---|
| Population forecast to grow by 0.5% p.a. from 2018-2038 | No. of households forecast to grow by 12% from 2018-2038 | People aged 65+ with dementia forecast to grow by 41% by 2035 |

The borough has a thriving economy, with above average wages and relatively low numbers of residents claiming an out of work benefit. In addition to its location at the heart of the nation's road and rail network, it is home to some of the region's key economic assets, such as Birmingham International Airport and the National Exhibition Centre.

The borough's many advantages can give the impression that some of the social challenges are less and are easier to tackle than in other parts of the country. However, the borough has a persistent prosperity gap which has proved difficult to close. National deprivation statistics suggest that despite being the least deprived upper tier authority in the West Midlands, Solihull is relatively polarised, with more than one in ten residents living in neighbourhoods classed as among the most deprived 10% in the country and nearly one in three residents living in the least deprived 10% neighbourhoods.[4]

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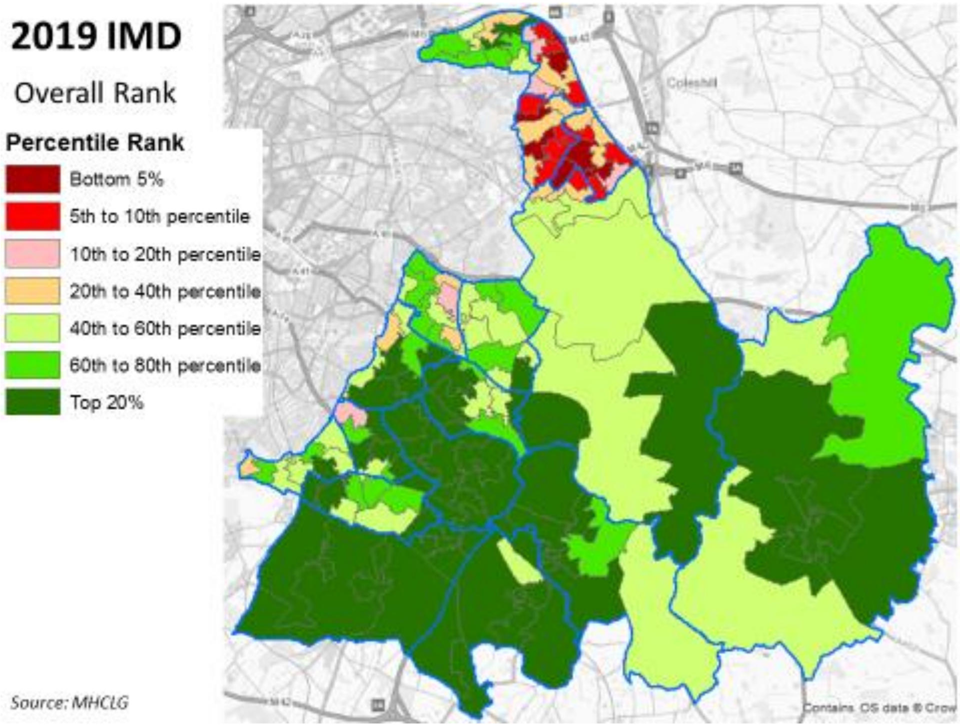
[1] Solihull Metropolitan Borough Council, *Solihull Place Survey 2018*
[2] Solihull Metropolitan Borough Council, *Solihull Population Estimates and Projections*
[3] Ibid.
[4] Solihull Metropolitan Borough Council, *Deprivation in Solihull – The Index of Multiple Deprivation 2019*




This polarisation is illustrated in this map of the borough, which is based on the indices of multiple deprivation (IMD), and shows the most deprived wards in red and the least deprived wards in green.

The impacts of this are felt across a broad range of outcomes, particularly employment and educational attainment. Although life expectancy in the borough is above the national average, those in the borough's affluent neighbourhoods can expect to live more than 10 years longer than those in the more deprived wards. Furthermore, projections suggest that an increasing number of our residents will experience financial pressures as a result of changes to the benefits system and low income growth among lower earners. When set against relatively high housing costs, this will represent a particular challenge for the Council.

**Solihull: the council**

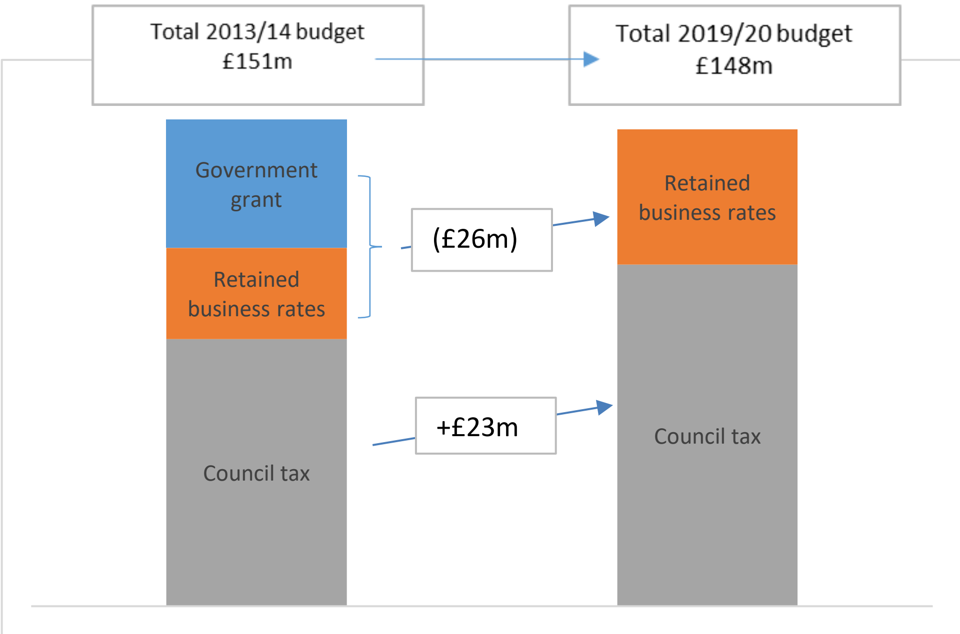
The Council's vision for Solihull is that it will be a place where everyone has an equal chance to be healthier, happier, safer and prosperous. We are one of 36 metropolitan district councils, on the fringe of the West Midlands conurbation but with a distinct identity and strong rural roots, as characterised by the motto “Urbs in Rure”. A unitary authority since 1986, the Council is led by a Conservative administration which as at 2 May 2020 holds 27 out of the 51 seats. The borough covers two parliamentary wards, Solihull and Meriden.

The Council employs 4,300 full time equivalent staff, approximately half of whom work in the borough’s schools (excluding academies), organised into five directorates – Adult Social Care, Children’s Services and Skills, Economy and Infrastructure, Public Health and Resources – under the management of the Corporate Leadership Team. The number of full time equivalent staff has fallen by 4% over the past five years, and we recognise the pressure this has put on our committed workforce. One of the Council’s strengths is the positive working relationships between officers and elected members, which facilitates effective decision making and strong leadership. This is underpinned by our core values, which are to be open, honest, clear, approachable and to keep our promises.

Each local authority operates a governance framework that brings together a set of legislative requirements, governance principles, corporate strategies and policies, systems, management processes, culture and values. The quality of these arrangements underpins the level of trust in public services and is fundamental to the Council’s statutory and democratic obligations. A framework of good governance allows the Council to be clear about how it discharges its responsibilities. Further information on the Council's governance arrangements across all of its activities is provided in the Annual Governance Statement, which includes an action plan to address any governance issues which have been assessed as significant.

Our purpose, as set out in the Council Plan, is to improve lives by delivering great services. The Council Plan sets out the direction we want to go in as a Council (our vision and purpose), how we aim to travel that journey and what we want to see at the end of it. It covers those major steps that we need to take in order to achieve our vision. It does not cover the 'business as usual' of the Council, which, of course, also has a vital role in the success of our vision and purpose.

Our funding comes from two main sources, retained business rates and council tax. In 2013/14, the year in which business rates retention was first introduced, Solihull received 55% of its funding from council tax payers, 26% from government grant and 19% from retained business rates. In the years since, the level of government grant has fallen significantly and the proportion of funding which comes from council tax payers has increased to over 70%.




Since April 2017 Solihull has been involved in a pilot of 100% business rates retention with the other West Midlands metropolitan districts, as a result of which we no longer receive revenue support grant from government. At the outset of the pilot, the tariffs paid to central government and the top-ups received from central government through the business rates scheme were adjusted to ensure a cost-neutral starting position for the pilot authorities.

For the pilot period, the region will retain the 50% share of business rates previously attributable to central government, the growth on which is shared with the West Midlands Combined Authority to provide a funding stream for its investment programme. The future of such business rates pilots beyond 2020/21 remains unclear.

What is clear is that our budget and resourcing forecasts for 2021/22 and beyond are extremely challenging and the future is uncertain. We have a good track record in identifying and delivering substantial savings, and we know that, although this is harder every year, we will need to sustain and, in all likelihood, deepen this beyond 2020.

We have a long established culture of working in partnership across the public, private, community and voluntary sectors, with a shared commitment to the people of Solihull. Our key strategic and operational relationships include:

The West Midlands Combined Authority (WMCA) will drive an £8bn, 30 year investment programme; £636 million of which is direct investment into Solihull. The Urban Growth Company (UGC) is a special purpose delivery vehicle created specifically to allow the full economic potential of the UK Central (UKC) project to be realised through a comprehensive Growth and Infrastructure Plan.

The Local Enterprise Partnership (LEP), a partnership between business, local government and education, has agreed 3 Growth Deals with government, levering in £433 million of Local Growth Fund - a pipeline of capital investments across Greater Birmingham and Solihull that will generate jobs, improve transport links, create housing and upskill our people.

Through the Birmingham and Solihull Sustainability and Transformation Partnership (STP) we are working with health partners to set out the key priorities for each local area across three headline issues: improving quality and developing new models of care, improving health and wellbeing and improving efficiency of services.

The Council works at operational level with both the police and fire services across our local communities, for example through the Safer Solihull Partnership, which is working to address crime, disorder and substance misuse.

Solihull Community Housing (SCH) manages our council housing stock and works in partnership with us across a range of priorities including housing delivery, supporting those affected by homelessness and how we work together in localities.  SCH is wholly owned by the Council and led by a board of directors on which the Council is represented.

We work closely with the education sector, including private early years' providers, maintained schools, academies, free schools and colleges.  In particular, the local authority is represented on the Solihull Schools' Strategic Accountability Board and through working committees relating to Early Years, Special Educational Needs and School Improvement.

The Voluntary and Community Sector (VCS) in Solihull consists of more than 700 separate organisations which contribute to the social fabric and wellbeing of our communities.  We have developed a more focused commissioning approach with the VCS that maximises the resources available to deliver against our priorities.

The Council has interests and relationships in other entities which are included in the Council's group accounts. Solihull Community Housing Limited, Blythe Valley Innovation Centre Limited and the Urban Growth Company are consolidated as wholly owned subsidiaries of the Council. The Coventry and Solihull Waste Disposal Company Limited is included as a joint venture.

## Operational Model and Performance

### Business Operating Model

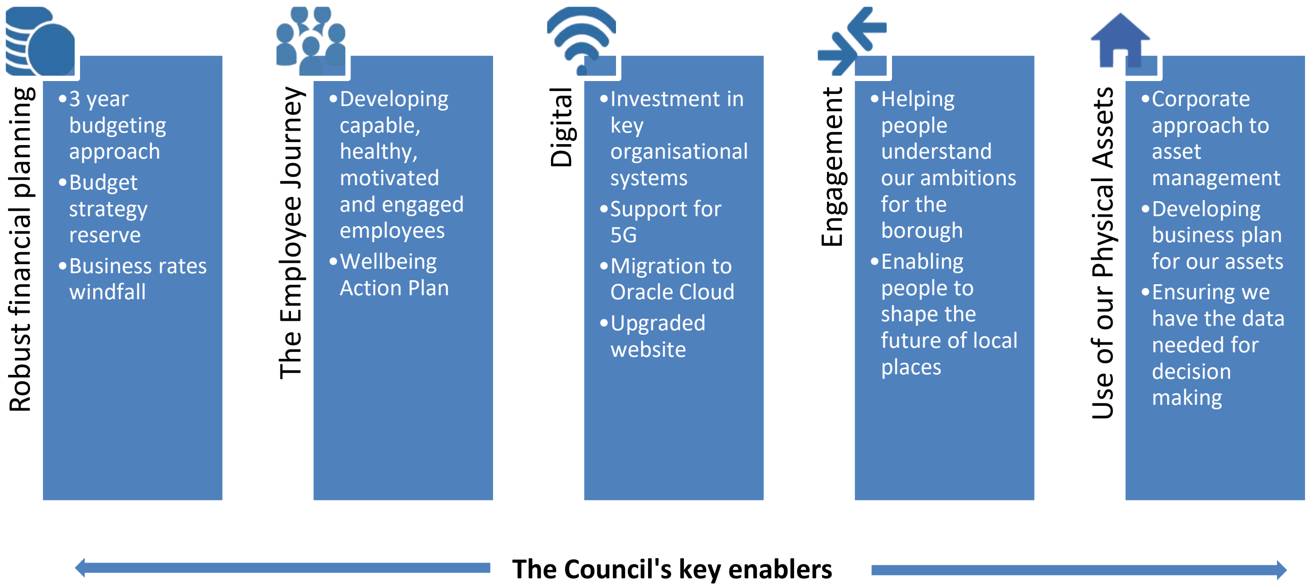
The Council Plan, which was approved in April 2018 and updated in April 2019, set out a new strategic and operating model for the Council to 2025. Underpinning this operating model is a renewed focus on making best use of data to identify who is accessing our services, how and why. This includes customer mapping and segmenting the population into groups of key service users, with whom we will work in different ways according to their needs.

As a local authority we provide a range of services, some of which are used by or available to every resident in the borough and others which are only used by a small number of people with specific needs. In designing our offer for the future we have divided our services into three categories (universal, targeted and specialist), each with a different focus and a different proposal.

- Universal services are those offered to all 215,000 of our residents and provide the foundation upon which successful, sustainable communities are built.
- Targeted services are there to help these residents to get things back on track, and try to ensure temporary difficulties do not escalate to become long term issues.
- Specialist services are received by residents who need specialised support, such as adults with long term health issues and children in need.

Enabling independence is a theme that runs throughout these offers. This means encouraging and supporting residents to do as much as possible for themselves, looking out for those around them and coming together with others to tackle local issues. We will also work creatively with partners to deploy our resources more effectively, each partner doing what they are best placed to do. Transparency, honesty and truth underpin this partnership approach.

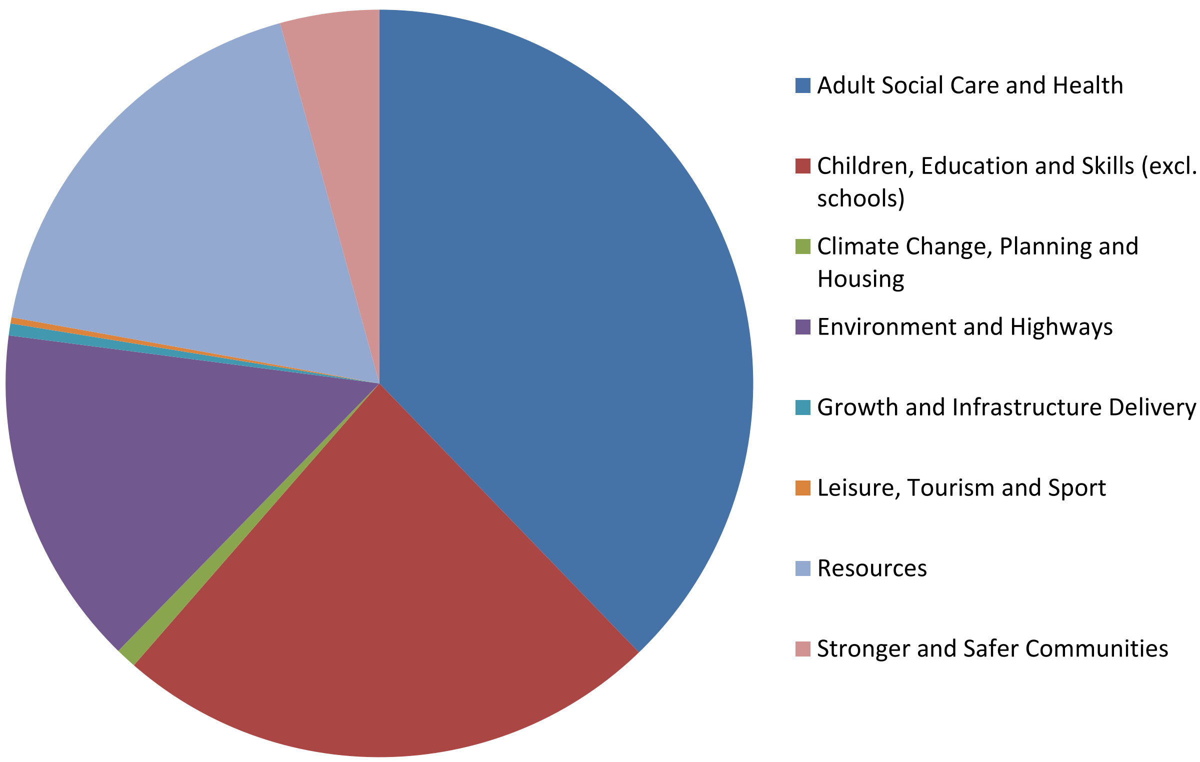
Each of these categories is underpinned by support services which need to be equally efficient and focused, and the fundamentals we call our 'enablers'.



**Review of 2019/20**
Our budget for 2019/20 was £147.620 million, an overall increase in the net budget of £6.015 million compared to the 2018/19 budget of £141.605 million. The budget was approved on 28 February 2019, with net planned expenditure on services and corporate commitments increasing by £17.146 million over the 2018/19 base budget, of which £9.880 million related to service pressures, £0.751 million to corporate pressures and £3.173 million to inflation. In addition, the Council planned an increase in the net use of reserves, working balances and contingencies totalling £3.342 million. This increase in expenditure was offset by savings totalling (£11.131 million).

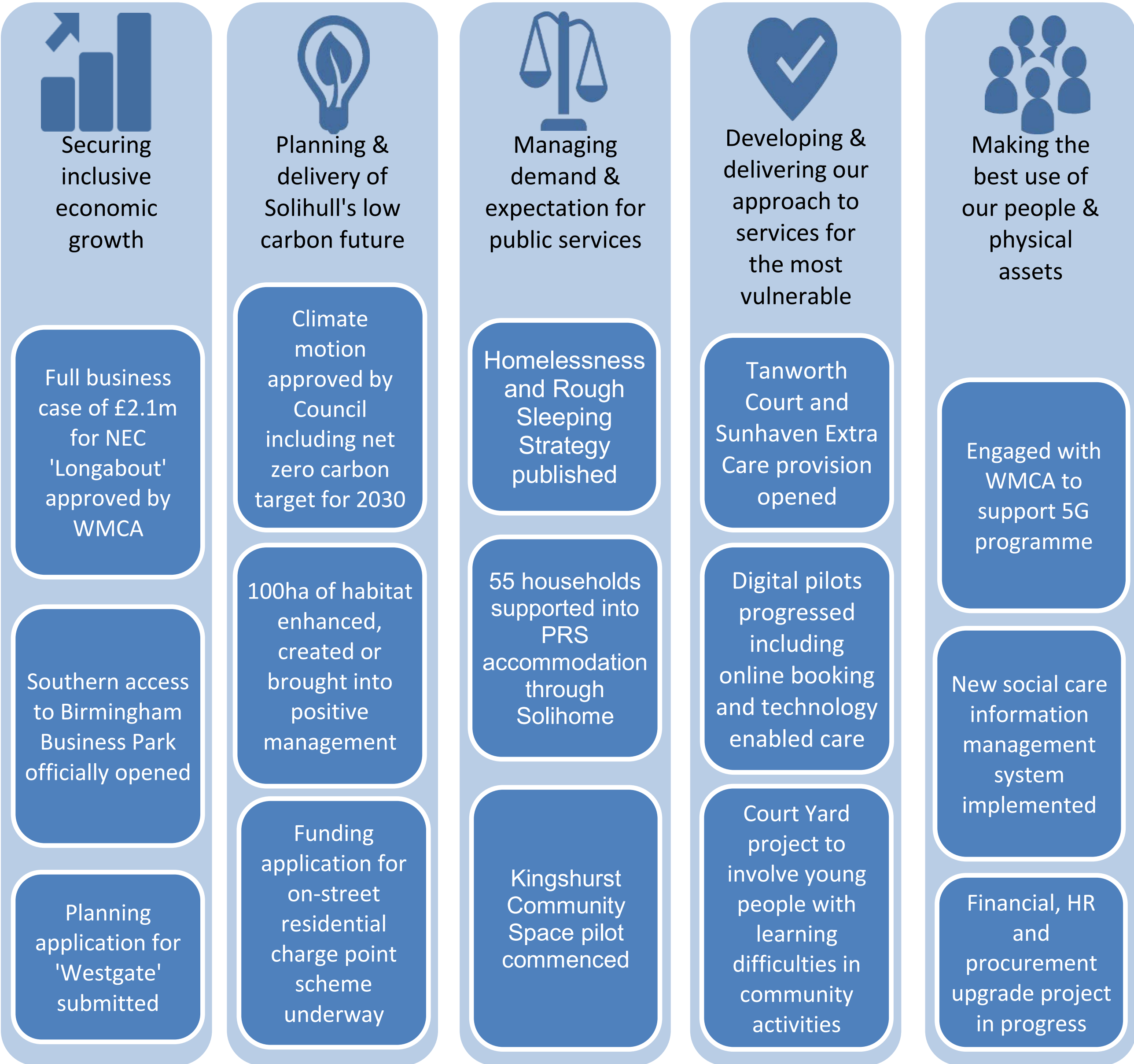
The budget of £147.620 million was funded from retained business rates of £41.918 million and council tax income of £105.702 million. Solihull increased its element of the council tax charge by 2.90% in 2019/20. This included a charge of 1.0% specifically to support adult social care which generated £7.565 million for the service. Council tax income continues to be the most significant funding source for the authority, reflecting the proportion of higher-banded homes in the borough, and comprised 72% of the total funding for 2019/20.

This chart shows our net spending (£145.069 million excluding levies, working balances and the Dedicated Schools Grant) across our cabinet portfolios in 2019/20.




Included in the figures above are £0.279 million of costs associated with the Council's response to the Covid-19 pandemic, largely relating to the support of partners in the voluntary and community sector, additional staffing for emergency response, Operation Shield and the facilitation of hospital discharge and loss of income, particularly in respect of car parking, arts and leisure, planning and waste.

The following diagram highlights some significant outcomes against the Council Plan priorities in 2019/20.




Since 2017 the Council has been working closely with its counterparts across the West Midlands through the combined authority to progress the funding needed to deliver the Council's vision for UK Central. 2019/20 marked the third year of the West Midlands business rates retention pilot, through which the combined authority has secured a share of business rates growth to support the investment programme. In addition, our involvement in the pilot generated windfall resources of £9.972 million in 2019/20. In the outturn report to Full Cabinet in June 2020, members were asked to approve the investment of around a third of this funding in local priorities, while the balance remains available to support the Council’s overall financial resilience in the light of the pressures resulting from the Covid-19 response.

**Academisation**

During 2019/20 two schools converted to academy status. The subsequent transfer of the school buildings resulted in a loss on disposal in the CI&ES of £10.493 million. The associated land was revalued down by £5.928 million.

There are currently 10 council and voluntary aided schools which are expected to convert to academy status for 2020/21. The subsequent transfer of the school buildings will result in a loss on disposal in the CI&ES of £0.440 million. The associated land will be revalued resulting in a reduction in asset values of £0.209 million in 2020/21.

**Pension liabilities**

There is currently a net deficit attributable to the Council on the West Midlands Pension Fund. This is reviewed periodically by the Fund Actuary (Barnett Waddingham) and includes an estimate of the potential impact of the Court of Appeal judgement regarding the McCloud and Sargeant cases relating to age discrimination within the judicial and fire pension schemes respectively. Steps have been taken to address this deficit within the medium and long-term financial strategy of the Council.

In April 2017 the Council made an upfront payment of £50 million in respect of pension contributions for the three years from 2017/18 to 2019/20 in order to save a net £4 million over those three financial years. The full payment was accounted for as a reduction in the Council's net pension liability in 2017/18 but accounting regulations require that the amount due in relation to 2019/20 of £17.400 million is recognised as a cost to the General Fund this year.

**Cash flows**

The Cash Flow Statement, on page 25, shows how the movement in resources has been reflected in cash flows. During 2019/20, net cash and cash equivalents reduced by £13.159 million, from (£0.814 million) to (£13.973 million), as shown in the following table.

| | 31 March 2019 £000 | 31 March 2020 £000 |
|---|---|---|
| Opening cash and cash equivalents | (10,218) | (814) |
| Movement during the year | 9,404 | (13,159) |
| Closing cash and cash equivalents | (814) | (13,973) |

The reduction in the cash and cash equivalents figure in part reflects the increased cash outflows on the purchase of short- and long-term investments.

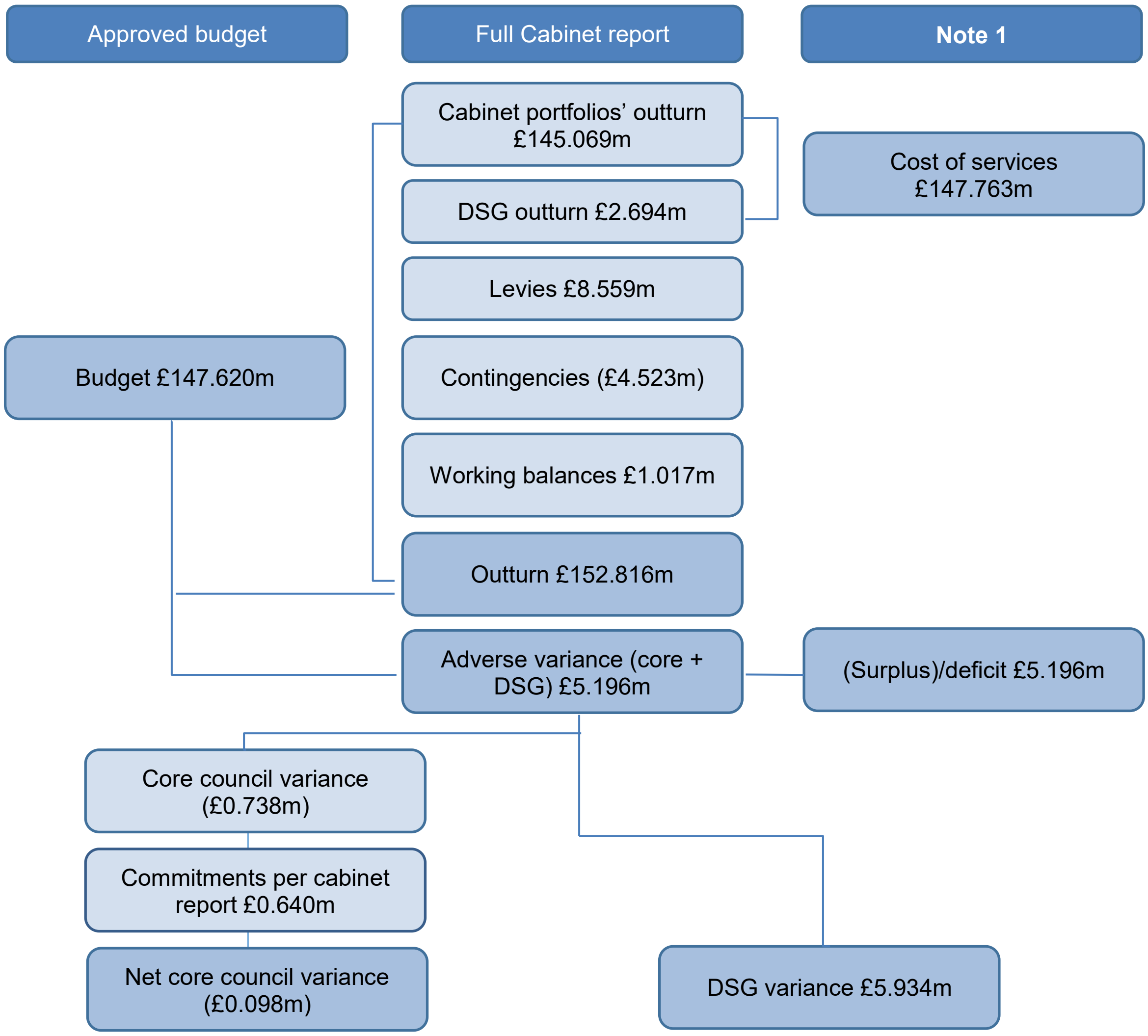
**Financial performance - revenue outturn**

The Council adopts a cash limited approach to its budget with Cabinet Members and Corporate Directors being responsible for ensuring services are delivered within budget, whilst allowing flexibility within the overall cash limit to transfer money from one budget head to another to meet changing demands. This process is supported by a series of delegations overseen by the Leader of the Council.

The outturn position on the General Fund and Dedicated Schools Grant (DSG) for the year was presented to Full Cabinet on 18 June 2020. The favourable variance on the General Fund was contributed to working balances pending Full Cabinet's approval of the requests outlined in the report to contribute £0.640 million to earmarked reserves and to fund future year commitments. The final position on the General Fund will see the Council (£0.098 million) ahead of the financial position set out in the approved MTFS (2018/19: (£0.154 million)). Members approved the contribution of this amount to the budget strategy reserve, in order to provide further financial resilience for future years' planning.

Note 1 in the Statement of Accounts provides a breakdown of the total income and expenditure by cabinet portfolio. This note also shows the adjustments required in order to arrive at the figures in the Comprehensive Income and Expenditure Statement (CI&ES).

The following diagram shows how the outturn figures in the Full Cabinet report compare to the approved budget, and the resulting net adverse variance of £5.196 million (2018/19: £1.017 million adverse variance), which is then further broken down to show the final position after the proposed contributions to specific reserves and future years' commitments. It also demonstrates how the figures in Note 1 are derived from the figures in the Full Cabinet report.




Across the cabinet portfolios, in year pressures were managed through ongoing and one-off resources, including the use of reserves where appropriate. Favourable variances in the Resources portfolio contributed to the overall favourable outturn for the core council budgets.

In the Adult Social Care and Health portfolio, higher than budgeted income and reductions in spend from service reviews resulted in an improved financial position and meant the portfolio was able to contribute to the adult social care contingency rather than using reserves as originally forecast. This will give the service more scope to manage emerging risks and help improve the stability of the local care market whilst a national funding solution for adult social care is awaited. In Public Health, recruitment delays and early delivery of savings resulted in an increased contribution to reserves of £0.365 million.

Significant demand pressures in Children, Education and Skills - particularly in children's placements, home-to-school transport and special educational needs and disabilities services - were mitigated through the application of reserves, one-off grant and directorate savings.

The Council reported an adverse variance on the DSG of £5.934 million, including a deficit of £1.705 million carried forward from 2017/18. The key issue for the DSG continues to be the pressure on the High Needs Block, which is largely due to increases in the number of children requiring support, the saturation of internal place provision and an increasing reliance on external independent placements. In accordance with Department for Education requirements, the Council has developed and begun to implement a plan outlining how the in-year position will be brought back into balance in 2022/23, with the accumulated deficit recovered over a longer period. The current MTFS includes additional funding of £1.200 million to support the delivery of the plan.

In line with the current Code of Practice on Local Authority Accounting, earmarked reserves cannot be shown in a deficit position at the balance sheet date, so the Council has covered the cumulative DSG deficit temporarily from non-earmarked general fund reserves, namely the budget strategy reserve.

**Financial performance - capital outturn**

Capital spending is expenditure on non-current assets that have a life expectancy of more than one year and, therefore, have the potential to benefit not just current but future taxpayers within the borough. The assets are usually funded over a longer period than one year, either from borrowing, grants or from reserves built up over a period of time.

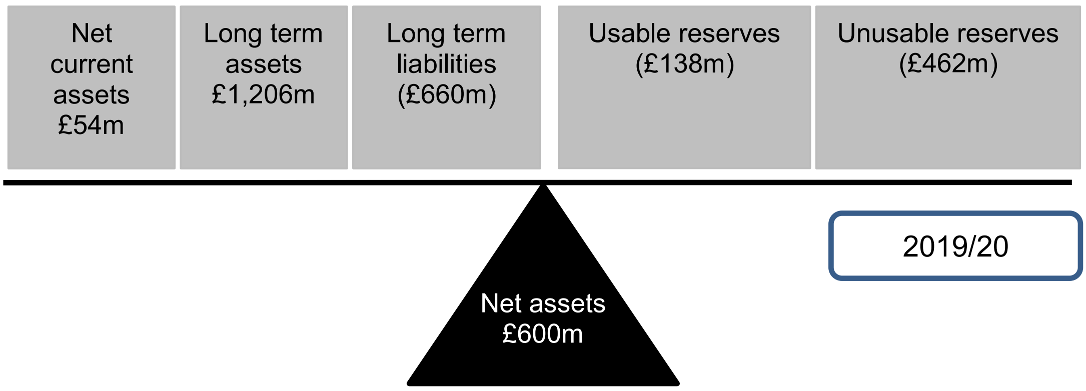
The total spending on the capital programme for 2019/20, including the Housing Revenue Account (HRA), was £71.682 million (2018/19: £60.274 million) compared with a revised budget of £80.135 million, giving a net favourable variance in year of (£8.453 million) (2018/19: (£7.488 million)). Rephasing of £7.784 million will be added into the capital programme for 2020/21.

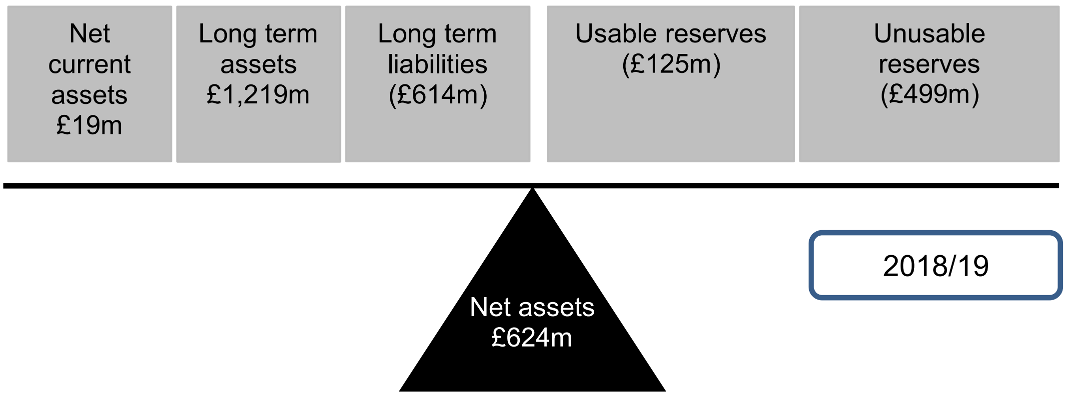
A summary of the Council's internal and external sources of funds available to meet its capital expenditure and other financial commitments including Private Finance Initiatives (PFI) / Public-Private Partnership (PPP) schemes is included in Note 18 - Capital Expenditure and Capital Financing.

The disposal of assets resulted in total gross capital receipts for the Council during the year of £5.180 million. These included HRA right to buy properties totalling £2.599 million.

**Net assets**

The Council remains in a robust financial position at the end of 2019/20 and continues to maintain a strong balance sheet.



# Strategy and Resource Allocation

**Council Plan**
When our current Council plan was approved in April 2018, we undertook to review it in 2020 to ensure that the overall direction of travel was sound and that we were still taking the right steps towards achieving our vision. Development work on the new plan was paused during the initial stages of the response to the Covid-19 pandemic but has resumed with the intention of seeking Full Council approval in July 2020.

The plan is being reset in unprecedented times in the midst of the pandemic, and recovery from the impact of Covid-19, focusing on the needs of people, business and place, will be central. The plan will set out a clear direction based on our nine "key things to do", grouped into three categories: economy, environment and people and communities.

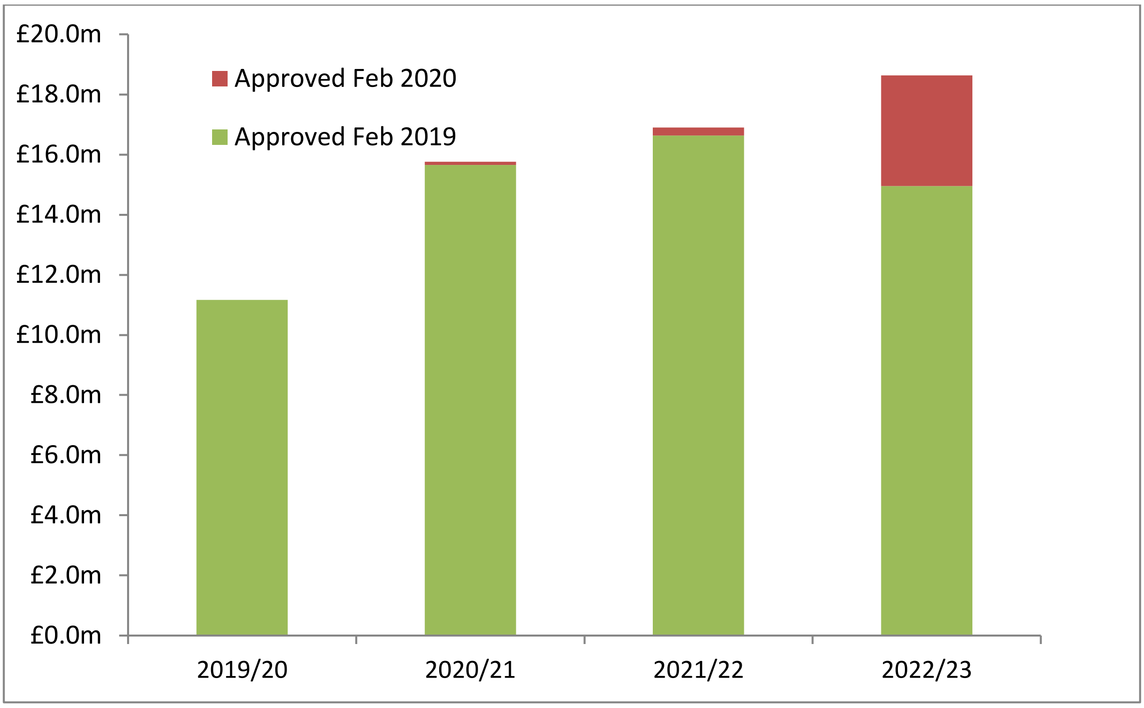
Subject to Full Council approval, the new plan will have a clear set of activities for each of our "key things to do" and measurable outcomes. We recognise however that recovery from the impacts of Covid-19 will not be linear or straightforward and that how we do things will have to be flexible and evolve further over the next two years as circumstances change. The plan will outline how we will develop key enablers of council efficiency and value for money: community engagement, use of digital, the employee journey, robust finance and use of our physical assets. It will describe how we will take the opportunity to reset our business, using what we've learnt in responding to the Covid-19 pandemic to do things differently and better in the future.

Our borough has great fundamentals, including our strategic location, a robust economy and high quality places to live, which will stand us in good stead in recovering from the impacts of the Covid-19 pandemic and rising to the underlying challenges: meeting the needs of our changing population, managing spending within constrained budgets and ensuring that growth generates opportunities for all.

**Medium Term Financial Strategy**
The Council Plan is supported by our Medium Term Financial Strategy (MTFS), which covers the period to March 2023. Since the approval of the current MTFS in February 2020, the context has changed substantially as a result of the coronavirus pandemic, and the MTFS will be updated during the summer of 2020 to reflect and address this.

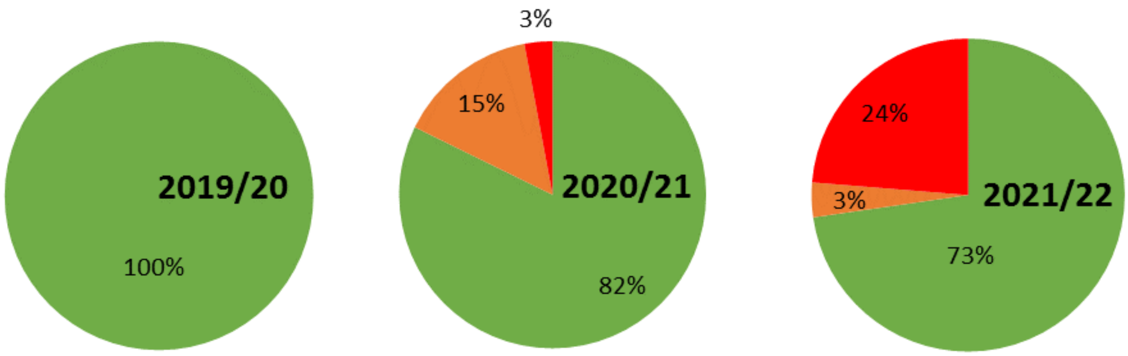
Our MTFS is approved by members before the start of each financial year but is kept under review throughout the year, with updates reported to members through the Budget Strategy Group, members' seminar, scrutiny and Full Cabinet. Where these updates result in changes to the financial planning assumptions in the first two years of the MTFS, we use a budget strategy reserve to smooth the impact into the third year. The focus of the annual budget setting process is on identifying savings for the third year of the MTFS, with those for the upcoming financial year having been approved two years previously.

This is illustrated in the following chart, which shows (in green) cumulative ongoing savings of £16.6 million approved as at February 2019 for the period from 2019/20 to 2021/22. The budget process for 2020/21 focused on the identification of savings for 2022/23, some of which could be delivered in earlier years - these are shown as red in the following chart and bring the total targeted over the four years to £18.6 million.




This process provides us with the time required to plan effectively and realistically for the implementation of savings and means that we are able to avoid hasty reactions to any unexpected financial shocks. Underpinned by our budget strategy reserve, our three-year budgeting approach is an important factor in the continued resilience of our financial position.

A group of senior officers (the Aligning our Resources to our Priorities (ARTOP) Board) closely monitors the delivery of savings and supports the management and mitigation of any anticipated shortfalls. The ARTOP Board categorises each saving as red, amber or green depending on their assessment of deliverability - the following pie charts show the proportions of savings in each year in each category, as at March 2020.




**Treasury management and borrowing strategy**
The Council's Treasury Management Strategy sets out the Council's objectives in relation to the management of the Council's cash flow in order to ensure it is available when needed, and to manage borrowing and investments in support of the Council's longer term capital plans.

The Council is currently maintaining an under-borrowed position, which means that the capital financing requirement has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cashflow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

**Looking Ahead: Risks and Opportunities**

The immediate challenge facing the country as a whole is how to manage the public health implications of Covid-19 while also supporting the economic recovery from the measures put in place to restrict the spread of the virus. The Council's response to the pandemic is to support those who are most vulnerable to the impacts of Covid-19, while the plan for recovery will also consider the needs of people, business and place, focusing on major projects such as the HS2 interchange and town and local centres in order to capitalise on opportunities for renewal and growth.

Across the local government sector, rising demand, particularly in adults' and children's services, continues to be a challenge which councils need to manage within limited funding envelopes. The devolution agenda and the increased retention of business rates that has accompanied it in areas like the West Midlands has brought new freedoms and flexibilities, but with them increased risk and the challenge of negotiating complex local and regional partnerships.

**Service pressures**
Solihull is not alone in experiencing significant increases in demand for specialist services such as domiciliary care, looked after children and home to school transport. The strain on adult social care services in particular is well-documented (the Local Government Association estimates the funding gap will be £3.6 billion by 2025) but there is also increasing recognition of the pressures facing children's social care across the country, as the number of children protection enquiries and looked after children increase each year.

Since 2016/17, in recognition of the national pressures facing adult social care, local authorities have been able to charge an adult social care precept on the council tax, which is expected to generate around £9.7 million a year for Solihull by 2020/21. A longer term solution to the national problem of funding adult social care has been promised for some time.

**Economic Uncertainty**
The Office for Budget Responsibility's reference scenario is that UK GDP could contract by 13% in 2020 as a result of the Covid-19 pandemic.[5] Solihull as a borough is relatively well placed to withstand the economic impacts, given the dynamism of the local economy, its well-balanced profile across manufacturing and service sectors and the highly qualified local workforce. That said, over a third of local businesses are in sectors particularly affected, with air transport and automotive manufacturing and supply chain particularly significant for the borough.

In addition, negotiations between the United Kingdom and the European Union (EU) are continuing throughout the 2020 transition period and as yet there is little clarity over future trading relationships.

In this context it is difficult to forecast the impact on future demand for public services or on the overall economic prosperity and employment prospects for the borough.

At this stage, no projects in receipt of European funding have been withdrawn or discontinued as a result of the UK's planned departure from the EU. However, in a more general sense, Brexit could affect the Council's activities in the following ways:

- Any impact on economic prosperity and employment prospects for the borough and the wider region could increase demand for public services and reduce the resources available to the Council to deliver those services;
- Any impact on the stock market and on interest rates could affect the Council's investments;
- Any impact on inflation would particularly affect the cost of index-linked contracts;
- Much of UK procurement, employment, environmental and consumer protection legislation is currently derived from EU law and so there is a possibility that the government may wish to change some of these laws as part of the process of rewriting this legislation.

We continue to monitor developments in relation to these key risks and will update our strategic and financial plans as necessary as and when the implications become clearer.

[5] Office for Budget Responsibility, *Coronavirus Reference Scenario* (May 2020)

**Local government funding**
The national focus on Brexit prior to the emergence of Covid-19 inevitably meant that other issues of vital importance to local government, such as the sustainable funding of adult social care and devolution to the regions, attracted little attention outside the sector.

A spending review, setting out the overall quantum of funding for central government departments (and by extension local government), and the outcome of the Fair Funding Review into local government finance were both delayed following the 2019 general election to the summer of 2020, but this revised timetable now also looks unlikely. Beyond April 2021, therefore, local authorities have little information on which to base their funding projections and the certainty sought by the local government sector seems a distant goal.

That said, we are confident in the robustness of the Council's finances. We have invested additional resources in services which are under financial pressure as a result of increasing demand, with further investment planned over the period of the MTFS, and our budget strategy reserve provides additional resilience.

**Sustainable inclusive growth**
The Council’s response is to focus on managing demand, reducing costs and maximising the income generated locally.

The High Speed 2 (HS2) Growth Strategy and UK Central investment programme provide an unprecedented opportunity to support the recovery of the borough’s towns and the revival of the visitor economy, ensuring that good opportunities will be available to all our residents. Inclusive economic growth will mean supporting residents to access new employment opportunities and ensuring the provision of appropriate and affordable housing, already an issue for first time buyers in particular. We know that securing economic growth is not an end in itself, but is a means of achieving wellbeing, inclusion and shared prosperity.

In future, many new jobs will require higher level skills and we recognise that some of our residents will require support to access these new employment opportunities. School attainment varies, with only 55% of those pupils attending secondary school in the north of the borough achieving grades 9 to 4 in GCSE English and Maths, compared to 76% of pupils in the south of the borough. Employment rates for those with lower skills, ill health (particularly for those with a mental health issue), carers and lone parents are much lower than the rest of the population.

**Delivering a sustainable low-carbon future**
We also want to manage economic growth to minimise the impact on the attractive living environment for the benefits of our residents and for our wildlife. Our Green Prospectus articulates the Council's low carbon vision for the borough and sets out a coordinated approach to capitalising on new markets for green technology, goods and services. During 2019/20, as the climate change emergency movement grew in scope and scale, the Council declared its commitment to reducing its net carbon emissions to zero by 2030.

Among the challenges we face is how to adapt our local transport system to cope with current and forecast demand, and how to increase the proportion of people who commute by public transport, walking or cycling. Maximising public transport connectivity is also essential in linking our major employment sites to where people live and delivering on our commitment to a low carbon future. The Covid-19 pandemic has also demonstrated that things can be done differently with, for example, the rapid expansion of homeworking significantly reducing the volume of traffic on the roads.

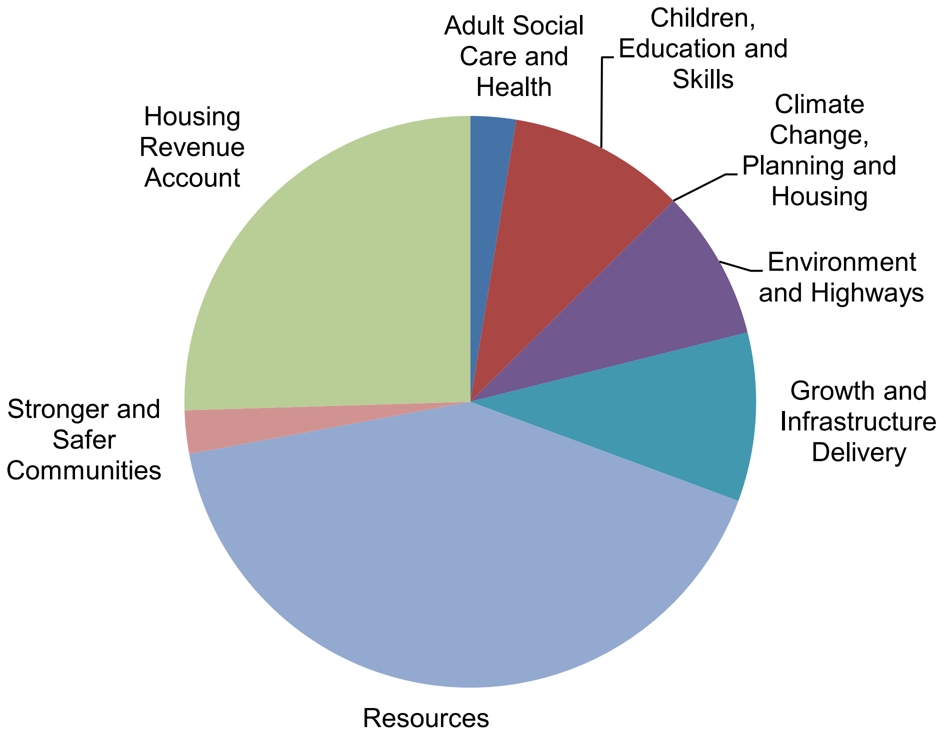
**Outlook**

**Key service developments**
Subject to Full Council approval in July 2020, we have identified nine ‘key things to do’ which will contribute to our five building blocks of inclusive economic growth: building a vibrant economy (including the social economy), promoting and delivering social value, supporting communities to thrive, improving skills and access to good work and responding to climate change and ensuring that environments enable healthy living. The nine ‘key things to do’ are grouped under Economy, Environment and People and Communities, as illustrated in the following diagram.


This activity will be supported by the financial resources set out in the MTFS, which are summarised in the following table.

| | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| Base budget | 147,620 | 159,077 | 153,771 |
| Funding commitments | 13,456 | 1,130 | 3,708 |
| Savings | (4,006) | (849) | (1,729) |
| Government grants | 940 | 27 | 318 |
| Contributions to/ (from) reserves | 1,067 | (5,614) | 4,641 |
| **Indicative budget** | **159,077** | **153,771** | **160,709** |

**Capital programme**
The capital programme represents the Council's plans for spending on non-current assets across the different service areas. Planned expenditure in the programme for 2020/21 totals £81.768 million (excluding rephasing approved by Full Cabinet in June 2020), divided between cabinet portfolios as shown in the following chart.




Significant projects within the capital programme for 2020/21 include the schools improvement programme, the Wildlife Ways initiative and Kingshurst village centre, in addition to a programme of works totalling £20.831 million within the Housing Revenue Account.

Looking ahead, the total projected value of the capital programme between 2020/21 and 2022/23 is circa £237 million (before the addition of rephasing from 2019/20). This will be funded from the following internal and external sources: prudential borrowing (£142 million), revenue and contributions (£46 million), external grants (£45 million) and capital receipts (£4 million).

**Adequacy of reserves**

The Council holds working balances (both General Fund and HRA) to meet unforeseen spending requirements and to provide certainty for medium term financial planning. The level of working balances takes into account the strategic, operational and financial risks facing the Council and is reviewed each year as part of the budget process.

The Council also holds a budget strategy reserve, specifically to meet budget risks in order that the Council can continue to focus on three-year budget planning. This reserve is considered to be particularly important to the Council given the uncertainty over central government funding post-2021. As at 31 March 2020, the balance on the budget strategy reserve was £1.162 million, with the forecast balances to 2021/22 shown in the following table. This includes the temporary funding of the accumulated DSG deficit of £5.934 million, which it is anticipated will be transferred to a revenue reserve in 2020/21 in line with anticipated changes to the Code of Practice. These figures do not include the contribution of the net favourable variance against the 2019/20 core council budget of £0.090 million which was approved by Full Cabinet in June 2020.

| | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Forecast contribution to/(from) reserve | 8,984 | (2,692) | 1,852 |
| Forecast balance at year end | **10,146** | **7,454** | **9,306** |

In addition, the individual cabinet portfolios maintain specific reserves (as shown in Note 15) earmarked for particular purposes, for example to fund future projects, smooth uneven funding or spending profiles or mitigate future risks.

We have also been prudent in our treatment of the windfall income which we anticipate receiving as a result of our involvement in the West Midlands business rates retention pilot. The first call on any such income would be to make good the financial position of any of the members of the pilot, under the agreed principle of "no detriment". The 2018/19 windfall income of £8.285 million was contributed to a contingency and allocated by Full Cabinet to fund place-based investment, pressures in children's services and smooth fluctuations in business rates income.

Further information on the movements in the earmarked general fund balances, which includes the budget strategy reserve, the windfall contingency and a specific contingency for adult social care, is provided in Note 15.

Taken together, the level of the general fund earmarked and working balances contributes to the financial resilience of the Council and supports the MTFS, which continues to serve us well in balancing the many and complex demands on our budget and resourcing framework. Local government has a challenging year ahead, but Solihull's strong foundations will help us to weather the storm.

*[signed by Paul Johnson on 12 June 2020]*

**Paul Johnson CPFA**
Director of Resources and
Deputy Chief Executive
12 June 2020

# Statement of Responsibilities

**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 responsibility for the administration of those affairs. In this Council, that officer is the Director of Resources and Deputy Chief Executive;
- manage its affairs to secure the economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

**The Director of Resources and Deputy Chief Executive's Responsibilities:**

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

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

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

The Director of Resources and Deputy Chief Executive has also:

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

**Certification by the Director of Resources and Deputy Chief Executive:**

I, the Director of Resources and Deputy Chief Executive of Solihull Metropolitan Borough Council, certify that the Statement of Accounts gives a true and fair view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31 March 2020.

*[signed by Paul Johnson on 12 June 2020]*

**Paul Johnson CPFA**
**Director of Resources and Deputy Chief Executive**

Authorised for issue date: 12 June 2020

## Comprehensive Income and Expenditure Statement (CI&ES)

The Comprehensive Income and Expenditure Statement (CI&ES) shows the income, expenditure and net cost of services the Council provides, funding from general government grants and income from local taxpayers in the financial year. The CI&ES reconciles to the change in the year of the net worth of the Council as shown in the Balance Sheet.

The CI&ES is prepared in accordance with the Code, which differs from the legal rules used to calculate budgets and available balances. These differences are adjusted for in the Movement in Reserves Statement. It is the General Fund Working Balance increase or decrease shown in the Movement in Reserves Statement which shows the overall revenue position for the Council.

| 2018/19 (restated) | | | | 2019/20 | | | Notes |
|---|---|---|---|---|---|---|---|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | **Net Expenditure** | |
| £000 | £000 | £000 | | £000 | £000 | **£000** | |
| 100,421 | (47,278) | 53,143 | Adult Social Care and Health | 106,986 | (50,665) | **56,321** | |
| 193,768 | (151,257) | 42,511 | Children, Education and Skills | 208,878 | (158,689) | **50,189** | |
| 3,743 | (2,687) | 1,056 | Climate Change, Planning and Housing | 4,062 | (2,819) | **1,243** | |
| 34,363 | (7,941) | 26,422 | Environment and Highways | 35,972 | (9,808) | **26,164** | |
| 10,491 | (9,477) | 1,014 | Growth and Infrastructure Delivery | 11,289 | (10,243) | **1,046** | |
| 2,873 | (1,377) | 1,496 | Leisure, Tourism and Sport | 2,815 | (1,504) | **1,311** | |
| 99,094 | (61,638) | 37,456 | Resources | 87,170 | (61,901) | **25,269** | |
| 31,217 | (51,225) | (20,008) | Stronger and Safer Communities (includes HRA) | 38,145 | (51,368) | **(13,223)** | |
| 475,970 | (332,880) | 143,090 | **Cost of services** | 495,317 | (346,997) | **148,320** | |
| | | 1,325 | Parish precepts | | | **1,366** | |
| | | 8,567 | Levies payable | | | **8,559** | |
| | | 1,344 | Amounts payable into the housing capital receipts pool | | | **1,249** | |
| | | (4,149) | (Gain)/ loss on disposal of non-current assets | | | **8,347** | 5, 6 |
| | | 7,087 | **Total other operating expenditure** | | | **19,521** | |
| | | 19,876 | Interest payable and similar charges | | | **16,738** | 25 |
| | | 6,949 | Net interest on the net defined benefit liability | | | **6,868** | 34 |
| | | (749) | Investment interest income | | | **(1,299)** | 25 |
| | | (10,139) | Other investment income | | | **(4,578)** | 5, 25 |
| | | 432 | (Surplus)/ deficit of trading operations not allocated to services | | | **0** | |

| 2018/19 (restated) | | | | 2019/20 | | | Notes |
|---|---|---|---|---|---|---|---|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | **Net Expenditure** | |
| £000 | £000 | £000 | | £000 | £000 | **£000** | |
| | | (1,693) | Income, expenditure and changes in fair value of investment properties | | | **459** | |
| | | 14,676 | **Total financing and investment income & expenditure** | | | **18,188** | |
| | | (102,644) | Council tax | | | **(106,434)** | C3 |
| | | (46,937) | Business rates | | | **(47,106)** | C3 |
| | | (8,041) | Non ring-fenced government grants | | | **(9,694)** | 9 |
| | | (19,006) | Recognised capital grants and contributions | | | **(14,446)** | 9 |
| | | (176,628) | **Total taxation and non-specific grant income** | | | **(177,680)** | |
| | | | | | | | |
| | | (11,775) | **(Surplus)/ deficit on the provision of services** | | | **8,349** | |
| | | (1,345) | (Surplus)/ deficit on revaluation of property, plant & equipment | | | **16,212** | 16,5 |
| | | 0 | Impairment losses on non-current assets charged to the revaluation reserve | | | **7,314** | 16, 5 |
| | | (2,738) | (Surplus)/ deficit from investments in equity instruments designated at fair value through other comprehensive income | | | **7,381** | 5, 25 |
| | | (25,427) | Remeasurement of the net defined benefit liability | | | **(15,234)** | 5, 34 |
| | | (29,510) | **Other comprehensive income and expenditure** | | | **15,673** | |
| | | | | | | | |
| | | (41,285) | **Total comprehensive income and expenditure** | | | **24,022** | |

In May 2019, the Council's cabinet structure was changed and therefore in order to provide meaningful comparative information, the 2018/19 figures have been restated.  For further information, please see Note 2 -  Prior Period Adjustments.

## Movement in Reserves Statement (MIRS)

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce council tax) and other 'unusable reserves'. This statement shows how the movements in the Council's reserves are broken down between gains and losses shown in the CI&ES and the statutory adjustments required, resulting in the amounts chargeable to council tax or rents for the year. The (Increase)/ decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

| 2019/20 | General Fund Working Balances | Earmarked Revenue Reserves (Note15) | **Sub-total General Fund Balance** | Housing Revenue Account (HRA) | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | **Total Usable Reserves** | Unusable Reserves | **Total Council Reserves** |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | **£000** | £000 | £000 | £000 | £000 | **£000** | £000 | **£000** |
| **Balance at 31 March 2019** | **(4,983)** | **(65,637)** | **(70,620)** | **(14,554)** | **(17,718)** | **(3,194)** | **(18,680)** | **(124,766)** | **(499,416)** | **(624,182)** |
| **Movement in reserves during 2019/20** | | | | | | | | | | |
| Total Comprehensive Income and Expenditure (CI&ES) | 22,509 | 0 | **22,509** | (14,160) | 0 | 0 | 0 | **8,349** | 15,673 | **24,022** |
| Adjustments between accounting basis and funding basis under regulations (Note 13) | (28,299) | 0 | **(28,299)** | 12,848 | (3,011) | (1,090) | (2,055) | **(21,607)** | 21,607 | **0** |
| Transfers (to)/ from earmarked reserves (Note 15) | 4,035 | (4,035) | **0** | 0 | 0 | 0 | 0 | **0** | 0 | **0** |
| **(Increase)/ decrease in 2019/20** | **(1,755)** | **(4,035)** | **(5,790)** | **(1,312)** | **(3,011)** | **(1,090)** | **(2,055)** | **(13,258)** | **37,280** | **24,022** |
| **Balance at 31 March 2020** | **(6,738)** | **(69,672)** | **(76,410)** | **(15,866)** | **(20,729)** | **(4,284)** | **(20,735)** | **(138,024)** | **(462,136)** | **(600,160)** |

| 2018/19 | General Fund Working Balances | Earmarked Revenue Reserves (Note 15) [1] | **Sub-total General Fund Balance** | Housing Revenue Account (HRA) | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | **Total Council Reserves** |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | **£000** | £000 | £000 | £000 | £000 | £000 | £000 | **£000** |
| **Balance at 31 March 2018** | **(6,293)** | **(57,250)** | **(63,543)** | **(13,154)** | **(14,067)** | **(2,355)** | **(15,224)** | **(108,343)** | **(474,554)** | **(582,897)** |
| **Movement in reserves during 2018/19** | | | | | | | | | | |
| Total Comprehensive Income and Expenditure (CI&ES) | 10,808 | 0 | **10,808** | (22,583) | 0 | 0 | 0 | **(11,775)** | (29,510) | **(41,285)** |
| Adjustments between accounting basis & funding basis under regulations (Note13) | (17,885) | 0 | **(17,885)** | 21,183 | (3,651) | (839) | (3,456) | **(4,648)** | 4,648 | **0** |
| Transfers (to)/ from earmarked reserves (Note 15) | 8,387 | (8,387) | **0** | 0 | 0 | 0 | 0 | **0** | 0 | **0** |
| **(Increase)/ decrease in 2018/19** | **1,310** | **(8,387)** | **(7,077)** | **(1,400)** | **(3,651)** | **(839)** | **(3,456)** | **(16,423)** | **(24,862)** | **(41,285)** |
| **Balance at 31 March 2019** | **(4,983)** | **(65,637)** | **(70,620)** | **(14,554)** | **(17,718)** | **(3,194)** | **(18,680)** | **(124,766)** | **(499,416)** | **(624,182)** |

[1]The Earmarked revenue reserves column includes the Earmarked General Fund Balance that was shown separately in the 2018/19 Statement of Accounts.

## Balance Sheet

The Balance Sheet shows the overall financial position of the Council at the year end, by detailing how much is owned by the Council and how much it owes. The net assets of the Council (what is owned less what is owed) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council and schools may use to provide services. The second category – unusable reserves – represents those that the Council is not able to use to provide services.

| 31 March 2019 | | 31 March 2020 | Notes |
|---|---|---|---|
| £000 | | £000 | |
| | | | |
| 1,149,832 | Property, Plant & Equipment | **1,143,297** | 16,19 |
| 950 | Heritage Assets | **950** | 19 |
| 17,579 | Investment Property | **16,749** | 19, 20 |
| 1,720 | Intangible Assets | **3,848** | 19 |
| 47,641 | Long-Term Investments | **40,260** | 22 |
| 1,137 | Long-Term Debtors | **1,325** | |
| 1,218,859 | **Long-Term Assets** | **1,206,429** | |
| | | | |
| 46,179 | Short-Term Investments | **100,667** | |
| 841 | Inventories | **1,036** | |
| 47,189 | Short-Term Debtors | **44,779** | 28 |
| 15,748 | Cash and Cash Equivalents | **142** | 30 |
| 109,957 | **Current Assets** | **146,624** | |
| | | | |
| (16,562) | Bank Overdraft | **(14,115)** | 30 |
| (3,066) | Short-Term Borrowing | **(3,134)** | 22 |
| (62,970) | Short-Term Creditors | **(69,703)** | 31 |
| (8,078) | Short-Term Provisions | **(6,032)** | 32 |
| (90,676) | **Current Liabilities** | **(92,984)** | |
| | | | |
| (8,244) | Long-Term Provisions | **(7,683)** | 32 |
| (254,684) | Long-Term Borrowing | **(286,267)** | 22 |
| (288,207) | Net Pensions Liability | **(308,191)** | 34 |
| (54,949) | Other Long-Term Liabilities | **(48,890)** | 22 |
| (7,874) | Capital Grants Receipts in Advance | **(8,878)** | 9 |
| (613,958) | **Long-Term Liabilities** | **(659,909)** | |
| | | | |
| 624,182 | **Net Assets** | **600,160** | |
| | | | |
| (124,766) | **Usable Reserves** | **(138,024)** | MIRS |
| | | | |
| (499,416) | **Unusable Reserves** | **(462,136)** | 14 |
| | | | |
| (624,182) | **Total Reserves** | **(600,160)** | |

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

| 2018/19 | | **2019/20** | **Notes** |
|---|---|---|---|
| £000 | | **£000** | |
| (11,775) | Net (surplus)/deficit on the provision of services | **8,349** | CI&ES |
| (50,786) | Adjustments to net (surplus)/deficit on the provision of services for non-cash movements | **(90,408)** | 35 |
| 28,519 | Adjustments for items in the net (surplus)/ deficit on the provision of services that are investing/financing activities | **18,816** | 36 |
| (34,042) | **Net cash flows from operating activities** | **(63,243)** | |
| | | | |
| 35,407 | Purchase of property, plant and equipment, investment property and intangible assets | **68,539** | |
| 120,023 | Purchase of short-term and long-term investments | **226,977** | |
| 4,775 | Other payments for investing activities | **5,634** | |
| (10,232) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | **(5,202)** | |
| (24,127) | Capital grants received | **(18,005)** | |
| (103,905) | Proceeds from short-term and long-term investments | **(172,489)** | |
| (38) | Other receipts from investing activities | **(882)** | |
| 21,903 | **Net cash flows from investing activities** | **104,572** | |
| | | | |
| (10,000) | Cash receipts of short- and long-term borrowing | **(32,800)** | |
| (729) | Other receipts from financing activities | **66** | |
| 2,402 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts | **2,573** | |
| 11,062 | Repayments of short and long-term borrowing | **1,991** | |
| 2,735 | **Net cash flows from financing activities** | **(28,170)** | |
| (9,404) | **Net (increase) / decrease in cash and cash equivalents** | **13,159** | |
| | | | |
| | **Overall movement in cash and cash equivalents** | | |
| (10,218) | Cash and cash equivalents at the beginning of the reporting period | **(814)** | |
| 9,404 | Net increase/ (decrease) in cash and cash equivalents | **(13,159)** | |
| (814) | **Cash and cash equivalents at the end of the reporting period** | **(13,973)** | 30 |

# Disclosure notes – notes supporting the core financial statements

## 1. Expenditure and Funding Analysis (EFA)

The objective of the Expenditure and Funding Analysis is to demonstrate to local tax payers how the funding available to the Council (i.e. council tax, business rates and government grants) for the year has been used in providing services, in comparison with those resources used by authorities in accordance with generally accepted accounting practices. The EFA also shows how this expenditure is allocated for decision making purposes between the Council's cabinet portfolios. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. In May 2019, the Council's cabinet structure was changed and therefore in order to provide meaningful comparative information, the 2018/19 figures have been restated.

| **2019/20** | Cabinet Report June 2020 | Total adjustments (Note1a) | Net expenditure chargeable to the General Fund and HRA Balances | Adjustments between the funding and accounting basis (Note1a) | **Net expenditure in the CI&ES** |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | **£000** |
| Adult Social Care and Health | 54,812 | (267) | 54,545 | 1,776 | **56,321** |
| Children, Education and Skills | 34,267 | (1,126) | 33,141 | 17,048 | **50,189** |
| Children, Education and Skills - Dedicated Schools Grant (DSG) | 2,694 | (2,694) | 0 | 0 | **0** |
| Climate Change, Planning and Housing | 1,311 | 2,099 | 3,410 | (2,167) | **1,243** |
| Environment and Highways | 21,389 | (662) | 20,727 | 5,437 | **26,164** |
| Growth and Infrastructure Delivery | 750 | 79 | 829 | 217 | **1,046** |
| Leisure, Tourism and Sport | 384 | (489) | (105) | 1,416 | **1,311** |
| Resources | 25,946 | (8,005) | 17,941 | 7,328 | **25,269** |
| Stronger and Safer Communities (includes HRA) | 6,210 | (7,961) | (1,751) | (11,472) | **(13,223)** |
| **Cost of services** | **147,763** | **(19,026)** | **128,737** | **19,583** | **148,320** |
| Other income and expenditure | (142,567) | 6,728 | (135,839) | (4,132) | **(139,971)** |
| **(Surplus) / deficit** | **5,196** | **(12,298)** | **(7,102)** | **15,451** | **8,349** |

The following table shows how the net expenditure chargeable to the General Fund and HRA balances of £7.102 million is represented in the MIRS.

| **2019/20** | Sub-total General Fund Balance | Housing Revenue Account (HRA) | **Total General Fund and Housing Revenue Account (HRA)** |
|---|---|---|---|
| | £000 | £000 | **£000** |
| Opening General Fund and HRA Balances at 1 April 2019 | (70,620) | (14,554) | **(85,174)** |
| Add (surplus)/deficit on the General Fund and HRA Balances in year | (5,790) | (1,312) | **(7,102)** |
| **Closing General Fund and HRA Balances at 31 March 2020** | **(76,410)** | **(15,866)** | **(92,276)** |

**Prior year comparatives**

| **2018/19 (restated)** | Cabinet Report | Total adjustments (Note 1a) | Net expenditure chargeable to the General Fund and HRA Balances | Adjustments between the funding and accounting basis (Note 1a) | Net expenditure in the CI&ES |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Adult Social Care and Health | 50,308 | 447 | 50,755 | 2,388 | **53,143** |
| Children, Education and Skills | 33,397 | (3,752) | 29,645 | 12,866 | **42,511** |
| Children, Education and Skills - Dedicated Schools Grant (DSG) | (375) | 375 | 0 | 0 | **0** |
| Climate Change, Planning and Housing | 884 | 2,699 | 3,583 | (2,527) | **1,056** |
| Environment and Highways | 17,814 | 2,586 | 20,400 | 6,022 | **26,422** |
| Growth and Infrastructure Delivery | 1,060 | (211) | 849 | 165 | **1,014** |
| Leisure, Tourism and Sport | 663 | (273) | 390 | 1,106 | **1,496** |
| Resources | 26,399 | (6,174) | 20,225 | 17,231 | **37,456** |
| Stronger and Safer Communities (includes HRA) | 5,392 | (5,472) | (80) | (19,928) | **(20,008)** |
| **Net cost of services** | **135,542** | **(9,775)** | **125,767** | **17,323** | **143,090** |
| Other income and expenditure | (134,525) | 281 | (134,244) | (20,621) | **(154,865)** |
| **(Surplus) or deficit** | **1,017** | **(9,494)** | **(8,477)** | **(3,298)** | **(11,775)** |

| **2018/19 (restated)** | Sub-total General Fund Balance | Housing Revenue Account (HRA) | Total General Fund and Housing Revenue Account (HRA) |
|---|---|---|---|
| | £000 | £000 | £000 |
| Opening General Fund and HRA Balances at 1 April 2018 | (63,543) | (13,154) | **(76,697)** |
| Add (surplus)/ deficit on the General Fund and HRA Balances in year | (7,077) | (1,400) | **(8,477)** |
| **Closing General Fund and HRA Balances at 31 March 2019** | **(70,620)** | **(14,554)** | **(85,174)** |

**1a. Note to the EFA**

| 2019/20 | General Fund Working Balances | Earmarked Revenue Reserves (Note 15) | Housing Revenue Account (HRA) | Move DSG balance to Children, Education and Skills | Items reported at Cabinet level but which sit below the Net cost of services | **Total adjustments to arrive at amount charged to the general fund and HRA** | Adjustments for Capital Purposes | Net change for Pension Adjustments | Other Differences | **Total adjustments between the funding and accounting basis** |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | **£000** | £000 | £000 | £000 | **£000** |
| Note | (i) | (ii) | (iii) | (iv) | (v) | | (vi) | (vii) | (viii) | |
| Adult Social Care and Health | 0 | (397) | 0 | 0 | 130 | **(267)** | 388 | 1,388 | 0 | **1,776** |
| Children, Education and Skills | 0 | 1,205 | 0 | 2,694 | (5,025) | **(1,126)** | 12,004 | 4,582 | 462 | **17,048** |
| Children, Education and Skills - DSG | 0 | 0 | 0 | (2,694) | 0 | **(2,694)** | 0 | 0 | 0 | **0** |
| Climate Change, Planning and Housing | 0 | (416) | 0 | 0 | 2,515 | **2,099** | (2,460) | 293 | 0 | **(2,167)** |
| Environment and Highways | 0 | (2,734) | 0 | 0 | 2,072 | **(662)** | 4,953 | 484 | 0 | **5,437** |
| Growth and Infrastructure Delivery | 0 | 76 | 0 | 0 | 3 | **79** | 21 | 196 | 0 | **217** |
| Leisure, Tourism and Sport | 0 | (509) | 0 | 0 | 20 | **(489)** | 1,312 | 104 | 0 | **1,416** |
| Resources | 0 | (3,895) | 0 | 0 | (4,110) | **(8,005)** | (2,743) | 10,024 | 47 | **7,328** |
| Stronger and Safer Communities (includes HRA) | 0 | (41) | (1,312) | 0 | (6,608) | **(7,961)** | (12,172) | 747 | (47) | **(11,472)** |
| **Net cost of services** | **0** | **(6,711)** | **(1,312)** | **0** | **(11,003)** | **(19,026)** | **1,303** | **17,818** | **462** | **19,583** |
| Other income and expenditure | (6,951) | 2,676 | 0 | 0 | 11,003 | **6,728** | (852) | 0 | (3,280) | **(4,132)** |
| **Total** | **(6,951)** | **(4,035)** | **(1,312)** | **0** | **0** | **(12,298)** | **451** | **17,818** | **(2,818)** | **15,451** |

| 2018/19 (restated) | General Fund Working Balances | Earmarked Revenue Reserves (Note 15) | Housing Revenue Account (HRA) | Move DSG balance to Children, Education and Skills | Items reported at Cabinet level but which sit below the Net Cost of Services | **Total adjustments to arrive at the amount charged to the General Fund and HRA** | Adjustments for Capital Purposes | Net change for Pension Adjustments | Other Differences | **Total adjustments between the funding and accounting basis** |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | **£000** | £000 | £000 | £000 | **£000** |
| Note | (i) | (ii) | (iii) | (iv) | (v) | | (vi) | (vii) | (viii) | |
| Adult Social Care and Health | 0 | 447 | 0 | 0 | 0 | **447** | 1,239 | 1,149 | 0 | **2,388** |
| Children, Education and Skills | 0 | 1,890 | 0 | (375) | (5,267) | **(3,752)** | 9,235 | 3,631 | 0 | **12,866** |
| Children, Education and Skills - DSG | 0 | 0 | 0 | 375 | 0 | **375** | 0 | 0 | 0 | **0** |
| Climate Change, Planning and Housing | 0 | 901 | 0 | 0 | 1,798 | **2,699** | (2,774) | 247 | 0 | **(2,527)** |
| Environment and Highways | 0 | 839 | 0 | 0 | 1,747 | **2,586** | 5,618 | 404 | 0 | **6,022** |
| Growth and Infrastructure Delivery | 0 | (211) | 0 | 0 | 0 | **(211)** | 18 | 147 | 0 | **165** |
| Leisure, Tourism and Sport | 0 | (273) | 0 | 0 | 0 | **(273)** | 1,034 | 72 | 0 | **1,106** |
| Resources | (6,744) | (4,488) | 0 | 0 | 5,058 | **(6,174)** | (2,138) | 16,771 | 2,598 | **17,231** |
| Stronger and Safer Communities (includes HRA) | 0 | 75 | (1,400) | 0 | (4,147) | **(5,472)** | (20,542) | 599 | 15 | **(19,928)** |
| **Net cost of services** | **(6,744)** | **(820)** | **(1,400)** | **0** | **(811)** | **(9,775)** | **(8,310)** | **23,020** | **2,613** | **17,323** |
| Other income and expenditure | 7,037 | (7,567) | 0 | 0 | 811 | **281** | (18,339) | 0 | (2,282) | **(20,621)** |
| **Total** | **293** | **(8,387)** | **(1,400)** | **0** | **0** | **(9,494)** | **(26,649)** | **23,020** | **331** | **(3,298)** |

i. For management purposes, the net contribution to the HRA is reported to the Council within the Stronger and Safer Communities cabinet portfolio. This is therefore reversed out in the EFA to arrive at the (surplus) or deficit on the General Fund and HRA Balances.
ii. For management purposes, contributions (to)/ from earmarked revenue reserves are included in the figures reported to Cabinet and theses are therefore reversed out in the EFA to arrive at the (surplus) or deficit on the General Fund and HRA Balances.
iii. The use of Council working balances is included within the Other income and expenditure figures reported to Cabinet and is therefore reversed out in the EFA to arrive at the (surplus) or deficit on the General Fund and HRA Balances.
iv. In the figure reported to the Cabinet, the amount funded by the DSG within the Children, Education & Skills cabinet is shown separately. However, as this is within the same cabinet, it is included in one line in the CI&ES.
v. A number of items that are reported to the Cabinet (including interest payable, investment income and some non ring-fenced grants) are reported in the CI&ES as part of the Other income and expenditure sections and are therefore reallocated within the EFA.
vi. Adjustments are made within this column to add in depreciation, impairments and revaluation gains and losses. Capital disposals are also adjusted for with a transfer of the income on the disposal and the amounts written off. Minimum Revenue Provision is deducted because it is not chargeable under generally accepted accounting practices so is included in the MIRS rather than the CI&ES. Adjustments are also made to recognise capital grant income.
vii. This is the removal of pension contributions charged under statute and the replacement with the amounts chargeable under IAS 19.
viii. This column includes timing differences between the accounting treatment in the CI&ES and that required under statute in relation to premiums, discounts and financial instruments; the accumulated absences account; and business rates and council tax income.

## 2. Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

**Prior Period Restatement of Service Expenditure and Income**

Expenditure and income in the Net Cost of Services section in the CI&ES is based on the Council's cabinet structure. In May 2019, a new cabinet structure was introduced and therefore, in order to provide meaningful comparative information, the 2018/19 CI&ES figures have been restated to reflect this. This note shows how the net expenditure, gross expenditure and income have been restated. Note 1 - the Expenditure and Funding Analysis, Disclosure Notes and the Group Statements have also been updated in line with the new cabinet structure.

| Cabinet Portfolio per 2018/19 statement of accounts (restated) | As reported in the CI&ES 2018/19 | Movement between Cabinets | As restated 2018/19 | Revised Cabinet Portfolio |
|---|---|---|---|---|
| **Gross Expenditure** | £000 | £000 | £000 | |
| Adult Social Care and Health | 100,421 | 0 | 100,421 | Adult Social Care and Health |
| Children, Education and Skills | 193,768 | 0 | 193,768 | Children, Education and Skills |
| Environment and Housing | 36,454 | (32,711) | 3,743 | Climate Change, Planning and Housing |
| Transport and Highways | 18,462 | 15,901 | 34,363 | Environment and Highways |
| Managed Growth | 14,018 | (3,527) | 10,491 | Growth and Infrastructure Delivery |
| Leisure, Tourism and Sport | 6,272 | (3,399) | 2,873 | Leisure, Tourism and Sport |
| Resources and Delivering Value | 99,094 | 0 | 99,094 | Resources |
| Stronger Communities and Partnerships | 7,481 | 23,736 | 31,217 | Stronger and Safer Communities (includes HRA) |
| **Cost of services** | **475,970** | **0** | **475,970** | |

| Cabinet Portfolio per 2018/19 statement of accounts (restated) | As reported in the CI&ES 2018/19 | Movement between Cabinets | As restated 2018/19 | Revised Cabinet Portfolio |
|---|---|---|---|---|
| **Gross Income** | £000 | £000 | £000 | |
| Adult Social Care and Health | (47,278) | 0 | (47,278) | Adult Social Care and Health |
| Children, Education and Skills | (151,257) | 0 | (151,257) | Children, Education and Skills |
| Environment and Housing | (46,285) | 43,598 | (2,687) | Climate Change, Planning and Housing |
| Transport and Highways | (7,153) | (788) | (7,941) | Environment and Highways |
| Managed Growth | (12,162) | 2,685 | (9,477) | Growth and Infrastructure Delivery |
| Leisure, Tourism and Sport | (1,699) | 322 | (1,377) | Leisure, Tourism and Sport |
| Resources and Delivering Value | (61,638) | 0 | (61,638) | Resources |
| Stronger Communities and Partnerships | (5,408) | (45,817) | (51,225) | Stronger and Safer Communities (includes HRA) |
| **Cost of services** | **(332,880)** | **0** | **(332,880)** | |

| Cabinet Portfolio per 2018/19 statement of accounts (restated) | As reported in the CI&ES 2018/19 | Movement between Cabinets | As restated 2018/19 | Revised Cabinet Portfolio |
|---|---|---|---|---|
| **Net Expenditure** | **£000** | **£000** | **£000** | |
| Adult Social Care and Health | 53,143 | 0 | 53,143 | Adult Social Care and Health |
| Children, Education and Skills | 42,511 | 0 | 42,511 | Children, Education and Skills |
| Environment and Housing | (9,831) | 10,887 | 1,056 | Climate Change, Planning and Housing |
| Transport and Highways | 11,309 | 15,113 | 26,422 | Environment and Highways |
| Managed Growth | 1,856 | (842) | 1,014 | Growth and Infrastructure Delivery |
| Leisure, Tourism and Sport | 4,573 | (3,077) | 1,496 | Leisure, Tourism and Sport |
| Resources and Delivering Value | 37,456 | 0 | 37,456 | Resources |
| Stronger Communities and Partnerships | 2,073 | (22,081) | (20,008) | Stronger and Safer Communities (includes HRA) |
| **Cost of services** | **143,090** | **0** | **143,090** | |

## 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 42 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 highlighted as follows.

**Private Finance Initiative (PFI) and Similar Contracts**
The Council is deemed to control the services provided under the Strategic Environment contract and the Building Schools for the Future (BSF) contracts. The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the associated assets are recognised as Property, Plant and Equipment on the Council's Balance Sheet. The exception is when a PFI school transfers to academy status, the building asset is disposed of and the land subject to revaluation. The unitary charge payment liability for the academy schools remains with the Council.

**Accounting for Local Authority Maintained Schools**
The accounting policies for Property, Plant & Equipment, including Recognition of School Assets, have been applied to school assets and the list of maintained schools held on/off the Council's Balance Sheet at 31 March 2020 is shown in the following table:

| | On Balance Sheet | Off Balance Sheet |
|---|---|---|
| **Maintained Schools:** | | |
| Community | 33 | 0 |
| Voluntary Controlled | 1 | 0 |
| Voluntary Aided* | 0 | 16 |
| **Total Maintained Schools** | **34** | **16** |
| Academies | 0 | 27 |
| **Total Schools** | **34** | **43** |

* Note that although the school buildings are not on the Council's Balance Sheet, playgrounds and playing fields are.

It is considered that arrangements can be examined under IAS 16 Property, Plant & Equipment as adopted by the Code. The definition of an asset included in the Code is 'a resource controlled by the Council as a result of a past event from which future economic benefits or service potential are expected to flow'. The clarification on how this should be interpreted requires a judgement to be made as to whether the assets of a school are controlled by the Council or by the School's Governing Body. If the asset is considered to be controlled by the Council, it is included in the Council's balance sheet.

Community schools are controlled and run by the Council, whilst Voluntary Aided (VA) schools are run independently by their governing body. Solihull's VA schools are predominately faith schools. Academies are run by a governing body, independent of the Council.

The Council has one voluntary controlled school, Meriden Church of England Primary. The Council provides funding to maintain the assets, as opposed to the Local Education Authority Co-ordinated Voluntary Aided Programme (LCVAP). The Governing Body is deemed to have its own control as only two foundation Governors are representatives of the Church. As a result of this, the building is recognised on the Council's Balance Sheet.

**Group Boundaries**

The Council has interests and relationships in other entities which are included in the Council's group accounts. Solihull Community Housing Ltd, Blythe Valley Innovation Centre Ltd and the Urban Growth Company are consolidated as wholly owned subsidiaries of the Council, Coventry & Solihull Waste Disposal Company Ltd is included as a joint venture. The accounting policy for Interests in Companies and Other Entities has been applied.

## 4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Events after the Reporting Date | At 31 March, the additional costs and loss of income associated with the Covid-19 pandemic were minimal (£0.279 million) and it is assumed at this stage that spend in 2020/21 will be covered from funding from central government. As 2020/21 progresses, more information will be forthcoming from central government. | If funding does not cover all costs of Covid-19 then the Council may need to use held resources either to support cash flow or fund additional costs. |
| Property, Plant and Equipment (including Council Dwellings) and Investment Properties | The outbreak of Covid-19, declared by the World Health Organisation as a global pandemic on 11 March 2020, has impacted global financial markets. As a result, all valuations conducted by the Council's valuers in 2019/20 are reported on the basis of material valuation uncertainty and it is recommended that valuations are kept under frequent review. The Material Valuation Uncertainty Forum has been set up by the Royal Institution of Chartered Surveyors (RICS) to consider the unique events relating to the global Covid-19 pandemic and its impact on valuations assignments, with a focus on financial reporting and measures for the accurate consistent reporting of material uncertainty. This Forum | The value of Property, Plant and Equipment and Investment Properties will be subject to review, so there may be changes to the values in the Balance Sheet as at 31 March 2021. |

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| | has not given a date as to when it might be possible to review valuations, but in the valuer's opinion the earliest a meaningful review could be conducted would be December 2020. Valuations will be kept under review in line with the guidance provided by the RICS Forum. | |
| Fair Value of Assets and Liabilities | The Council has an investment in Birmingham Airport Holdings Ltd whose valuation has reduced in the Balance Sheet as at 31 March in line with the global conditions as a result of Covid-19. | Should the valuation continue to reduce through 2020/21, the balance of Long Term Investments would be impacted meaning there may be a material reduction in the value on the Balance Sheet as at 31 March 2021. |
| Impairment allowances | As at 31 March 2020, the Council had an outstanding balance of short-term debtors totalling £44.779 million, including £2.892 million in respect of local taxation. It is not certain that the impairment allowances held against this debt will be sufficient as the Council cannot assess with certainty which debts will be collected or not. The potential economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts. | The assessment of doubtful debts is based on historic experience and takes into account the nature of the debts and the service area. An understatement of doubtful debts would require future adjustment and impairment to be reflected in the CI&ES and would reduce the value of the debtors on the balance sheet. |
| PFI Contracts | At March 2020 the Council is committed to making unitary payments of £170.108 million over the remaining contracted life of PFI and PPP schemes (as detailed in Note 27). The contract payments are subject to inflationary changes and other contract variations that may arise after this date. | The value of future unitary payments could increase or decrease if the current assumed inflationary factors for these projects are inaccurate. This would result in a change to the Long Term Liabilities held in relation to these schemes. |
| Provisions | The Council holds £13.716 million of provisions on its Balance Sheet, of which £11.852 million relates to business rates appeals. There is a degree of uncertainty inherent in estimating the potential expenditure required to settle business rates appeals and it is not yet clear what impact the economic effects of Covid-19 may have on such appeals. | Successful appeals are charged against the provision carried in the Balance Sheet. Should the Council's assessment of the adequacy of the provision change during the course of 2020/21, any increase required will represent a cost in the CI&ES and an increase in the provision. |

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, life expectancy 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.<br><br>During 2019/20 the updating of assumptions by the Council's actuaries has led to an increase in the net pension liability of £19.984 million. The net liability includes an estimate of the potential impact of the Court of Appeal judgement regarding the McCloud and Sargeant cases which relate to age discrimination within the Judicial & Fire Pension schemes respectively. This has been calculated by the Council’s actuaries in line with the Government Actuary’s Department impact analysis. The Council’s actuaries have reviewed the Guaranteed Minimum Pension (GMP) Equalisation ruling but have determined that no adjustments are required for this.<br><br>Further details on the net pension liability are given in Note 34 - Defined Benefit Pension Schemes. | Any change in the assumed value of the Fund or changes to the assumptions made could impact on the level of the net pension liability. This would be reflected in the CI&ES and the balance sheet, through an equal increase in the Pensions Reserve . |

# Disclosure notes – notes supporting the Comprehensive Income and Expenditure Account

## 5. Material Items of Income and Expenditure

The Council wishes to highlight the following items of income and expenditure which are considered to be material, either by virtue of their value or where it is considered that an explanation of the item would aid the understanding of the Council's accounts:

**(Gain) / loss on disposal of non-current assets**
Yew Tree Primary School and Ulverley School both converted to academy status during the 2019/20 financial year. This resulted in losses on disposal for the school buildings of £3.971 million for Yew Tree Primary School and £6.521 million for Ulverley School. There were also a number of other smaller disposals during the year, resulting in a net gain of £2.145 million.

**(Surplus)/ deficit on revaluation of property, plant & equipment and Impairment losses on non-current assets charged to the revaluation reserve**
In line with the Council's revaluation programme, a number of categories within property, plant and equipment were revalued during the year, resulting in a net revaluation loss of £16.212 million. This includes the revaluation of schools in line with an update to the RICS guidance on depreciated replacement cost. This also includes the downward revaluation on land for Ulverley School and Yew Tree Primary School, which totalled £4.306 million.

The impairment loss of £7.314 million relates to the demolition of the former Yorkswood School building, as the new building has now been completed on the same site.

**(Surplus)/ deficit from investments in equity instruments designated at fair value through other comprehensive income**
As covered in the narrative report and Note 22 - Fair Values of Assets and Liabilities, the valuation of our holding in Birmingham Airport has reduced by £7.381 million. This is due to the estimated impact of the Covid-19 pandemic as at 31 March.

**Re-measurement of the net defined benefit liability**
This line within Other Comprehensive Income and Expenditure recognises the variations in the actuarial assumptions provided by the Pension Fund's actuary. In 2019/20, the application of the assumptions in line with the updated valuation of the scheme has led to a credit in the CI&ES of (£15.234 million). Further information can be found within Note 34 - Defined Benefit Pension Schemes.

## 6. Expenditure and Income analysed by Type

The Council's expenditure and income is analysed by type in the following table. In line with the Code and the Council's accounting policy on schools, the CI&ES and the following analysis includes the income and expenditure of the Council's maintained schools as if it were the expenditure of the Council.

| 2018/19 | | 2019/20 |
|---|---|---|
| £000 | | £000 |
| | **Expenditure** | |
| 165,561 | Employee benefits expenses | **171,459** |
| 21,137 | Employee benefits expenses for Voluntary Aided and Foundation schools | **21,600** |
| 269,042 | Other service expenses | **279,329** |
| 27,611 | Depreciation, amortisation, impairment and revaluation losses | **29,797** |
| 19,876 | Interest payable | **16,738** |
| 9,892 | Precepts and levies | **9,925** |
| 0 | Loss on disposal of non-current assets | **8,347** |
| 1,344 | Payments to housing capital receipts pool | **1,249** |
| 0 | Investment properties including fair value adjustments | **459** |
| 514,463 | **Total expenditure** | **538,903** |
| | | |
| | **Income** | |
| (108,388) | Fees, charges & other service income (Note 6a) | **(122,640)** |
| (1,693) | Investment properties including fair value adjustments | **0** |
| (4,149) | Gain on disposal of non-current assets | **0** |
| (10,888) | Interest and investment income | **(5,877)** |
| (149,581) | Income from council tax and business rates | **(153,540)** |
| (251,539) | Government grants and contributions | **(248,497)** |
| (526,238) | **Total income** | **(530,554)** |
| (11,775) | **(Surplus)/ deficit on provision of services** | **8,349** |

**a. Revenue from external customers**

The following table provides a breakdown by cabinet portfolio of the total fees, charges and other service income figures shown in the table above.

| | | | | **2019/20** |
|---|---|---|---|---|
| (Restated [1]) 2018/19 | | Income from Service recipients | Other Income | **Total fees, charges and other service income** |
| £000 | | £000 | £000 | **£000** |
| (17,725) | Adult Social Care and Health | (23,410) | 0 | **(23,410)** |
| (16,291) | Children, Education and Skills | (15,075) | (1,194) | **(16,269)** |
| (2,383) | Climate Change, Planning and Housing | (2,433) | 0 | **(2,433)** |
| (6,798) | Environment and Highways | (8,321) | (66) | **(8,387)** |
| (356) | Growth and Infrastructure Delivery | (738) | 0 | **(738)** |
| (1,375) | Leisure, Tourism and Sport | (1,504) | 0 | **(1,504)** |
| (14,357) | Resources | (20,518) | 0 | **(20,518)** |
| (49,103) | Stronger and Safer Communities (includes HRA) | (49,372) | (9) | **(49,381)** |
| (108,388) | **Total** | **(121,371)** | **(1,269)** | **(122,640)** |

[1] In May 2019, the Council's cabinet structure was changed and therefore in order to provide meaningful comparative information, the 2018/19 figures have been restated.

## 7. Officers' Remuneration

Under section 38(1) of the Localism Act 2011, local authorities are required to produce a Pay Policy Statement for each financial year. There are two pay policy statements which are relevant to this financial year's accounts and these were approved by Full Council on 5 February 2019 and 4 February 2020. These can be accessed via the Council's website.

A two year pay award was agreed for Senior Officers in July 2018, awarding a 2% pay increase for the 2018/19 and 2019/20 financial year. The relevant salary levels for 2019/20 are those in the 2020 pay policy. The notes that follow should be read in conjunction with the Pay Policy Statements if more information or context is required.

### a. Remuneration of senior officers

Senior officers' remuneration is subject to the same Performance and Development Review Framework as all other Council employees (excluding schools). The remuneration paid to the Council's senior officers is shown in the following table (with reference to the following notes where applicable):

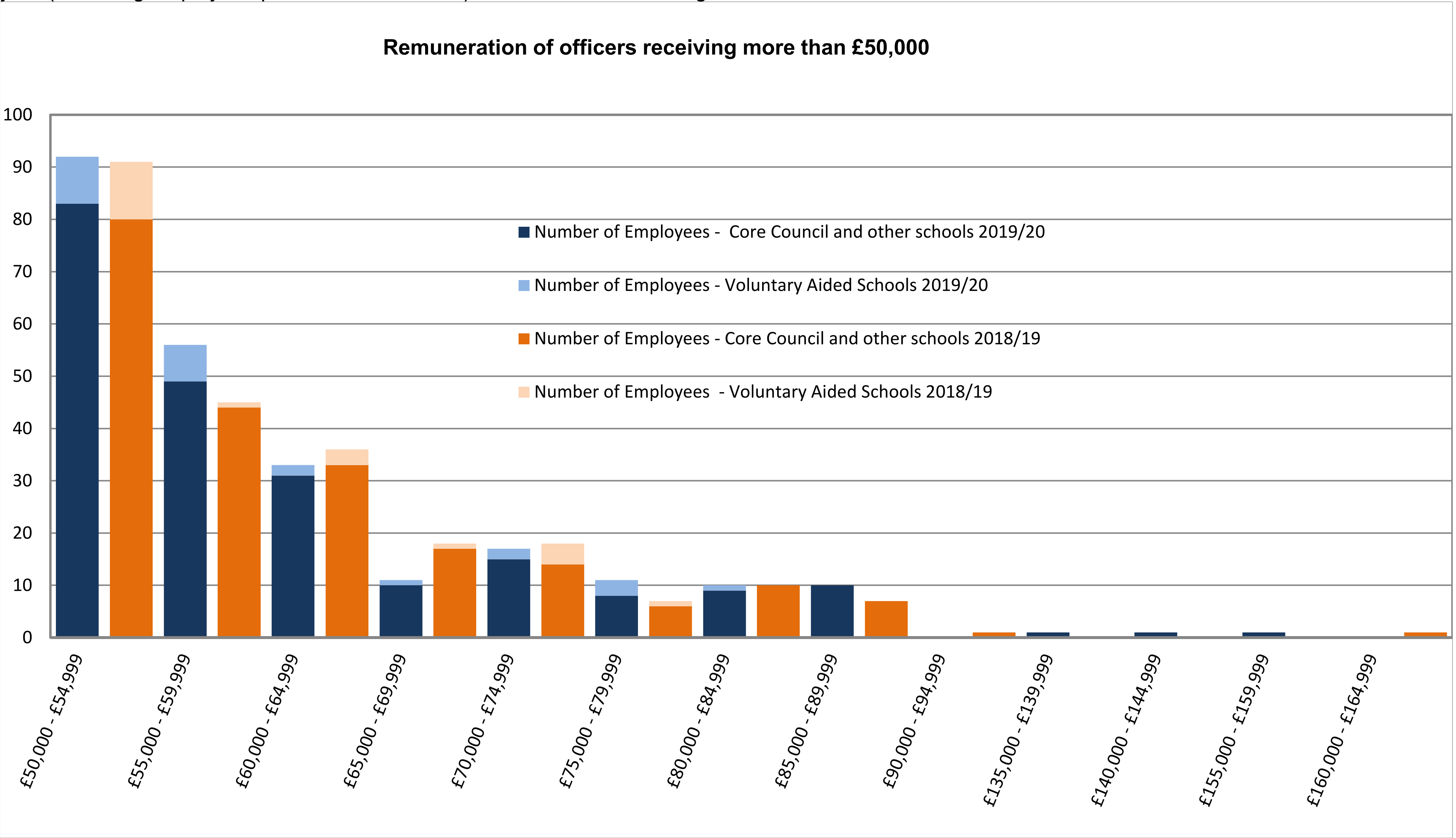
| Post | | Salary, Fees and Allowances | Expenses Allowances | Employers' Pension Contributions | Total Remuneration |
|---|---|---|---|---|---|
| | | £ | £ | £ | £ |
| Chief Executive - Nick Page [1] | **2019/20** | **158,798** | **13,606** | **29,219** | **201,623** |
| | 2018/19 | 155,684 | 2,108 | 23,182 | 180,974 |
| Director of Adult Care and Support | **2019/20** | **125,183** | **0** | **23,034** | **148,217** |
| | 2018/19 | 119,896 | 0 | 17,853 | 137,749 |
| Director of Children's Services and Skills (started 4 February 2019) | **2019/20** | **131,183** | **0** | **23,034** | **154,217** |
| | 2018/19 | 18,912 | 0 | 2,816 | 21,728 |
| Director of Economy and Infrastructure (started 4 February 2020) [2] | **2019/20** | **19,680** | **0** | **3,621** | **23,301** |
| | 2018/19 | 0 | 0 | 0 | 0 |
| Director of Managed Growth and Communities (left 2 February 2020) [2] | **2019/20** | **75,932** | **0** | **42,956** | **118,888** |
| | 2018/19 | 122,729 | 0 | 18,274 | 141,003 |
| Director of Public Health (started 1 January 2019) | **2019/20** | **99,459** | **0** | **18,300** | **117,759** |
| | 2018/19 | 23,857 | 0 | 3,553 | 27,410 |
| Director of Resources and Deputy Chief Executive | **2019/20** | **134,786** | **0** | **24,801** | **159,587** |
| | 2018/19 | 132,144 | 0 | 19,676 | 151,820 |

[1] In addition to the normal duties, the Chief Executive was paid remuneration for returning officer duties for the 2019 European Parliamentary and 2017 and 2019 General Parliamentary Elections, amounting to £13,606. This amount is included within Expenses Allowances.

[2] In February 2020, the Managed Growth Directorate was renamed the Economy and Infrastructure Directorate and the title of the incoming Director was changed accordingly.

b. **Remuneration of officers receiving more than £50,000**

The number of Council employees (including teachers but excluding senior officers included within Note 7a) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) is shown in the following chart:



## c. Exit packages

Below is the Council's disclosure of the number and cost of exit packages agreed in the year. The costs are amounts payable as a result of either the Council's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.

| Exit package cost | 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2018/19 | **2019/20** | 2018/19 | **2019/20** | 2018/19 | **2019/20** | 2018/19 | **2019/20** |
| | | | | | | | £000 | **£000** |
| £0 - £20,000 | 25 | **28** | 14 | **8** | 39 | **36** | 244 | **231** |
| £20,001 - £40,000 | 2 | **6** | 10 | **6** | 12 | **12** | 349 | **288** |
| £40,001 - £60,000 | 0 | **2** | 2 | **1** | 2 | **3** | 103 | **144** |
| £60,001 - £80,000 | 1 | **2** | 0 | **0** | 1 | **2** | 73 | **125** |
| £80,001 - £200,000 | 1 | **3** | 3 | **1** | 4 | **4** | 489 | **394** |
| **Total** | **29** | **41** | **29** | **16** | **58** | **57** | **1,258** | **1,182** |

During 2019/20 the Council agreed a number of voluntary and compulsory redundancies. These were primarily as a result of operational changes, legislative changes, transformation of services and in order to realise savings to meet the Council's Medium Term Financial Strategy (MTFS). The following narrative gives some information on the main areas of change during 2019/20.

**Adult Care and Support (total cost £0.175 million)**
During 2019/20 the Adult Care and Support Directorate delivered service changes to support a number of MTFS savings targets including the following: review and absorption of the Community, Rehabilitation, Enablement and Support Team into the Reablement Team, which resulted in the majority of the team taking up alternative roles elsewhere; the review of the Community Equipment Service, which resulted in a small reduction in the staffing requirement; and the redesign of day care, which has involved consolidation of day centre sites into two centres, resulting in some changes to staffing numbers as well as reduced running costs for the services.

**Children's Services & Skills (total cost £0.196 million)**
The costs in this Directorate predominantly relate to the closure of the Council's Primary Aged Pupil Referral Unit following a review of service and the development of alternative provision.

**Economy and Infrastructure Restructure/Reshaping (total cost £0.456 million)**
In 2019/20 the Economy and Infrastructure Directorate reviewed the structures for both the Highways and Stronger Communities service areas which resulted in the deletion of a number of posts. The new structure is focused on building stronger and safer communities, and creating increased resilience to meet future demands within services. It supports delivery of £0.281 million of MTFS savings targets.

**Solihull Schools (total Cost £0.257 million)**
2019/20 has seen a number of redundancies take place at schools within the borough, the cost of which totalled £0.257 million (2018/19 £0.255 million).

## 8. Members' Allowances

The total of Members' allowances paid in the year was £0.664 million (£0.649 million in 2018/19). The amounts paid are in accordance with the Local Authorities (Members' Allowances) (England) Regulations 2003.

## 9. Grants Received

**a. Capital Grants Receipts in Advance**

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that have not yet been met, which may require the monies or property to be returned to the donor. The balances as at 31 March are as follows:

| 31 March 2019 | | **31 March 2020** |
|---|---|---|
| £000 | | **£000** |
| (6,405) | Various Section 106 Contributions | **(7,199)** |
| (678) | Devolved Formula Capital | **(411)** |
| (791) | Other Grants and Contributions | **(1,268)** |
| (7,874) | **Total** | **(8,878)** |

**b. Grant Income**

The Council has credited the following grants, contributions and donations to the Comprehensive Income & Expenditure Statement:

| 2018/19 | | **2019/20** |
|---|---|---|
| £000 | | **£000** |
| | **Credited to Taxation and Non-specific Grant Income** | |
| | **Non ring-fenced government grants** | |
| (4,513) | Section 31 business rates grants | **(6,520)** |
| (3,072) | New Homes Bonus | **(2,794)** |
| (456) | Levy Account Surplus | **(101)** |
| 0 | Covid-19 Support Grant | **(279)** |
| (8,041) | | **(9,694)** |
| | **Capital Grants and Contributions** | |
| (4,718) | West Midlands Combined Authority | **(2,761)** |
| (4,281) | Local Transport Plan | **(3,425)** |
| (3,052) | Other Capital Grants, Contributions and Donations | **(4,311)** |
| (2,340) | Basic Need Grant (Schools Capital) | **410** |
| (1,800) | Community Infrastructure Levy | **(2,443)** |
| (1,506) | Condition Grant | **(1,289)** |
| (1,309) | Section 106 contributions | **(627)** |
| (19,006) | | **(14,446)** |
| | **Credited to Services** | |
| (107,875) | Dedicated Schools Grant (DSG) (Note 10) | **(109,447)** |
| (44,170) | Housing Benefit Subsidy | **(38,510)** |
| (13,252) | Better Care Fund [1] (Note 11) | **(13,837)** |
| (10,935) | Public Health Grant | **(10,646)** |
| (9,742) | West Midlands Combined Authority [2] | **(8,259)** |
| (6,799) | PFI credits | **(6,913)** |

| 2018/19 | | 2019/20 |
|---|---|---|
| £000 | | **£000** |
| (6,032) | Pupil Premium | **(5,944)** |
| (4,056) | Revenue expenditure funded by capital under statute | **(5,455)** |
| (2,468) | Universal Infant Free School Meals | **(2,351)** |
| (2,337) | Asylum Seekers | **(2,508)** |
| 0 | Teachers' Pension Employer Contribution Grant | **(1,921)** |
| (544) | Social Care Grant | **(1,487)** |
| (1,765) | Sixth Form Funding | **(1,264)** |
| (988) | PE and Sports Grant | **(966)** |
| (402) | Teachers' Pay Grant | **(898)** |
| (793) | Independent Living Fund | **(769)** |
| (752) | Housing Benefit and Localised Council Tax Support Administration | **(692)** |
| (333) | Flexible Homeless Support Grant | **(649)** |
| (870) | Winter Pressures [3] | **0** |
| (10,379) | Other Revenue Grants, Contributions and Donations | **(11,841)** |
| (224,492) | | **(224,357)** |
| (251,539) | **Total** | **(248,497)** |

[1] The Better Care Fund figure includes funding from the Improved Better Care Fund (iBCF). Further detail is provided in Note 11.
[2] The funding received from the West Midlands Combined Authority includes grant claimed on behalf of the Urban Growth Company.
[3] From 2019/20 the Winter Pressures grant was rolled into the Better Care Fund.

## 10. Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency (ESFA): the Dedicated Schools Grant (DSG). An element of DSG is recouped by the ESFA to fund academy schools in the Council's area. 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 2014. Solihull has implemented the National Funding Formula for Schools. Within this, the Schools Block includes individual school budgets based on the national formula, local factors and provisions for growth. The remaining part of the DSG covers block expenditure for High Needs, Early Years and Central (Combined) Services.

A report on the DSG position was taken to Cabinet on 13 February 2020. As part of this report, an initial recovery plan was approved which included the principle that the in-year High Needs Block deficit is brought into balance by year three of the Recovery Plan but that the accumulated deficit is recovered over a longer period. The accumulated deficit as at 31 March of £5.934 million, as shown in the following table, has been funded on a temporary basis from the Council's budget strategy reserve, shown in Note 15. The School and Early Years Finance (England) Regulations 2020 came into force on 1 April 2020 and require that deficits must be funded from future DSG income, so it is anticipated that this will be transferred to an earmarked usable reserve in 2020/21. Progress on the Recovery Plan has been affected by the response to the Covid-19 pandemic and an update will be reported to members in September 2020.

| 2018/19 | | | | 2019/20 |
|---|---|---|---|---|
| Total | | Individual Schools Budget (ISB) | Central Expenditure | **Total** |
| £000 | | £000 | £000 | **£000** |
| (193,892) | Final DSG before academy & high needs recoupment | | | **(200,163)** |
| 86,658 | Academy figure & high needs figure recouped | | | **90,900** |
| (107,234) | Total DSG after academy & high needs | | | **(109,263)** |
| 641 | Brought forward | | | **1,705** |
| (106,593) | **Agreed initial budgeted distribution** | **(71,272)** | **(36,286)** | **(107,558)** |
| | | | | |
| (641) | In-year adjustments - Early Years Funding | 0 | (184) | **(184)** |
| | | | | |
| (107,234) | **Final budgeted distribution** | **(71,272)** | **(36,470)** | **(107,742)** |
| | | | | |
| 38,863 | Actual central expenditure | 0 | 42,404 | **42,404** |
| 70,076 | Actual ISB deployed to schools | 71,272 | 0 | **71,272** |
| | | | | |
| 1,705 | **Carry forward** | **0** | **5,934** | **5,934** |

## 11. Pooled Budgets

The Council has established partnership agreements with Birmingham and Solihull Clinical Commissioning Group (CCG) (which was created through the merger of Solihull CCG with the Birmingham CCGs on 1 April 2018), using powers under Section 75 of the Health and Social Care Act 2012 to create single 'pooled budgets' within an integrated service. Known as Section 75 Agreements, they are intended to provide a more joined up service for users.

### a. Better Care Fund

The Better Care Fund (BCF) came into operation from 1 April 2015, under the directives of The Care Act 2014. The Act requires Clinical Commissioning Groups (CCGs) and councils to establish joint funding and commissioning arrangements for the provision of integrated health and social care services in their region. Note that these are in addition to the existing pooled budgets described in section (b). The BCF is made up of CCG funding as well as local government grants, including the Improved Better Care Fund (iBCF), which was first announced in the 2015 Spending Review and is a direct grant which must be pooled into the local BCF plan.

Birmingham and Solihull CCG and the Council have agreed the funding and management arrangements for these services as shown in the following table. For services commissioned by the Council or jointly with the CCG, the funding is received by the Council and the relevant income and expenditure is included within the Council's accounts. For services commissioned by the CCG, the CCG receives the funding and no income or expenditure is included in the Council's accounts.

| | | | 2018/19 | | | | | **2019/20** |
|---|---|---|---|---|---|---|---|---|
| SMBC | CCG | Joint | Total | | SMBC | CCG | Joint | **Total** |
| £000 | £000 | £000 | £000 | | £000 | £000 | £000 | **£000** |
| | (1,413) | | (1,413) | Heart of England Foundation Trust (HEFT) - Rapid Response | | (1,468) | | **(1,468)** |
| | (1,000) | | (1,000) | HEFT - Integrated Care Teams/Supported Integrated Discharge | | (1,027) | | **(1,027)** |
| | (641) | | (641) | HEFT - Macmillan/Palliative Care | | (659) | | **(659)** |
| | (792) | | (792) | HEFT - Other | | (795) | | **(795)** |
| | (405) | | (405) | Birmingham Community Healthcare Foundation Trust (BCHC) - Integrated Care Team | | (416) | | **(416)** |
| | (666) | | (666) | BCHC - Other | | (684) | | **(684)** |
| | (448) | | (448) | CCG - (Former S75 - LDRP) | | (460) | | **(460)** |
| | (934) | | (934) | Charity - Marie Curie - End of Life | | (959) | | **(959)** |
| | (859) | | (859) | Private - Ardenlea Court | | (882) | | **(882)** |
| | (51) | | (51) | Primary Care - Dementia | | (52) | | **(52)** |
| | (37) | | (37) | BSMH - Care at Home (Dementia) | | (37) | | **(37)** |
| | | (1,147) | (1,147) | Local Authority: Community Equipment and Wheelchair Services | | | (1,178) | **(1,178)** |
| | | (359) | (359) | Intermediate Care | | | (366) | **(366)** |

| | | | 2018/19 | | | | | 2019/20 |
|---|---|---|---|---|---|---|---|---|
| SMBC | CCG | Joint | Total | | SMBC | CCG | Joint | **Total** |
| £000 | £000 | £000 | £000 | | £000 | £000 | £000 | **£000** |
| (2,038) | | | (2,038) | Reablement | (2,153) | | | **(2,153)** |
| (1,724) | | | (1,724) | Domiciliary Care at Home | (1,821) | | | **(1,821)** |
| (1,139) | | | (1,139) | Residential and Nursing Home Care | (1,292) | | | **(1,292)** |
| (652) | | | (652) | Primary Prevention/Early Intervention | (688) | | | **(688)** |
| (611) | | | (611) | Information Advice and Wellbeing | (645) | | | **(645)** |
| (439) | | | (439) | Carers' Strategy | (390) | | | **(390)** |
| (645) | | | (645) | Other Better Care Fund | (591) | | | **(591)** |
| (2,032) | | | (2,032) | iBCF – Support for cost pressures on the Provider Market, including increases in the National Living Wage | (2,032) | | | **(2,032)** |
| (1,450) | | | (1,450) | iBCF – Children to Adult Services Transition | (1,450) | | | **(1,450)** |
| (1,016) | | | (1,016) | iBCF - Other | (1,905) | | | **(1,905)** |
| 0 | | | 0 | Winter Pressures - step down capacity [1] | (610) | | | **(610)** |
| 0 | | | 0 | Winter Pressures - care management [1] | (260) | | | **(260)** |
| (11,746) | (7,246) | (1,506) | (20,498) | Sub-total revenue grants[2] | (13,837) | (7,439) | (1,544) | **(22,820)** |
| (2,030) | 0 | 0 | (2,030) | Disabled Facilities Grants | (1,298) | 0 | 0 | **(1,298)** |
| (2,030) | 0 | 0 | (2,030) | Sub-total capital grants | (1,298) | 0 | 0 | **(1,298)** |
| (13,776) | (7,246) | (1,506) | (22,528) | **Better Care Fund Total** | (15,135) | (7,439) | (1,544) | **(24,118)** |

[1] The Winter Pressures grant was rolled into the Better Care Fund with effect from April 2019 but for 2018/19 was disclosed as a separate grant, as shown in Note 9.
[2] Revenue grants received through the Better Care Fund and Improved Better Care Fund included within the Council's CI&ES are credited to gross income - Adult Social Care and Health.

**b. Other Pooled Budgets**

A pooled budget is in place to jointly fund the Joint Equipment Store. The pooled budget is hosted and managed by the Council, under the governance of a Joint Commissioning Board. In 2018/19 there was also a pooled budget to jointly fund health and social care elements of integrated residential services for clients with learning disabilities, however the block for these services ceased in 2019/20 and was replaced by funding for individuals in accordance with their needs assessments.

| | | | 2018/19 | | | | | 2019/20 |
|---|---|---|---|---|---|---|---|---|
| SMBC | CCG | Other income | Total | | SMBC | CCG | Other income | **Total** |
| £000 | £000 | £000 | £000 | | £000 | £000 | £000 | £000 |
| (1,379) | (2,160) | (729) | (4,268) | Funding | (18) | (424) | 0 | **(442)** |
| 4,268 | 0 | 0 | 4,268 | Transforming Community Services | 442 | 0 | 0 | **442** |
| 2,889 | (2,160) | (729) | 0 | Total | 424 | (424) | 0 | **0** |

**c. Joint Commissioning Pooled Fund**

The following joint health and social care commissioning posts are employed by the Council, with the employment costs shared between the partners as follows:

| **Post** | **CCG** | **SMBC** |
|---|---|---|
| Strategic Commissioner - Community Mental Health | 50% | 50% |
| Commissioning Officer - Community Mental Health | 50% | 50% |
| Strategic Commissioner - Learning Disability and Autism | 40% | 60% |
| Commissioning Officer - Learning Disability and Autism | 50% | 50% |
| Joint Strategic Commissioner - Children | 20% | 80% |
| Commissioning Officer - Children | 100% | 0% |
| Commissioning Officer - Carers | 30% | 70% |
| Administrative Support | 70% | 30% |

**d. Contributions to Voluntary Organisations**

The CCG pays the Council the following sums annually, for contracted services provided by voluntary organisations and paid for by the Council on the CCG's behalf:

| 2018/19 | | **2019/20** |
|---|---|---|
| £000 | | **£000** |
| 134 | Alzheimer's Society | **134** |
| 67 | Independent Advocacy | **67** |
| 201 | **Total** | **201** |

## 12. External Audit Costs

The Council has incurred the following fees in relation to external audit and other services provided by the Council's external auditors, Grant Thornton UK LLP:

| 2018/19 | | **2019/20** |
|---|---|---|
| £000 | | **£000** |
| 103 | Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor for the year | **115** |
| 0 | Rebate received from the Public Sector Audit Appointments | **(12)** |
| 17 | Fees payable in respect of other services provided by Grant Thornton UK LLP during the year, including the certification of grant claims and returns | **26** |
| 120 | **Total** | **129** |

# Disclosure notes – notes supporting the Movement in Reserves Statement

## 13. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the Total Comprehensive Income and Expenditure to arrive at the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. This note also shows the unusable reserves which are primarily affected by each adjustment.

| 2019/20 | Usable Reserves | | | | | Movement in Unusable Reserves | Applicable Unusable Reserve |
|---|---|---|---|---|---|---|---|
| | General Fund Working Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied Account | | |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | |
| **Adjustments to revenue resources:** | | | | | | | |
| Reversal of retirement benefits charged to CI&ES | (36,741) | 0 | 0 | 0 | 0 | 36,741 | Pensions Reserve |
| Employer's pensions contributions and direct payments to pensioners payable for the current year | 18,923 | 0 | 0 | 0 | 0 | (18,923) | |
| Financial instruments | 15 | 47 | 0 | 0 | 0 | (62) | Financial Instruments Adjustment Account |
| Council tax and business rates | 3,280 | 0 | 0 | 0 | 0 | (3,280) | Collection Fund Adjustment Account |
| Staff leave entitlement | (524) | 0 | 0 | 0 | 0 | 524 | Accumulated Absences Account |
| Credits to the revaluation reserve in relation to disposals and transfers to investment property | (6,688) | 0 | 0 | 0 | 0 | 6,688 | Revaluation Reserve |
| Difference between fair value depreciation and historical cost depreciation | (9,001) | (489) | 0 | 0 | 0 | 9,490 | |
| Reversal of charges for depreciation and impairment of non-current assets | (17,528) | (9,981) | 0 | 0 | 0 | 27,509 | Capital Adjustment Account |
| Reversal of revaluation gains/(losses) on property, plant and equipment | (2,325) | 9,527 | 0 | 0 | 0 | (7,202) | |
| Reversal of capital grants and contributions applied | 12,187 | 147 | 0 | 0 | 0 | (12,334) | |
| Reversal of other entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure | (3,111) | (3,301) | 0 | 0 | (7,566) | 13,978 | Capital Adjustment Account |
| **Total adjustments to revenue resources** | **(41,513)** | **(4,050)** | **0** | **0** | **(7,566)** | **53,129** | |

| 2019/20 | General Fund Working Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied Account | Movement in Unusable Reserves | Applicable Unusable Reserve |
|---|---|---|---|---|---|---|---|
| | Usable Reserves | | | | | | |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | |
| **Adjustments between revenue and capital resources:** | | | | | | | |
| Transfer of non-current asset sale proceeds from revenue | 1,602 | 3,600 | (5,202) | 0 | 0 | 0 | Not Applicable |
| Administrative costs of non-current asset disposals | (60) | 0 | 60 | 0 | 0 | 0 | |
| Payments to the government housing receipts pool | (1,249) | 0 | 1,249 | 0 | 0 | 0 | |
| Charge to Major Repairs Reserve in lieu of depreciation | 0 | 11,881 | 0 | (11,881) | 0 | 0 | |
| Statutory provision for the repayment of debt | 9,252 | 1,109 | 0 | 0 | 0 | (10,361) | Capital Adjustment Account |
| Capital expenditure financed from revenue balances | 3,669 | 308 | 0 | 0 | 0 | (3,977) | |
| **Total adjustments between revenue and capital resources** | **13,214** | **16,898** | **(3,893)** | **(11,881)** | **0** | **(14,338)** | |
| | | | | | | | |
| **Adjustments to capital resources:** | | | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure and repay debt | 0 | 0 | 882 | 0 | 0 | (882) | Capital Adjustment Account |
| Use of the Major Repairs Reserve to finance new capital expenditure | 0 | 0 | 0 | 10,791 | 0 | (10,791) | |
| Application of capital grants to finance capital expenditure | 0 | 0 | 0 | 0 | 5,511 | (5,511) | |
| **Total adjustments to capital resources** | **0** | **0** | **882** | **10,791** | **5,511** | **(17,184)** | |
| | | | | | | | |
| **Total adjustments** | **(28,299)** | **12,848** | **(3,011)** | **(1,090)** | **(2,055)** | **21,607** | |

| 2018/19 | Usable Reserves | | | | | Movement in Unusable Reserves | Applicable Unusable Reserve |
|---|---|---|---|---|---|---|---|
| | General Fund Working Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied Account | | |
| | £000 | £000 | £000 | £000 | £000 | £000 | |
| **Adjustments to revenue resources:** | | | | | | | |
| Reversal of retirement benefits charged to CI&ES | (41,066) | 0 | 0 | 0 | 0 | 41,066 | Pensions Reserve |
| Employer's pensions contributions and direct payments to pensioners payable for the current year | 18,046 | 0 | 0 | 0 | 0 | (18,046) | |
| Financial instruments | (2,849) | (15) | 0 | 0 | 0 | 2,864 | Financial Instruments Adjustment Account |
| Council tax and business rates | 2,281 | 0 | 0 | 0 | 0 | (2,281) | Collection Fund Adjustment Account |
| Staff leave entitlement | 252 | 0 | 0 | 0 | 0 | (252) | Accumulated Absences Account |
| Credits to the revaluation reserve in relation to disposals and transfers to investment property | (683) | (68) | 0 | 0 | 0 | 751 | Revaluation Reserve |
| Difference between fair value depreciation and historical cost depreciation | (9,580) | (497) | 0 | 0 | 0 | 10,077 | |
| Reversal of charges for depreciation and impairment of non-current assets | (15,881) | (9,148) | 0 | 0 | 0 | 25,029 | Capital Adjustment Account |
| Reversal of revaluation gains/(losses) on property, plant and equipment | (7,174) | 14,820 | 0 | 0 | 0 | (7,646) | |
| Reversal of capital grants and contributions applied | 15,421 | 97 | 0 | 0 | 0 | (15,518) | |
| Reversal of other entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure | 116 | (1,519) | 0 | 0 | (7,544) | 8,947 | |
| **Total adjustments to revenue resources** | (41,117) | 3,670 | 0 | 0 | (7,544) | 44,991 | |

| 2018/19 | Usable Reserves | | | | | Movement in Unusable Reserves | Applicable Unusable Reserve |
|---|---|---|---|---|---|---|---|
| | General Fund Working Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied Account | | |
| **Adjustments between revenue and capital resources:** | | | | | | | |
| Transfer of non-current asset sale proceeds | 5,799 | 4,433 | (10,232) | 0 | 0 | 0 | |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | |
| Administrative costs of non-current asset disposals | (77) | 0 | 77 | 0 | 0 | 0 | Not Applicable |
| Payments to the government housing receipts pool | (1,344) | 0 | 1,344 | 0 | 0 | 0 | |
| Charge to Major Repairs Reserve in lieu of depreciation | 0 | 11,633 | 0 | (11,633) | 0 | 0 | |
| Statutory provision for the repayment of debt | 8,629 | 1,030 | 0 | 0 | 0 | (9,659) | Capital Adjustment Account |
| Capital expenditure financed from revenue balances | 10,225 | 417 | 0 | 0 | 0 | (10,642) | |
| **Total adjustments between revenue and capital resources** | 23,232 | 17,513 | (8,811) | (11,633) | 0 | (20,301) | |
| | | | | | | | |
| **Adjustments to capital resources:** | | | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure and repay debt | 0 | 0 | 5,160 | 0 | 0 | (5,160) | Capital Adjustment Account |
| Use of the Major Repairs Reserve to finance new capital expenditure | 0 | 0 | 0 | 10,794 | 0 | (10,794) | |
| Application of capital grants to finance capital expenditure | 0 | 0 | 0 | 0 | 4,088 | (4,088) | |
| **Total adjustments to capital resources** | 0 | 0 | 5,160 | 10,794 | 4,088 | (20,042) | |
| | | | | | | | |
| **Total adjustments** | (17,885) | 21,183 | (3,651) | (839) | (3,456) | 4,648 | |

## Purpose of the Usable Reserves

### General Fund Working Balance
These funds are available to meet the future running costs for the Council for non-housing services.

### Housing Revenue Account
These reserves hold funds that are available to meet future costs relating to the Council's housing stock.

### Capital Receipts Reserve
This reserve holds all of the Council's receipts generated from the disposal of non-current assets and although this is in the usable reserves section, this reserve can only be used to finance new capital investment or to repay debt. (A fixed proportion of housing capital receipts must be paid over to the government and the Council can utilise its retained portion to either spend on replacement housing or repay prior debt- as detailed in the accounting policy on disposals within Property, Plant and Equipment).

### Major Repairs Reserve
This reserve is to meet the capital investment requirements of the Council's housing programme.

### Capital Grants Unapplied Account
This reserve is used to hold capital grants without conditions or where conditions have been satisfied, but the grant has yet to be used to finance capital expenditure.

## 14. Unusable Reserves

The balance of the Council's unusable reserves are summarised in the following table. An explanation of the material unusable reserves is given overleaf.

| 2019/20 | Opening balance | Other comprehensive income and expenditure | Adjustments to capital resources | Adjustments to revenue resources | Adjustments between revenue and capital resources | **Closing balance** |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | **£000** |
| Accumulated Absences Account | 2,137 | 0 | 0 | 524 | 0 | **2,661** |
| Available for Sale Financial Instruments Reserve | 0 | 0 | 0 | 0 | 0 | **0** |
| Capital Adjustment Account | (491,705) | 0 | (17,184) | 21,951 | (14,338) | **(501,276)** |
| Collection Fund Adjustment Account | (3,151) | 0 | 0 | (3,280) | 0 | **(6,431)** |
| Financial Instruments Adjustment Account | 2,773 | 0 | 0 | (62) | 0 | **2,711** |
| Financial Instruments Revaluation Reserve | (42,285) | 7,381 | 0 | 0 | 0 | **(34,904)** |
| Pensions Reserve | 305,607 | (15,234) | 0 | 17,818 | 0 | **308,191** |
| Revaluation Reserve | (272,792) | 23,526 | 0 | 16,178 | 0 | **(233,088)** |
| **Total Unusable Reserves** | **(499,416)** | **15,673** | **(17,184)** | **53,129** | **(14,338)** | **(462,136)** |

| 2018/19 | Opening balance | Other comprehensive income and expenditure | Adjustments to capital resources | Adjustments to revenue resources | Adjustments between revenue and capital resources | **Closing balance** |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | **£000** |
| Accumulated Absences Account | 2,389 | 0 | 0 | (252) | 0 | **2,137** |
| Available for Sale Financial Instruments Reserve | (39,564) | 0 | 0 | 39,564 | 0 | **0** |
| Capital Adjustment Account | (462,157) | 0 | (20,042) | 10,795 | (20,301) | **(491,705)** |
| Collection Fund Adjustment Account | (870) | 0 | 0 | (2,281) | 0 | **(3,151)** |
| Financial Instruments Adjustment Account | (91) | 0 | 0 | 2,864 | 0 | **2,773** |
| Financial Instruments Revaluation Reserve | 0 | (2,738) | 0 | (39,547) | 0 | **(42,285)** |
| Pensions Reserve | 308,014 | (25,427) | 0 | 23,020 | 0 | **305,607** |
| Revaluation Reserve | (282,275) | (1,345) | 0 | 10,828 | 0 | **(272,792)** |
| **Total Unusable Reserves** | **(474,554)** | **(29,510)** | **(20,042)** | **44,991** | **(20,301)** | **(499,416)** |

## Purpose of Main Unusable Reserves

### 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 Capital Adjustment Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CI&ES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

### Financial Instruments Revaluation Reserve
The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that have been elected as Fair Value through Other Comprehensive Income.

### Pensions Reserve
The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CI&ES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed, as the Council makes employer’s contributions to pension funds or eventually pays any pensions for which it is directly responsible.

The debit balance on the Pensions Reserve shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them, but the statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

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

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

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

## 15. Transfers (to)/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts transferred from earmarked reserves to meet General Fund expenditure in 2018/19 and 2019/20.

| Balance at 1 April 2018 | Transfers (to)/ from 2018/19 | Balance at 31 March 2019 | | Balance at 1 April 2019 | Transfers (to)/ from 2019/20 | **Balance at 31 March 2020** |
|---|---|---|---|---|---|---|
| £000 | £000 | £000 | | £000 | £000 | **£000** |
| (11,274) | (353) | (11,627) | Schools | (11,627) | 272 | **(11,355)** |
| (4,808) | (30) | (4,838) | Future Capital Spending | (4,838) | 4 | **(4,834)** |
| (2,822) | (1,999) | (4,821) | External Debt Interest | (4,821) | 301 | **(4,520)** |
| (3,269) | (215) | (3,484) | Insurance | (3,484) | (503) | **(3,987)** |
| (863) | 0 | (863) | Resources | (863) | (1,263) | **(2,126)** |
| (1,208) | (265) | (1,473) | Leisure | (1,473) | (358) | **(1,831)** |
| 0 | 0 | 0 | Commuted Sums | 0 | (1,758) | **(1,758)** |
| 0 | 0 | 0 | Transport and Highways Business Rates Windfall | 0 | (1,734) | **(1,734)** |
| (551) | 182 | (369) | Severance | (369) | (1,120) | **(1,489)** |
| 0 | 0 | 0 | Pensions | 0 | (1,000) | **(1,000)** |
| (484) | 0 | (484) | Public Health | (484) | (398) | **(882)** |
| 0 | 0 | 0 | Local Plan | 0 | (821) | **(821)** |
| 0 | (31) | (31) | Tenant Works | (31) | (670) | **(701)** |
| (864) | 297 | (567) | Street Lighting Services | (567) | (132) | **(699)** |
| (0) | (290) | (290) | Birmingham Airport | (290) | (405) | **(695)** |
| (1,283) | 73 | (1,210) | School Catering | (1,210) | 558 | **(652)** |
| (2,894) | 1,142 | (1,752) | Grants Applied with No Conditions | (1,752) | 1153 | **(599)** |
| (640) | 120 | (520) | Highways Section 106 Agreements | (520) | (49) | **(569)** |
| (1,650) | 1,082 | (568) | Development, Investment and Growth (DIG Fund) | (568) | 0 | **(568)** |
| (808) | 65 | (743) | Commuted Sums | (743) | 212 | **(531)** |
| (730) | (144) | (874) | Section 38 | (874) | 412 | **(462)** |
| 0 | (526) | (526) | Social Care Information System Project | (526) | 134 | **(392)** |
| (707) | 187 | (520) | Solihull Families First | (520) | 159 | **(361)** |
| (100) | (534) | (634) | Early Help Apprenticeship | (634) | 634 | **0** |
| (9,883) | 326 | (9,557) | Other | (9,557) | (340) | **(9,897)** |
| **(44,838)** | **(913)** | **(45,751)** | **Sub-total Revenue Reserves** | **(45,751)** | **(6,712)** | **(52,463)** |

| Balance at 1 April 2018 | Transfers (to)/ from 2018/19 | Balance at 31 March 2019 | | Balance at 1 April 2019 | Transfers (to)/ from 2019/20 | **Balance at 31 March 2020** |
|---|---|---|---|---|---|---|
| £000 | £000 | £000 | | £000 | £000 | **£000** |
| (4,546) | (6,331) | (10,877) | Business Rates Windfall | (10,877) | 237 | **(10,640)** |
| (2,497) | (2,571) | (5,068) | Adult Social Care Investment | (5,068) | (132) | **(5,200)** |
| (5,162) | 1,428 | (3,734) | Budget Strategy [1] | (3,734) | 2,572 | **(1,162)** |
| (207) | 0 | (207) | Public Health | (207) | 0 | **(207)** |
| **(12,412)** | **(7,474)** | **(19,886)** | **Sub-total Earmarked Balances** | **(19,886)** | **2,677** | **(17,209)** |
| **(57,250)** | **(8,387)** | **(65,637)** | **Total Earmarked Revenue Reserves** | **(65,637)** | **(4,035)** | **(69,672)** |

[1] The balance on the budget strategy reserve at 31 March 2020 includes the temporary funding of the DSG accumulated deficit of £5.934 million, as detailed in Note 10. The School and Early Years Finance (England) Regulations 2020 came into force on 1 April 2020 and require that deficits must be funded from future DSG income, so it is anticipated that the 2020/21 Code will require this to be transferred to a revenue reserve in 2020/21. This will increase the balance on the budget strategy reserve to £7.096 million.

## Disclosure notes – notes supporting the Balance Sheet

### 16. Movements on Balances for Property, Plant and Equipment

| 2019/20 | Council Dwellings | Other Land and Buildings | Vehicles, Plant and Equipment | Infrastructure Assets | Community Assets | Assets Under Construction | **Total Property Plant and Equipment** | PFI Assets included in Property, Plant & Equipment |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | **£000** | £000 |
| **Net Book Value at 31 March 2019** | **437,681** | **539,686** | **14,063** | **130,560** | **12,911** | **14,931** | **1,149,832** | **5,555** |
| Additions | 11,227 | 39,589 | 1,728 | 5,630 | 782 | 4,732 | **63,688** | 0 |
| Other adjustments | 0 | 0 | (2,933) | 0 | 0 | 0 | **(2,933)** | (2,933) |
| Revaluations recognised in the revaluation reserve | 3,606 | (19,809) | 0 | 0 | (9) | 0 | **(16,212)** | 0 |
| Revaluations recognised in the (surplus)/ deficit on the provision of services | 9,528 | (2,325) | 0 | 0 | 0 | 0 | **7,203** | 0 |
| Disposals | (2,880) | (10,669) | 0 | 0 | 0 | 0 | **(13,549)** | 0 |
| Reclassifications | 940 | 9,485 | 0 | 1,388 | 49 | (12,680) | **(818)** | 0 |
| Depreciation on cost | (9,453) | (8,600) | (3,695) | (4,471) | 0 | 0 | **(26,219)** | (950) |
| Depreciation written out to revaluation reserve | (485) | (9,005) | 0 | 0 | 0 | 0 | **(9,490)** | 0 |
| Impairment losses recognised in the revaluation reserve | 0 | (7,314) | 0 | 0 | 0 | 0 | **(7,314)** | 0 |
| Impairment losses recognised in the (surplus)/ deficit on the provision of services | 0 | (891) | 0 | 0 | 0 | 0 | **(891)** | 0 |
| **Net Book Value at 31 March 2020** | **450,164** | **530,147** | **9,163** | **133,107** | **13,733** | **6,983** | **1,143,297** | **1,672** |

The Net Book Value at 31 March 2020 is analysed as follows:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Gross Carrying Value at 31 March 2020 | 450,164 | 558,542 | 20,058 | 185,856 | 13,733 | 6,983 | **1,235,336** | 5,153 |
| Accumulated Depreciation and Impairment | 0 | (28,395) | (10,895) | (52,749) | 0 | 0 | **(92,039)** | (3,481) |

| 2018/19 | Council Dwellings | Other Land and Buildings | Vehicles, Plant and Equipment | Infrastructure Assets | Community Assets | Assets Under Construction | Total Property Plant and Equipment | PFI Assets included in Property, Plant & Equipment |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | **£000** | £000 |
| Certified Valuation at 31 March 2018 | 417,196 | 548,431 | 16,131 | 129,215 | 12,290 | 9,740 | **1,133,003** | 6,539 |
| Accumulated Depreciation and Impairment | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| Net Book Value at 31 March 2018 | **417,196** | **548,431** | **16,131** | **129,215** | **12,290** | **9,740** | **1,133,003** | **6,539** |
| Additions | 14,757 | 15,241 | 1,724 | 5,237 | 630 | 11,311 | **48,900** | 0 |
| Other adjustments | 0 | 0 | 413 | 0 | 0 | (422) | **(9)** | 413 |
| Revaluations recognised in the revaluation reserve | (52) | 1,407 | 0 | 0 | (9) | 0 | **1,346** | 0 |
| Revaluations recognised in the (surplus)/ deficit on the provision of services | 14,819 | (7,173) | 0 | 0 | 0 | 0 | **7,646** | 0 |
| Disposals | (2,880) | (3,186) | 0 | 0 | 0 | 0 | **(6,066)** | 0 |
| Reclassifications | 3,103 | 2,275 | 0 | 437 | 0 | (5,698) | **117** | 0 |
| Depreciation on cost | (8,768) | (7,726) | (4,205) | (4,329) | 0 | 0 | **(25,028)** | (1,397) |
| Depreciation written out to revaluation reserve | (494) | (9,583) | 0 | 0 | 0 | 0 | **(10,077)** | 0 |
| Impairment losses recognised in the revaluation reserve | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| Impairment losses recognised in the (surplus)/ deficit on the provision of services | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| **Net Book Value at 31 March 2019** | **437,681** | **539,686** | **14,063** | **130,560** | **12,911** | **14,931** | **1,149,832** | **5,555** |
| The Net Book Value at 31 March 2019 is analysed as follows: | | | | | | | | |
| Gross Carrying Value at 31 March 2019 (restated) | 437,681 | 575,497 | 23,241 | 178,838 | 12,911 | 14,931 | **1,243,099** | 8,162 |
| Accumulated Depreciation and Impairment (restated) | 0 | (35,811) | (9,178) | (48,278) | 0 | 0 | **(93,267)** | (2,607) |

## 17. Capital Commitments

As at 31 March 2020, the authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2020/21 and future years budgeted to cost £15.878 million (including commitments relating to the HRA totalling £7.647 million). Similar commitments at 31 March 2019 were £19.299 million (HRA: £2.223 million). The major commitments are:

- New Builds (HRA) £5.708 million
- Wildlife Ways - (Greening the Grey) £5.107 million
- Oracle Cloud implementation £1.559 million
- Council House essential maintenance £1.117 million

## 18. Capital Expenditure and Capital Financing

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

| 2018/19 | | **2019/20** |
|---|---|---|
| £000 | | **£000** |
| 407,302 | Opening Capital Financing Requirement | **412,097** |
| | **Capital Investment** | |
| 48,900 | Property, Plant & Equipment | **63,688** |
| 5,782 | Investment Property | **0** |
| 1,239 | Intangible assets | **2,361** |
| 4,353 | Revenue expenditure classified as capital | **5,633** |
| 60,274 | **Total Capital Investment** | **71,682** |
| | **Sources of Finance** | |
| (5,160) | Capital receipts | **(883)** |
| (19,606) | Government grants and other contributions | **(17,845)** |
| (30,713) | Sums set aside from revenue | **(28,094)** |
| (55,479) | **Total Sources of Finance** | **(46,822)** |
| 412,097 | **Closing Capital Financing Requirement** | **436,957** |
| | | |
| | **Explanation of Movements in Year** | |
| (2,409) | Decrease in underlying need to borrow (supported by government financial assistance) | **(2,409)** |
| 9,195 | Increase in underlying need to borrow (not supported by government financial assistance) | **32,777** |
| (1,440) | Reductions in assets under PFI/PPP contracts | **(1,535)** |
| (551) | Assets acquired/ (disposed of) under finance leases | **(3,973)** |
| 4,795 | **Increase in Capital Financing Requirement** | **24,860** |

## 19. Revaluations

The freehold and leasehold properties which comprise the Council's portfolio are revalued on a rolling programme using the under-mentioned bases. This has been done in accordance with the practice statement in the Appraisal of Valuation Manual issued by the Royal Institution of Chartered Surveyors (RICS). The Council's valuer is an internal RICS-qualified surveyor and all valuations were carried out internally. Not all the properties were inspected as this was neither practicable nor considered by the valuer to be necessary for the purpose of the valuation. Assets included in the Balance Sheet at fair value are revalued sufficiently regularly, and as a minimum every five years, to ensure that their carrying amount is not materially different from their fair value at the year-end. Fair value is determined as the amount that would be paid for the asset in its existing use (existing use value).

Properties regarded as operational are valued on the basis of fair value except for those of a specialist nature which are valued on the basis of depreciated replacement cost (DRC). Council dwellings are valued on the basis of fair value, determined using the basis of existing use value for social housing. Properties regarded by the Council as non-operational have been valued on the basis of open market value. Should any circumstances arise which would result in a material change to a property's valuation, the Council would prioritise revaluing that asset.

The significant assumptions applied in estimating the fair values are:

- Fair value is defined as the amount for which an asset could be exchanged, between knowledgeable, willing parties, in an arm's length transaction;
- Fair value represents the price that would be reasonably agreed between two specific parties for the exchange of an asset;
- Although the parties may be unconnected and negotiating at arm's length, the asset is not necessarily exposed in the wider market and the price agreed may be one that reflects the specific advantages (or disadvantages) of ownership to the parties involved rather than the market at large;
- In accounting standards, fair value is normally equated to market value;
- Fair value is a broader concept than market value. Although in many cases the price that is fair between two parties will equate to that obtainable in the general market, there will be cases where the assessment for fair value will involve taking into account matters that have to be disregarded in the assessment of market value; and
- The valuations carried out during 2019/20 have been issued on the basis of material uncertainty, as detailed in Note 4.

The following statement shows the progress of the Council's rolling programme for the revaluation of non-current assets:

| **2019/20** | Valued at Historic Cost | Valued at Current/ Fair Value | | | | | **Total** |
|---|---|---|---|---|---|---|---|
| | | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | |
| | £000 | £000 | £000 | £000 | £000 | £000 | **£000** |
| Council Dwellings | 0 | 0 | 0 | 0 | 0 | 450,164 | **450,164** |
| Other Land and Buildings | 34,894 | 34,859 | 1,447 | 104,873 | 75,394 | 278,680 | **530,147** |
| Vehicles, Plant and Equipment | 9,163 | 0 | 0 | 0 | 0 | 0 | **9,163** |
| Infrastructure Assets | 133,107 | 0 | 0 | 0 | 0 | 0 | **133,107** |
| Community Assets | 13,733 | 0 | 0 | 0 | 0 | 0 | **13,733** |
| Assets Under Construction | 6,983 | 0 | 0 | 0 | 0 | 0 | **6,983** |
| **Sub-total Property Plant & Equipment** | **197,880** | **34,859** | **1,447** | **104,873** | **75,394** | **728,844** | **1,143,297** |
| Heritage Assets | 950 | 0 | 0 | 0 | 0 | 0 | **950** |
| Investment Property | 0 | 0 | 0 | 0 | 0 | 16,749 | **16,749** |
| Intangible Assets | 3,848 | 0 | 0 | 0 | 0 | 0 | **3,848** |
| **TOTAL** | **202,678** | **34,859** | **1,447** | **104,873** | **75,394** | **745,593** | **1,164,844** |

| **2018/19** | Valued at Historic Cost | Valued at Current/ Fair Value | | | | | **Total** |
|---|---|---|---|---|---|---|---|
| | | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | |
| | £000 | £000 | £000 | £000 | £000 | £000 | **£000** |
| Council Dwellings | 0 | 0 | 0 | 0 | 0 | 437,681 | **437,681** |
| Other Land and Buildings | 0 | 0 | 61,170 | 1,091 | 108,178 | 369,247 | **539,686** |
| Vehicles, Plant and Equipment | 14,063 | 0 | 0 | 0 | 0 | 0 | **14,063** |
| Infrastructure Assets | 130,560 | 0 | 0 | 0 | 0 | 0 | **130,560** |
| Community Assets | 12,911 | 0 | 0 | 0 | 0 | 0 | **12,911** |
| Assets Under Construction | 14,931 | 0 | 0 | 0 | 0 | 0 | **14,931** |
| **Sub-total Property Plant & Equipment** | **172,465** | **0** | **61,170** | **1,091** | **108,178** | **806,928** | **1,149,832** |
| Heritage Assets | 950 | 0 | 0 | 0 | 0 | 0 | **950** |
| Investment Property | 0 | 0 | 0 | 0 | 0 | 17,579 | **17,579** |
| Intangible Assets | 1,720 | 0 | 0 | 0 | 0 | 0 | **1,720** |
| **TOTAL** | **175,135** | **0** | **61,170** | **1,091** | **108,178** | **824,507** | **1,170,081** |

## 20. Investment Property

There are no restrictions on the Council’s ability to realise the value inherent in its investment property or on the Council’s right to the remittance of income and the proceeds of disposal.

The Council has no contractual obligations to purchase, construct or develop investment property but does fund repairs and maintenance with a view to maximising income and proceeds of disposal.

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

| 2018/19 | | **2019/20** |
|---|---|---|
| £000 | | **£000** |
| 10,603 | **Balance at 1 April** | **17,579** |
| 5,781 | Additions | **0** |
| 1,312 | Net gains/losses from fair value adjustments | **(830)** |
| (117) | Reclassifications | **0** |
| 17,579 | **Balance at 31 March** | **16,749** |

For all properties where a fair value review has been conducted, fair values are calculated by multiplying an estimated net income by an appropriate investment yield or having regard to the capital value of similar assets. The net income figure is based on market rent. All comparable evidence used for valuing this class of assets has been ranked into three level groups. All of the Council's investment properties have been assessed as level two and are valued annually. There has been no change in the valuation techniques used during the year for investment properties. In estimating the fair value of the Council's investment properties, the highest and best use is their current use.

## 21. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instruments of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Debtors, creditors, payments in advance and receipts in advance figures included within the following summary, and in Note 22 which follows, include only those balances which the Council considers to be due or receivable under a contractual arrangement, and therefore will differ to the figures in the Balance Sheet.

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

**a. Financial Assets**

To meet Code requirements, financial assets are classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CI&ES is the amount receivable as per the loan agreement;
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CI&ES when the asset is disposed of; and
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CI&ES as they occur.

| | Long-Term | | Short-Term | |
|---|---|---|---|---|
| | 31 March 2019 | **31 March 2020** | 31 March 2019 | **31 March 2020** |
| | £000 | **£000** | £000 | **£000** |
| **Financial assets held at amortised cost:** | | | | |
| Investments | 0 | **0** | 46,179 | **100,667** |
| Debtors and other receivables | 1,137 | **1,325** | 37,404 | **34,233** |
| Cash and Cash Equivalents | 0 | **0** | 15,748 | **142** |
| | | | | |
| **FVOCI - designated equity instruments** | 47,641 | **40,260** | 0 | **0** |
| **Total financial assets** | 48,778 | **41,585** | 99,331 | **135,042** |

**b. Financial Liabilities**

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount in the Balance Sheet is the outstanding principal repayable (plus accrued interest).

| | Long-Term | | Short-Term | |
|---|---|---|---|---|
| | 31 March 2019 | **31 March 2020** | 31 March 2019 | **31 March 2020** |
| | £000 | **£000** | £000 | **£000** |
| **Financial Liabilities at amortised cost:** | | | | |
| Borrowing | (254,684) | **(286,267)** | (19,628) | **(17,249)** |
| PFI and finance lease liabilities | (54,949) | **(48,890)** | (2,574) | **(3,126)** |
| Creditors and other payables | 0 | **0** | (33,104) | **(26,814)** |
| **Total financial liabilities** | (309,633) | **(335,157)** | (55,306) | **(47,189)** |

**c. Equity Instruments designated at fair value through other comprehensive income**

**Designation to Fair Value through Other Comprehensive Income (FVOCI)**
The Council has shareholdings in Birmingham Airport Holdings Ltd and Coventry & Solihull Waste Disposal Company Ltd. Any change in fair value is posted to Other Comprehensive Income and Expenditure and accumulated gains and losses have been held in an Financial Instruments Revaluation Reserve.

Under IFRS 9 Financial Instruments, investments in equity must be classified as fair value through profit and loss, unless there is an irrevocable election to designate the asset as fair value through other comprehensive income. These shareholdings are equity instruments and as such, the default valuation method is any gains and losses on changes in fair value would be recognised through profit and loss.

The shareholdings are strategic investments and not held for trading, therefore the Council has opted to designate them as Fair Value through Other Comprehensive Income. This means that there is no impact on the revenue budget and the decision to designate to Fair Value through Other Comprehensive Income is irrevocable. Any gains or losses on the valuation of the shareholding will therefore be transferred to a Financial Instruments Revaluation Reserve.

## 22. Fair values of Assets and Liabilities

### a. Financial Assets measured at Fair Value

Some of the Council's financial assets are measured in the balance sheet at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

| | Input Level in fair value hierarchy | Valuation technique used to measure fair value | 31 March 2019 | **31 March 2020** |
|---|---|---|---|---|
| | | | £000 | **£000** |
| Birmingham Airport Holdings Ltd | | | | |
| - Ordinary Shares | Level 3 | Earning based valuation | 17,762 | **10,381** |
| - Preference Shares | | | 1,176 | **1,176** |
| | | | | |
| Coventry & Solihull Waste Disposal Company Ltd | Level 3 | Earning based valuation | | |
| - Ordinary Shares | | | 28,500 | **28,500** |
| | | | | |
| Blythe Valley Innovation Centre Ltd | | | | |
| - Ordinary Shares | Level 3 | Historic Cost | 203 | **203** |
| | | | | |
| **Total** | | | 47,641 | **40,260** |

**Birmingham Airport Holdings Ltd (BAH)**
The main ordinary shareholders of BAH are the seven West Midlands metropolitan councils. Together they own 49% of BAH's 324 million ordinary shares of 1p each, with Solihull Council holding 3.75% of total shares issued. These shares are not quoted on any Stock Exchange.

Airport Group International Ltd (AGIL), a company owned by Ontario Teachers' Pension Plan, owns 48.25% of the ordinary shares. The remaining shares (2.75%) are held by the Employees' Share Trust. The Shareholders' Agreement provides for the metropolitan councils to cast their 49% vote at company Main

Board and General Meetings in one block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

The metropolitan councils together own all £15.384 million of BAH's 6.31% preference shares (Solihull Council owns £1.176 million) which are cumulative and redeemable.

The valuation undertaken in May 2020 resulted in a decrease in the value of the Council's shareholding from £18.938 million to £11.557 million, which is reflected in the Council's Balance Sheet. This reduction in valuation is based on the uncertainty of the ongoing Covid-19 pandemic and the impacts of various airlines operating from BAH experiencing financial difficulty.

BAH was incorporated on 4 February 1997 and commenced trading on 26 March 1997. The BAH Group accounts incorporate Birmingham International Airport Ltd, Euro Hub (Birmingham) Ltd, Birmingham Airport Developments Ltd, First Castle Developments Ltd, Birmingham Airport (Finance) plc and BHX Fire and Rescue Ltd. The principal activity of the Group is the operation and management of Birmingham International Airport and the provision of facilities and services associated with those operations. During this year dividends of £1.063 million (2018/19: £1.046 million) and ground rent of £0.064 million (2018/19: £0.062 million) were receivable.

A copy of BAH's accounts is available from:
The Company Secretary
Birmingham Airport Holdings Ltd
Birmingham International Airport
Birmingham
B26 3QJ

**Coventry & Solihull Waste Disposal Company Ltd**
In accordance with directives received from the government exercising powers under the Environmental Protection Act 1990, Solihull Council, in conjunction with Coventry City Council, set up a wholly owned company for the disposal of waste arising from the two councils. The company was in the ownership of Coventry City Council from formation in 1975 until the assets were vested into the limited company in 1994.

Solihull Council has 1/3 ownership of the 99 £1 Ordinary Shares with Coventry City Council owning the remaining 2/3. These two shareholders benefit from any surpluses made and will contribute to any liabilities or losses the company cannot meet. These shares are not quoted on any Stock Exchange. Dividend income of £3.460 million (2018/19: £3.520 million) was receivable for 2019/20.

The desktop valuation undertaken in May 2020 resulted in no change in the value of the Council's shareholding which remained at £28.500 million, which is reflected in the Council's Balance Sheet.

A copy of the Company's accounts is available from:
The Company Secretary
Coventry & Solihull Waste Disposal Company Ltd
Bar Road
Coventry
CV3 4AN

**Blythe Valley Innovation Centre Ltd**
On 31 March 2000 the Council acquired Ordinary 'A' shares in Blythe Valley Innovation Centre Ltd in exchange for waiving an option to acquire land at the Blythe Valley Business Park. These shares represented 25% of total shares issued, but 50% of the voting rights.

The remaining Ordinary 'B' shares (75% of total shares issued) were purchased by the Council in July 2013 from Blythe Valley JV Sarl, since when the company has been 100% owned by the Council and is therefore consolidated in full into the Council's Group Accounts.

The Innovation Centre, which was completed in 2001, is managed by University of Warwick Science Park Ltd and the principal activity is to provide medium term accommodation (up to three years) to organisations setting up innovative projects. The company aims to make a profit through the charging of commercial rent.

The Council's investment in the company is held within the Council's accounts at cost, made up of the purchase price of both the acquisitions when they took place in 2000 and 2013. This valuation does differ from that of the Group Accounts which include the accounts of BVIC, however as a decision was made by Full Cabinet to bring the Innovation Centre operations back within the direct ownership of the Council rather than maintain it as a separate legal entity, then it has been concluded that a fair value valuation of the Council's investment would not give rise to a material change in the valuation held in the Council's single entity accounts.

The strategic decision to transfer ownership of the assets of Blythe Valley Innovation Centre to the Council was taken during 2018/19. The company was then dissolved with final confirmation of this process being received in April 2020.

**b. Transfers between levels of the Fair Value Hierarchy**

The fair value hierarchy is defined within Note 42 - Statement of Accounting Policies ((x) Fair Value Measurement).There were no transfers between input levels during the year.

**c. Changes in Valuation Technique**

There have been no changes in the valuation technique used during the year for the financial instruments.

**d. Reconciliation of Fair Value Measurements for Financial Assets Carried at Fair Value Categorised within Level 3 of the Fair Value Hierarchy for Financial Assets**

| | | 2018/19 | | | | **2019/20** |
|---|---|---|---|---|---|---|
| Unquoted Shares | Other | Total | | Unquoted Shares | Other | **Total** |
| £000 | £000 | £000 | | £000 | £000 | **£000** |
| 44,920 | 0 | 44,920 | Opening balance at 1 April | 47,641 | 0 | **47,641** |
| 0 | 0 | 0 | Transfers into Level 3 | 0 | 0 | **0** |
| 0 | 0 | 0 | Transfers out of Level 3 | 0 | 0 | **0** |
| 2,738 | 0 | 2,738 | Total gains or (losses) for the period included in Other Comprehensive Income and Expenditure | (7,381) | 0 | **(7,381)** |
| 0 | 0 | 0 | Additions | 0 | 0 | **0** |
| (17) | 0 | (17) | Disposals | 0 | 0 | **0** |
| 47,641 | 0 | 47,641 | **Closing Balance at 31 March** | **40,260** | **0** | **40,260** |

**e. The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are required)**

Except for the financial assets carried at fair value (as detailed within Note 22a), all other financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the Public Works Loan Board (PWLB), premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. As the Debt Management Office provides a transparent approach allowing the exit cost to be calculated without undertaking a repayment or transfer, it is appropriate to disclose the exit price (Level 2). As an alternative, we have assessed the cost of taking a new loan at PWLB new loan rates applicable to existing loans on the Balance Sheet date (which could be viewed as a proxy for transfer value);
- For non-PWLB loans, PWLB premature repayment rates have been applied to provide the fair value under PWLB debt redemption procedures (Level 2);
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable, the fair value is taken to be the carrying amount or the billed amount;
- No early repayment or impairment is recognised;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values of the financial assets are as follows:

| 31 March 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| Balance sheet value | Fair value | | **Balance sheet value** | **Fair value** |
| £000 | £000 | | **£000** | **£000** |
| | | **Long-Term financial assets** | | |
| 47,641 | 47,641 | Financial Assets measured at Fair Value | **40,260** | **40,260** |
| 1,137 | 1,137 | Long-Term Debtors | **1,325** | **1,325** |
| 48,778 | 48,778 | **Sub-total long-term financial assets** | **41,585** | **41,585** |
| | | | | |
| | | **Short-Term Financial Assets** | | |
| 15,748 | 15,748 | Cash and cash equivalents | **142** | **142** |
| 46,131 | 46,131 | Money market loans (< 1 year) | **100,595** | **100,595** |
| 48 | 48 | Insurance liability fund | **72** | **72** |
| 37,404 | 37,404 | Short-term debtors | **34,233** | **34,233** |
| 99,331 | 99,331 | **Sub-total short-term financial assets** | **135,042** | **135,042** |
| | | | | |
| 148,109 | 148,109 | **Total financial assets** | **176,627** | **176,627** |

The fair values of the financial liabilities are as follows:

| 31 March 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| Balance sheet value | Fair value | | **Balance sheet value** | **Fair value** |
| £000 | £000 | | **£000** | **£000** |
| | | **Long-Term financial liabilities** | | |
| | | Long-Term borrowing | | |
| (222,869) | (376,475) | Borrowing - PWLB [1] | **(255,315)** | **(499,058)** |
| (6,032) | (7,021) | Borrowing - Dudley MBC debt [2] | **(5,250)** | **(6,950)** |
| (500) | (581) | Borrowing - Walsall MBC debt | **(423)** | **(477)** |
| (25,283) | (42,506) | Borrowing - other long term loans [3] | **(25,279)** | **(48,602)** |
| (254,684) | (426,583) | **Sub-total long-term borrowing** | **(286,267)** | **(555,087)** |
| | | Other long-term liabilities | | |
| (51,368) | (88,727) | PFI liabilities and similar contracts | **(45,334)** | **(83,160)** |
| (3,581) | (3,581) | Finance lease liabilities | **(3,556)** | **(3,556)** |
| (54,949) | (92,308) | **Sub-total other long-term liabilities** | **(48,890)** | **(86,716)** |
| | | | | |
| (309,633) | (518,891) | **Sub-total long-term financial liabilities** | **(335,157)** | **(641,803)** |
| | | | | |
| | | **Short-Term financial liabilities** | | |
| | | Short-Term borrowing | | |
| (2,192) | (2,192) | PWLB | **(2,182)** | **(2,182)** |
| (711) | (711) | Dudley MBC debt [2] | **(782)** | **(782)** |
| (50) | (50) | Walsall MBC debt | **(64)** | **(64)** |
| (113) | (113) | Other short term loans [3] | **(106)** | **(106)** |
| (3,066) | (3,066) | **Sub-total short-term borrowing** | **(3,134)** | **(3,134)** |

| 31 March 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| Balance sheet value | Fair value | | **Balance sheet value** | **Fair value** |
| £000 | £000 | | **£000** | **£000** |
| | | Other short-term liabilities | | |
| (16,562) | (16,562) | Bank overdraft | **(14,115)** | **(14,115)** |
| (2,574) | (2,574) | PFI and finance lease liabilities | **(3,126)** | **(3,126)** |
| (33,104) | (33,104) | Short-term creditors [4] | **(26,814)** | **(26,814)** |
| (52,240) | (52,240) | **Sub-total other short-term liabilities** | **(44,055)** | **(44,055)** |
| | | | | |
| (55,306) | (55,306) | **Sub-total short-term financial liabilities** | **(47,189)** | **(47,189)** |
| | | | | |
| (364,939) | (574,197) | **Total financial liabilities** | **(382,346)** | **(688,992)** |

1 The fair value of the long-term PWLB liabilities of £499.058 million measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed as the PWLB redemption interest rates. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets, termed the PWLB Certainty interest rates. A supplementary measure of the fair value as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £255.315 million would be valued at £322.891 million. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge, based on the redemption interest rates, for early redemption of £243.743 million for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £499.058 million.

2 Dudley MBC debt relates to the residual debt liabilities of the West Midlands County Council; all borrowing within this fund matures by 2026.

3 Other loans are a mixture of fixed and variable rate market and LOBO (Lender Option, Borrower Option) loans. These loans were taken out to take the opportunity of advantageous borrowing rates over that offered by the PWLB at that time, and also to mitigate refinancing risk.

4 Short-term creditors in the above table include only those balances which the Council considers are due under a contractual arrangement, as per the Code, and will therefore differ to the figures in the Balance Sheet.

## 23. Nature and Extent of Risks Arising from Financial Instruments

### a. Key Risks

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

- 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;
- Refinancing risk - the possibility that the Council might need to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

### b. Overall Procedures for Managing Risk

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

- by formally adopting the requirements of the TM Code;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
- the Council's overall borrowing;
- its maximum and minimum exposures to fixed and variable rates;
- its maximum and minimum exposures to the maturity structure of its debt;
- its maximum annual exposures to investments maturing beyond a year;
- by approving an Annual Investment Strategy for the forthcoming year setting out its criteria for both investing and selecting Investment counterparties in compliance with the Government guidance.

These are required to be reported and approved at or before the Council's annual council tax setting meeting or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported bi-annually to Members.

These policies are implemented by a central treasury management team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the TM Code and are reviewed regularly.

### c. Credit Risk

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

The risk from deposits with banks and financial institutions is minimised through the Annual Investment Strategy, which requires that deposits are not made unless they meet the minimum requirements of the Council's investment criteria, which are aligned with the Fitch, Moody's and Standard & Poor's credit rating services. The Annual Investment Strategy also imposes maximum amounts and time limits in respect of each financial institution.

A summary of the credit quality of the Council's investments at 31 March 2020 is shown as follows:

| 31 March 2019 | Current rating (Fitch or equivalent) | 31 March 2020 |
|---|---|---|
| £000 | | **£000** |
| 14,009 | AAA | **1** |
| 0 | AA+ | **0** |
| 46,119 | AA | **0** |
| 0 | AA- | **100,590** |
| 1,706 | A+ | **108** |
| 93 | N/A | **110** |
| 61,927 | **Total** | **100,809** |

Allowances for impairment losses have been calculated for investments held at 31 March 2019, applying the expected credit losses model. The expected credit loss model results in a notional loss of £0.006 million; given the low value of this calculation no adjustment has been made to the carrying value of these instruments in the Council's accounts.

The risk of credit exposure from the Council's customers arises from the possibility that debts raised by the Council are not collected. At 31 March 2020, £14.483 million of trade debtors were held on the Accounts Receivable system awaiting payment (£17.377 million at 31 March 2019). These are analysed by age as shown in the following table:

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £000 | | **£000** |
| 11,929 | Less than three months | **11,433** |
| 2,647 | Three to six months | **723** |
| 789 | Six months to one year | **740** |
| 2,012 | More than one year | **1,587** |
| 17,377 | **Total trade debtors** | **14,483** |

The Council has an impairment allowance in place of £1.390 million to mitigate against this risk (£1.852 million as at 31 March 2019).

**d. Liquidity Risk**

The Council manages its liquidity position through the risk management procedures detailed in Note 23b (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system as required by the TM Code. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a Council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

**e. Refinancing and Maturity Risk**

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

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

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

The maturity analysis of the Council's borrowing liabilities at original cost is as follows:

| 31 March 2019 | | **31 March 2020** |
|---|---|---|
| £000 | | **£000** |
| 341 | Less than 1 year | **354** |
| 354 | Between 1 and 2 years | **4,367** |
| 5,141 | Between 2 and 5 years | **1,183** |
| 6,202 | Between 5 and 10 years | **6,284** |
| 13,810 | Between 10 and 20 years | **14,025** |
| 44,057 | Between 20 and 30 years | **44,366** |
| 112,738 | Between 30 and 40 years | **118,723** |
| 65,566 | Between 40 and 50 years | **91,366** |
| 248,209 | **Total** | **280,668** |

The figures included in the above table are based on the principal amounts borrowed and will differ from the total borrowing in the Balance Sheet because of the requirement to include accrued interest within current liabilities in the Balance Sheet.

**f. Market Risk (Interest Rate Risk)**

The Council is exposed to interest rate movements on its borrowings and investments.  Of the £280.668 million debt held as at 31 March 2019, £15.000 million was at variable interest rates and £265.668 million was at fixed interest rates. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the CI&ES would rise;
- borrowings at fixed rates – the fair value of the borrowing liability would fall;
- investments at variable rates – the interest income credited to the CI&ES would rise;
- investments at fixed rates – the fair value of the assets would fall.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus/ Deficit on the Provision of Services or Other Comprehensive Income & Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Surplus/ Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from government grants. Movements in the fair value of fixed rate investments that have a quoted market price would be reflected in Other Comprehensive Income & Expenditure.

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

If all interest rates had been 1% higher during 2019/20 (with all other variables held constant) the financial effect would be:

| | £000 |
|---|---:|
| Increase in interest payable on variable rate borrowings | **108** |
| Increase in interest receivable on variable rate investments | **(953)** |
| **Impact on (Surplus)/ Deficit on the Provision of Services in CI&ES** | **(845)** |
| Decrease in fair value of fixed rate investment assets | 0 |
| **Impact on Other Comprehensive Income and Expenditure** | **0** |
| **Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus/ Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)** | **114,194** |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

These assumptions are based on the same methodology as used in Note 22 - Fair values of Assets and Liabilities.

**g. Price Risk**

The shares held in Birmingham Airport Holdings Ltd and Coventry and Solihull Waste Disposal Company Ltd are classified as 'financial assets measured at fair value', meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income & Expenditure.

**h. Foreign Exchange Risk**

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

## 24. Reconciliation of Liabilities arising from Financing Activities

The movements in financial liabilities are made up as follows:

| 2019/20 | | | | |
|---|---:|---:|---:|---:|
| | Opening balance 1 April | Financing cash flows | Other non-cash changes | **Closing balance 31 March** |
| | £000 | £000 | £000 | **£000** |
| Long-term borrowings | (254,684) | (32,800) | 1,217 | **(286,267)** |
| Short-term borrowings | (3,066) | 1,110 | (1,178) | **(3,134)** |
| Lease liabilities | (3,606) | 25 | 0 | **(3,581)** |
| On balance sheet PFI liabilities | (53,917) | 2,549 | 2,933 | **(48,435)** |
| Other liabilities | (49,666) | 946 | 7,791 | **(40,929)** |
| **Total liabilities from financing activities** | **(364,939)** | **(28,170)** | **10,763** | **(382,346)** |

| 2018/19 | | | | |
|---|---|---|---|---|
| | Opening balance 1 April | Financing cash flows | Other non-cash changes | **Closing balance 31 March** |
| | £000 | £000 | £000 | **£000** |
| Long-term borrowings | (255,788) | 0 | 1,104 | **(254,684)** |
| Short-term borrowings | (2,908) | 1,026 | (1,184) | **(3,066)** |
| Lease liabilities | (3,629) | 23 | 0 | **(3,606)** |
| On balance sheet PFI liabilities | (55,885) | 2,380 | (412) | **(53,917)** |
| Other liabilities | (45,152) | (694) | (3,820) | **(49,666)** |
| **Total liabilities from financing activities** | **(363,362)** | **2,735** | **(4,312)** | **(364,939)** |

## 25. Income, Expense, Gains and Losses Recognised in the Comprehensive Income & Expenditure Statement

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

| 2018/19 | | | **2019/20** | |
|---|---|---|---|---|
| (Surplus)/ Deficit on the Provision of Services | Other CI&ES | | **(Surplus)/ Deficit on the Provision of Services** | **Other CI&ES** |
| £000 | £000 | | **£000** | **£000** |
| | (2,738) | Net (gain)/ loss on investments in equity instruments designated at FVOCI | | **7,381** |
| (749) | | Interest income on financial assets measured at amortised cost | **(1,299)** | |
| (10,139) | | Interest income on financial assets measured at FVOCI | **(4,578)** | |
| 19,876 | | Interest expense | **16,738** | |
| 8,988 | (2,738) | **Net (gain)/loss for the year** | **10,861** | **7,381** |

## 26. Leases

### a. Council as Lessee

**Finance Leases**

The Council acquired the Bluebell Centre, two car parks, one of its libraries and a number of photocopiers under finance leases. The majority of these photocopiers are however under the Council's de minimis level for capital spending and are not included within our Balance Sheet (see Note 42 - Accounting Policies for further details). The assets acquired under these leases that are above our de minimis level for capital spending are carried in the Balance Sheet at the following net amounts:

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £000 | | **£000** |
| 8,421 | Property Plant and Equipment - Land and Buildings | **8,204** |
| 1,360 | Investment Property | **1,428** |
| 9,781 | **Total** | **9,632** |

The Council is committed to making minimum payments under the photocopier leases and the Bluebell Centre lease. These minimum payments are made up of the settlement of the long-term liability for the interest in the asset acquired by the Council and finance costs that will be payable over the remainder of the lease term. The minimum lease payments, as cash amounts and present values, are made up of the following amounts:

| 31 March 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| Cash Amount | Net Present Value | | **Cash Amount** | **Net Present Value** |
| £000 | £000 | | **£000** | **£000** |
| | | Finance lease liabilities: | | |
| 24 | 24 | Current | **26** | **26** |
| 3,581 | 927 | Non-current | **3,556** | **955** |
| | | | | |
| 5,509 | 2,670 | Finance costs payable in future years | **5,316** | **2,619** |
| 9,114 | 3,621 | Total future minimum lease payments | **8,898** | **3,600** |

The minimum lease payments and finance lease liabilities, in cash terms, will be payable over the following periods:

| 31 March 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| Minimum Lease Payments | Finance Lease Liabilities | | **Minimum Lease Payments** | **Finance Lease Liabilities** |
| £000 | £000 | | **£000** | **£000** |
| 217 | 24 | Not later than one year | **217** | **26** |
| 868 | 111 | Later than one year and not later than five years | **868** | **117** |
| 8,029 | 3,470 | Later than five years | **7,813** | **3,439** |
| 9,114 | 3,605 | | **8,898** | **3,582** |

The minimum lease payments and finance lease liabilities, stated as present values, will be payable over the following periods:

| 31 March 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| Minimum Lease Payments | Finance Lease Liabilities | | **Minimum Lease Payments** | **Finance Lease Liabilities** |
| £000 | £000 | | **£000** | **£000** |
| 217 | 24 | Not later than one year | **217** | **26** |
| 756 | 96 | Later than one year and not later than five years | **757** | **102** |
| 2,648 | 831 | Later than five years | **2,626** | **853** |
| 3,621 | 951 | | **3,600** | **981** |

The above lease payments are in relation to photocopiers and the rental payments due for the Bluebell Centre.

**Operating Leases**

The Council has entered into lease agreements for land & property, motor vehicles and ICT equipment. The future minimum lease payments due under non-cancellable leases in future years are:

| 31 March 2019 | | **31 March 2020** |
|---|---|---|
| £000 | | **£000** |
| 641 | Not later than one year | **839** |
| 1,075 | Later than one year and not later than five years | **1,092** |
| 984 | Later than five years | **946** |
| 2,700 | | **2,877** |

The minimum lease payment expenditure charged to the CI&ES during the year in relation to these leases was £0.929 million (2018/19: £0.938 million).

**b. Council as Lessor**

**Finance Leases**

The Council has leased out the following property on finance leases as at 31 March 2020. There is a peppercorn rent payable to the Council under the terms of the finance leases.

| | Remaining lease term |
|---|---|
| Ulverley Junior & Infant School | 125 years |
| Yew Tree Primary | 125 years |
| Smith's Wood Sport College | 122 years |
| Damson Wood Nursery & Infant School | 122 years |
| Streetsbrook Infant & Nursery School | 122 years |
| Lyndon Academy | 121 years |
| Northern House (Solihull) School | 120 years |
| Smith's Wood Community Primary School | 120 years |
| Marston Green Infant School | 119 years |
| Balsall Common Primary | 118 years |
| Hockley Heath Primary | 118 years |
| Heart of England Academy | 117 years |
| Alderbrook Academy | 117 years |

| | Remaining lease term |
|---|---|
| Langley Academy | 117 years |
| Light Hall Academy | 117 years |
| Lode Heath Academy | 117 years |
| Hall Meadow Land | 116 years |
| Arden Academy | 116 years |
| Tudor Grange Academy | 116 years |
| Park Hall Academy | 115 years |

**Operating Leases**
The Council leases out property for a variety of purposes. These include for the provision of community services, such as sports facilities and community centres, for economic development purposes to provide suitable accommodation for local businesses and for income generation purposes.

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

| 31 March 2019 | | **31 March 2020** |
|---|---|---|
| £000 | | **£000** |
| (2,005) | Not later than one year | **(1,893)** |
| (6,348) | Later than one year and not later than five years | **(6,530)** |
| (53,057) | Later than five years | **(52,009)** |
| (61,410) | | **(60,432)** |

The minimum lease payments receivable shown above do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews and rents linked to percentage of future revenue.

In 2019/20 contingent rents of £2.966 million were receivable by the Council (£2.946 million in 2018/19).

## 27. Private Finance Initiatives (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. The Council is deemed to control the services that are provided under its schemes and ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge.

**a. Building Schools for the Future (BSF) PFI**

In 2019/20 the Council made contractual payments of £8.739 million (2018/19: £8.693 million) under a contract with Solihull BSF Schools Ltd to cover the design, build and operational costs associated with Northern House School, Park Hall Academy and Smith's Wood Sports College. In future years the actual payments will vary in line with inflation. The contract expires in 2035/36. There have been no changes to the arrangement during 2019/20.

The payments due to the PFI contractor are as follows:

| | | Repayment of liability | Interest | Service Charge | Total |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| Payments due to be made: | | | | | |
| | | | | | |
| Within 1 year | 2020/21 | 1,881 | 3,975 | 3,096 | **8,952** |
| Within 2 - 5 years | 2021/22 - 2024/25 | 8,131 | 13,716 | 14,858 | **36,705** |
| Within 6 - 10 years | 2025/26 - 2029/30 | 14,361 | 12,216 | 21,496 | **48,073** |
| Within 11 - 15 years | 2030/31 - 2034/35 | 19,815 | 3,817 | 27,174 | **50,806** |
| Within 16 years | 2035/36 | 1,733 | 238 | 1,220 | **3,191** |
| **Total** | | **45,921** | **33,962** | **67,844** | **147,727** |

The liability outstanding to the PFI contractor for capital expenditure is as follows:

| | 31 March 2018 | Net payments during the year | 31 March 2019 | Net payments during the year | **31 March 2020** |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | **£000** |
| Northern House School | (6,356) | 187 | (6,169) | 199 | **(5,970)** |
| Park Hall Academy School | (21,025) | 619 | (20,406) | 660 | **(19,746)** |
| Smith's Wood Sports College | (21,514) | 634 | (20,880) | 675 | **(20,205)** |
| **Total** | (48,895) | 1,440 | (47,455) | 1,534 | **(45,921)** |

**b. PFI Estimates and Judgements**

The financial models used to interpret PFI agreements are very complex in nature and require estimates and judgements to be made that impact on the accounting entries.

As in previous years, for the Schools PFI scheme, the Council has made different judgements and the estimation technique is different to those in the model applied by our external auditor. The effect of this is that the Council is disclosing a long term liability which is £0.633 million lower than the external auditor's accounting model would predict. This is mainly represented by the capital repayment being a total of £0.710 million lower than the model.

The total value of the payments due to the PFI Contractor over the remaining 16 years of the contract is £147.727 million. The BSF PFI unitary payments includes costs for utilities.

**c. Similar contract: Strategic Environment Services Contract**

In 2008/09, the Council engaged Enterprise Management Services Ltd (subsequently acquired by Amey PLC) to provide Strategic Environment Services in a 7 year contract, which is extendable by up to 21 years. An initial 7 year extension from 2015/16 to 2021/22 was subsequently approved and the contract has not been extended further. In 2019/20 the Council made contractual payments of £10.744 million (2018/19: £10.461 million) to cover the provision of Waste Collection and Recycling, Street Cleansing and Ground Maintenance. The actual payment will vary over the life of the contract in line with inflation and any negotiated service changes. Within the contract there is provision for additional variable works, which by their nature are not yet known amounts and are therefore not included in the following payment figures.

| | | Repayment of liability | Interest | Service Charge | Total |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| Payments due to be made: | | | | | |
| Within 1 year | 2020/21 | 1,219 | 1,345 | 8,457 | **11,021** |
| Within 2 - 5 years | 2021/22 | 1,295 | 1,219 | 8,846 | **11,360** |
| **Total** | | **2,514** | **2,564** | **17,303** | **22,381** |

The liability outstanding to pay for capital expenditure is as follows:

| | 31 March 2018 | Net payments/ (additions) in year | 31 March 2019 | Payments in year | Accounting Adjustment | **31 March 2020** |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | **£000** |
| Vehicles, Plant and Equipment | (6,988) | 526 | (6,462) | 1,015 | 2,933 | **(2,514)** |

## 28. Short Term Debtors (less than one year)

| 31 March 2019 | | **31 March 2020** |
|---|---|---|
| £000 | | **£000** |
| 24,074 | Amounts receivable from trade customers | **22,712** |
| 7,394 | Amounts receivable from related parties | **6,606** |
| 3,684 | Payments in advance from trade customers | **2,399** |
| 2,252 | Payments in advance from related parties | **2,516** |
| 37,404 | **Total Trade Debtors** | **34,233** |
| 7,252 | Amounts receivable from central government | **7,654** |
| 2,533 | Other debtors (council tax and business rates) | **2,892** |
| 47,189 | **Total Short Term Debtors** | **44,779** |

## 29. Debtors for Local Taxation

The past due but not impaired amount for local taxation (council tax and business rates) can be analysed by age as follows:

| 31 March 2019 | | **31 March 2020** |
|---|---|---|
| £000 | | **£000** |
| 2,236 | Less than one year | **2,494** |
| 297 | Over one year[1] | **398** |
| 2,533 | | **2,892** |

[1] All debtors for local taxation more than two years old have been fully impaired.

## 30. Cash and Cash Equivalents (including Bank Overdraft)

The balance of Cash and Cash Equivalents (including Bank Overdraft) is made up of the following elements:

| 31 March 2019 | | **31 March 2020** |
|---|---|---|
| £000 | | **£000** |
| 32 | Cash floats held by the Council | **33** |
| 15,716 | Cash equivalents and cash at bank | **109** |
| 15,748 | **Cash and cash equivalents** | **142** |
| | | |
| (16,562) | Bank overdraft | **(14,115)** |
| (814) | **Total** | **(13,973)** |

## 31. Short-term Creditors (less than one year)

| 31 March 2019 | | **31 March 2020** |
|---|---|---|
| £000 | | **£000** |
| (27,751) | Amounts payable to trade customers | **(21,679)** |
| (2,339) | Amounts payable to related parties | **(2,402)** |
| (2,419) | Receipts in advance from trade customers | **(2,705)** |
| (595) | Receipts in advance from related parties | **(28)** |
| (33,104) | **Total Trade Creditors** | **(26,814)** |
| (7,497) | Amounts payable to central government | **(5,001)** |
| (10,237) | Receipts in advance from central government | **(23,215)** |
| (6,078) | Other receipts in advance (council tax and business rates) | **(6,998)** |
| (6,054) | Other creditors | **(7,675)** |
| (62,970) | **Total** | **(69,703)** |

## 32. Provisions

| | Business Rates Appeals | Other Provisions | **Total** |
|---|---|---|---|
| | £000 | £000 | **£000** |
| **Short term provisions** | | | |
| Balance at 1 April 2019 | (6,928) | (1,150) | **(8,078)** |
| Provisions made in 2019/20 | 0 | (675) | **(675)** |
| Amounts used in 2019/20 | 2,438 | 283 | **2,721** |
| **Balance at 31 March 2020** | **(4,490)** | **(1,542)** | **(6,032)** |
| | | | |
| **Long term provisions** | | | |
| Balance at 1 April 2019 | (7,763) | (481) | **(8,244)** |
| Provisions made in 2019/20 | 0 | 0 | **0** |
| Amounts used in 2019/20 | 401 | 160 | **561** |
| **Balance at 31 March 2020** | **(7,362)** | **(321)** | **(7,683)** |
| | | | |
| **Total provisions as at 31 March 2020** | **(11,852)** | **(1,863)** | **(13,715)** |

The main provision relates to business rates appeals as follows.

**Business Rates Appeals**
As a member of the West Midlands 100% Business Rates Retention Pilot, the Council assumes 99% of the liability for refunding any business rate payers who successfully appeal against the rateable value of their properties on the rating list. The provision is in in place to meet this liability, based on the best estimate of the expenditure that will be required to settle the successful appeals. For the appeals relating to the 2005 and 2010 ratings lists, this best estimate has been based on the appeals which had been lodged, but for appeals against the 2017 rating list the Council has adopted a different methodology in recognition of the fact that the appeals process has changed. The provision for the appeals against the 2017 list is therefore based on the assumed loss from appeals inherent in the business rates multiplier.

## 33. Pension Schemes accounted for as Defined Contribution Schemes

The Council currently participates in three post-employment defined benefit pension schemes, two of which are treated for the purposes of the Statement of Accounts as defined contribution schemes:

**The Teachers' Pension Scheme**

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). 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 a defined benefit multi-employer pension scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by councils. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 11,128 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of the Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

As a proportion of the total contributions into the Teachers' Pension Scheme, the Council's own contributions equate to approximately 0.16% (2018/19: 0.14%). The Council received £1.921 million of government grant in support of the cost of employer's contributions in 2019/20 (see Note 9).

In 2019/20 £8.192 million was payable to the Teachers' Pensions Scheme in respect of teachers' pension costs, which represents 16.48% of teachers' pensionable pay for the period 1 April 2019 to 31 August 2019 and 23.68% for the period 1 September 2019 to 31 March 2020 (2018/19: £6.367 million and 16.48%). £0.777 million of the contributions remained payable at the year-end. The contributions due to be paid in 2020/21 are estimated to be £9.590 million.

In addition to the Teachers' Pension Scheme, the Council makes pension payments for teachers relating to added years it has awarded, together with related increases. These discretionary payments form a separate, unfunded scheme and in 2019/20 these payments amounted to £0.982 million (2018/19: £0.993 million). Further details are given in Note 34.

**The National Health Service (NHS) Pension Scheme**

A number of adult social care and public health employees are covered by the provisions of the NHS Pensions Scheme, which was established on 5 July 1948. Details of the benefits payable under these provisions can be obtained from the NHS Pensions Business Services Authority. The scheme is an unfunded defined benefit final salary scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. The scheme is not run in a way that would enable NHS bodies to identify their share of their underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the Council of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period. As a proportion of the total contributions into the NHS Pension Scheme, the Council's own contributions equate to approximately 0.06%.

The employer rate increased from 14.4% in 2018/19 to 20.68% from 1 April 2019, although 3.8% of these contributions were funded by the Department of Health and Social Care. £0.320 million was payable to the NHS Pensions Scheme in respect of NHS pension costs, which represents 16.88% of the pensionable pay of the staff in the scheme (2018/19: £0.372 million). £0.025 million of the contributions remained payable at the year-end.

The contributions due to be paid by the Council in 2020/21 are estimated to be £0.328 million. The Council is not responsible for any retirement top-up payments outside of the NHS scheme.

## 34. Defined Benefit 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 (for those benefits) and to disclose them at the time that employees earn their future entitlement.

**The Local Government Pension Scheme**

This scheme is administered locally by The West Midlands Metropolitan Authorities Pension Fund (WMMAPF) - 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. The scheme is administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

In addition, the Council makes pension payments for staff (including teachers) relating to added years it has awarded, together with related increases. The discretionary payments for staff (excluding teachers) are included within the Staff figures in the following tables. The discretionary payments for teachers form a separate, unfunded scheme shown separately in the following tables.

The Council has not made any discretionary post-retirement benefit awards during 2018/19 or 2019/20.

**Risks Associated with the scheme**
In general, participating in a defined benefit pension scheme means that the employer is exposed to a number of risks:

- Investment risk. The fund holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
- Interest rate risk. The fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cash flows. As the fund holds assets such as equities the value of the assets and liabilities may not move in the same way;
- Inflation risk. All of the benefits under the fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation; and
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the fund. There are also other demographic risks.

**Transactions relating to post-employment benefits**
The Council recognises the cost of post-employment 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 that is required to be made 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 in the MIRS. The transactions detailed as follows have been made in the CI&ES and the General Fund Balance via the MIRS during the year:

| 2018/19 £000 | | 2019/20 £000 |
|---|---|---|
| | *Cost of Services:* | |
| | Service cost comprising: | |
| 27,192 | Current service cost | **31,178** |
| 7,118 | Past service costs | **180** |
| (464) | (Gain)/loss from settlements | **(1,881)** |
| 271 | Administration costs | **396** |
| | *Financing and Investment Income and Expenditure:* | |
| 6,949 | Net interest expense | **6,868** |
| 41,066 | **Sub-total post-employment benefit charged to the (surplus)/ deficit on the provision of services** | **36,741** |
| | | |
| | *Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement:* | |
| | Remeasurement of the net defined benefit liability comprising: | |
| (7,000) | Return on assets less interest | **39,673** |
| 0 | Experience (gains)/losses | **38,682** |
| 0 | Other actuarial gains/(losses) | **(26,293)** |
| (50,808) | Actuarial (gains)/losses arising on changes in demographic assumptions | **27,910** |
| 32,381 | Actuarial (gains)/losses arising on changes in financial assumptions | **(95,206)** |
| **(25,427)** | **Sub-total post-employment benefits charged to Other Comprehensive Income and Expenditure** | **(15,234)** |
| | | |
| 15,639 | **Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement** | **21,507** |

| 2018/19 £000 | | 2019/20 £000 |
|---|---|---|
| (41,066) | Reversal of net charges made to the (surplus)/ deficit on the provision of services for post-employment benefits in accordance with the Code | **(36,741)** |
| | *Actual amount charged against the General Fund Balance for pensions in the year:* | |
| 18,046 | Employer's contributions payable to scheme for current year | **18,923** |
| (23,020) | **Total Post Employment Benefit charged to the Movement in Reserves Statement** | **(17,818)** |

**Pensions Assets and Liabilities Recognised in the Balance Sheet**
The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

| | 2018/19 | | | **2019/20** |
|---|---|---|---|---|
| Teachers | Staff | | **Teachers** | **Staff** |
| £000 | £000 | | **£000** | **£000** |
| (11,072) | (896,498) | Present value of the defined benefit obligation | **(10,462)** | **(898,334)** |
| 0 | 619,363 | Fair value of Fund assets | **0** | **600,605** |
| (11,072) | (277,135) | Net liability arising from defined benefit | **(10,462)** | **(297,729)** |
| | (288,207) | **Net Pensions Liability** | | **(308,191)** |

### Reconciliation of the present value of the defined benefit obligation

| Teachers | Staff | | Teachers | Staff |
|---|---|---|---|---|
| 2018/19 | 2018/19 | | **2019/20** | **2019/20** |
| £000 | £000 | | **£000** | **£000** |
| (12,087) | (876,726) | **Opening balance at 1 April** | **(11,072)** | **(896,498)** |
| 0 | (27,192) | Current service cost | **0** | **(31,178)** |
| (278) | (22,125) | Interest cost | **(233)** | **(21,270)** |
| (355) | (32,026) | Change in financial assumptions | **704** | **94,502** |
| 655 | 50,153 | Change in demographic assumptions | **(843)** | **(27,067)** |
| 0 | 0 | Experience loss/(gain) | **0** | **(38,682)** |
| 0 | 652 | Liabilities assumed / (extinguished) on settlements | **0** | **2,808** |
| 0 | 22,556 | Estimated benefits paid net of transfers in | **0** | **24,426** |
| 0 | (7,118) | Past service costs, including curtailments | **0** | **(180)** |
| 0 | (4,909) | Contributions by Scheme participants and other employers | **0** | **(5,418)** |
| 993 | 237 | Unfunded pension payments | **982** | **223** |
| (11,072) | (896,498) | **Closing value at 31 March** | **(10,462)** | **(898,334)** |

### Reconciliation of the fair value of the Fund assets

| Teachers | Staff | | Teachers | Staff |
|---|---|---|---|---|
| 2018/19 | 2018/19 | | **2019/20** | **2019/20** |
| £000 | £000 | | **£000** | **£000** |
| 0 | 614,799 | **Opening balance at 1 April** | **0** | **619,363** |
| 0 | 15,454 | Interest on assets | **0** | **14,635** |
| 0 | 7,000 | Return on assets less interest | **0** | **(39,673)** |
| 0 | 0 | Other actuarial gains/(losses) | **0** | **26,293** |
| 0 | (271) | Administration expenses | **0** | **(396)** |
| 993 | 453 | Contributions by employer including unfunded | **982** | **541** |
| 0 | 4,909 | Contributions by Scheme participants and other employers | **0** | **5,418** |
| (993) | (22,793) | Estimated benefits paid net of transfers in | **(982)** | **(24,649)** |
| 0 | (188) | Settlement prices received / (paid) | **0** | **(927)** |
| 0 | 619,363 | **Closing value at 31 March** | **0** | **600,605** |

An allowance for the transfer of staff to academies during the year has been made and the adjustment is shown within the settlements figure above.

The actual return on scheme assets in the year was a deficit of £25.038m (2018/19: surplus of £22.454m).

Statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme and the Teachers' Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary, and by future changes to the scheme regulations.

**Analysis of the scheme assets at the reporting date**

| 2018/19 | | | 2019/20 | |
|---|---|---|---|---|
| Percentage share | Fair value of assets | | **Percentage share** | **Fair value of assets** |
| % | £000 | | **%** | **£000** |
| 59 | 366,077 | Equity instruments | 56 | **341,891** |
| 10 | 59,502 | Government bonds | 12 | **69,810** |
| 4 | 23,865 | Other bonds | 4 | **25,099** |
| 8 | 52,605 | Property | 9 | **53,421** |
| 3 | 19,615 | Cash/ liquidity | 4 | **21,555** |
| 16 | 97,699 | Other assets | 15 | **88,829** |
| 100 | 619,363 | Average Return / Total Assets | 100 | **600,605** |

**Basis for estimating assets and liabilities**
The principal assumptions used by the actuary are shown in the following table:

| at 31 March 2019 | | | **at 31 March 2020** | |
|---|---|---|---|---|
| Teachers | Staff | | **Teachers** | **Staff** |
| | | **Life expectancy assumptions from age 65:** | | |
| | | Retiring today: | | |
| 20.9 Years | | Men | **21.9 Years** | |
| 23.2 Years | | Women | **24.1 Years** | |
| | | Retiring in 20 years: | | |
| n/a | 22.6 years | Men | **n/a** | **23.8 years** |
| n/a | 25.0 years | Women | **n/a** | **26.0 years** |
| | | **Financial assumptions:** | | |
| 2.20% | 2.40% | Discount rate | **2.30%** | **2.35%** |
| 2.50% | 2.40% | Pension increases | **1.90%** | **1.90%** |
| n/a | 3.90% | Salary increases | **n/a** | **2.90%** |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses as follows have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that only the assumption analysed changes, while all the other assumptions remain constant.

The assumptions in life expectancy, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method.

| **Impact on the Defined Benefit Obligation in the Scheme (Staff and Teachers)** | | |
|---|---|---|
| Change in Assumption | Impact | Impact |
| | £000 | % |
| Life expectancy assumptions (increase by 1 year) | (39,021) | (4.3) |
| Pension increase and deferred revaluation (increase by 0.1%) | (16,741) | (1.8) |
| Long-term salary increase (increase by 0.1%) | (1,660) | (0.2) |
| Discount rate (increase by 0.1%) | 17,956 | 2.0 |

**Impact on the Council's Cashflows**

Contributions are set every three years as a result of the actuarial valuation of the West Midlands Pension Fund required by the Regulations. The 2019 revaluation has set contributions for the period 1 April 2020 to 31 March 2022 which has resulted in an upfront payment being agreed to be paid in April 2020 cover the full three-year period.  The Council will therefore be paying contributions of £58.300m in 2020/21; £19.900m of this is for 2020/21, with the remaining £38.400m relating to 2021/22 and 2022/23.

The weighted average duration of the defined benefit obligation for scheme members as at 31 March 2020 is 21 years (as at 31 March 2019: 18 years).

In 2020/21 it is expected that the Council will pay contributions of approximately £0.966 million to the Teachers' Added Years scheme.

# Disclosure notes – notes supporting the Cash Flow Statement

## 35. Cash Flow Statement – Adjustments to the Net (Surplus)/ Deficit on the Provision of Services for non-cash movements

| 2018/19 | | **2019/20** |
|---|---|---|
| £000 | | **£000** |
| (35,258) | Depreciation and impairment | **(36,999)** |
| 7,646 | Revaluations | **7,202** |
| (39,620) | Net movement in pension liability | **(35,218)** |
| (6,083) | Carrying amount of non-current assets sold or derecognised | **(13,549)** |
| 9,069 | Increase/(decrease) in debtors from operating activities | **(2,896)** |
| 4,951 | (Increase) in creditors from operating activities | **(8,789)** |
| 5,468 | Non-cash dividends | **0** |
| 3,041 | Other non-cash items charged to the net (surplus)/ deficit on the provision of services | **(159)** |
| (50,786) | **Total** | **(90,408)** |

## 36. Cash Flow Statement – Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are Investing and Financing Activities

| 2018/19 | | **2019/20** |
|---|---|---|
| £000 | | **£000** |
| 10,232 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | **5,202** |
| 23,062 | Capital grants credited to the (surplus)/ deficit on the provision of services | **19,900** |
| (4,775) | Any other items for which the cash effects are investing or financing cash flows | **(6,286)** |
| 28,519 | **Total** | **18,816** |

## 37. Cash Flow Statement – Operating Activities

The cash flows from operating activities include the following items:

| 2018/19 | | **2019/20** |
|---|---|---|
| £000 | | **£000** |
| (750) | Interest received | **(1,299)** |
| 19,876 | Interest paid | **16,738** |
| (4,650) | Dividends received | **(4,467)** |
| 14,476 | **Included within cash flows from operating activities** | **10,972** |

## 38. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

| | | | 31 March 2019 | | | | | 31 March 2020 | |
|---|---|---|---|---|---|---|---|---|---|
| Dividends | Other Income | Expenditure | Net (Debtors)/ Creditors | | **Dividends** | **Other Income** | **Expenditure** | **Net (Debtors)/ Creditors** | **Note** |
| **£000** | **£000** | **£000** | **£000** | | **£000** | **£000** | **£000** | **£000** | |
| 0 | (370) | 4,466 | 3 | Members | 0 | (359) | 2,986 | 121 | 8 |
| 0 | 0 | 0 | 0 | Officers | 0 | 0 | 0 | 0 | |
| | | | | **Other Public Bodies (subject to common control by central government)** | | | | | 11 |
| 0 | 0 | 0 | (4,675) | West Midlands Combined Authority | 0 | (161) | 887 | (3,931) | |
| | | | | **Entities Controlled or Significantly Influenced by the Council** | | | | | |
| 0 | (158) | 724 | 0 | Voluntary organisations | 0 | (427) | 867 | (3) | |
| (3,520) | (16) | 2,304 | (2,262) | Coventry and Solihull Waste Disposal Company Ltd (CSWDC) | (3,460) | (51) | 2,504 | (2,496) | 22 |
| 0 | (3,481) | 37,189 | 325 | Solihull Community Housing | 0 | (2,812) | 30,099 | 731 | |
| (5,468) | 0 | 0 | (102) | Blythe Valley Innovation Centre Ltd | 0 | 0 | 0 | (167) | |
| 0 | (233) | 1,327 | (340) | Urban Growth Company | 0 | (313) | 4,583 | (591) | |
| | | | | **Other Entities in which the Council has an Interest** | | | | | |
| 0 | (122) | 24 | (54) | North Solihull Partnership | 0 | (410) | 554 | 0 | |
| (1,046) | (113) | 24 | (218) | Birmingham International Airport Ltd | (1,063) | 0 | 0 | (361) | |
| 0 | 0 | 29 | 0 | West Midlands Growth Company (WGC) | 0 | 0 | 44 | 4 | |
| (10,034) | (4,493) | 46,087 | (7,323) | **Total** | **(4,523)** | **(4,533)** | **42,524** | **(6,693)** | |

**UK Government**
The UK Government is not included within the table above but has significant influence over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides funding in the form of grants (see Note 9) and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits).

**Members**
Members of the Council have direct control over the Council's financial and operating policies. Transactions were made across six organisations in which members had an interest (13 in 2018/19). Contracts were entered into in full compliance with the Council's standing orders. The total of members' allowances paid is shown in Note 8.

**Officers**
There were no significant transactions between the Council's Executive Directors, Heads of Service and other related parties.

**Other Public Bodies (subject to common control by central government)**
The Council has a pooled budget arrangement with Birmingham and Solihull Clinical Commissioning Group (CCG) for the provision of adult social services and health services across the borough. More details are provided in Note 11.

The Council receives grant income from the West Midlands Combined Authority (WMCA) both in its own right and also as accountable body for grant claims from the WMCA relating to the Urban Growth Company's (UGC) costs. All money owed to the UGC by the Council in respect of such grant funding has been paid during 2019/20. However, a net debtor of £1.638 million (2018/19: £0.403 million) in respect of the grant claim made to the WMCA on behalf of the UGC is included within the net debtor as at 31 March 2020. The transactions above exclude the annual levy paid by the Council to Transport for West Midlands, the transport arm of the WMCA, which was £8.470 million in 2019/20) (2018/19: £8.480 million).

**Entities Controlled or Significantly Influenced by the Council**
Voluntary organisations with council members on the Board. In certain circumstances the payments represent a significant element of grant funding without which the voluntary organisation would be unable to carry out their activities.

**Other Entities in which the Council has an Interest**
Together with the WMCA and the six other West Midland districts, the Council is a part owner of the West Midlands Growth Company (WGC), which was set up in April 2017 to support the delivery of the WMCA's Strategic Economic Plan.

## 39. Contingent Liabilities

The following items have not been accrued for within the accounts for 2019/20 because the amount of potential liability cannot be accurately determined.

### a. Grant Funded Projects

The Council has undertaken the Accountable Body role for a range of grant funded projects. These projects have been funded from a variety of grant regimes including European Union sources and the West Midlands Combined Authority. There is a potential liability to the Council from non-delivery of outputs, ineligible expenditure or disposal of assets. To minimise the impact of these possible liabilities, the Council has introduced various controls and mechanisms such as service level agreements, asset registers and detailed expenditure verification and monitoring. In a situation where a Council liability is agreed, it will be disclosed and an appropriate provision made in the relevant year's accounts.

### b. HRA Water Rates

Until 31 March 2018 Solihull Community Housing received an annual commission from Severn Trent Water Ltd to act as agent in collecting water rates from housing tenants. A test case with a London borough deemed that in their case the Council was a supplier of water, not a collecting agent. If this outcome was applied to the relationship with Severn Trent, the Council could be liable to repay the annual commission backdated over a number of years.

Legal advice suggests the relationship with Severn Trent is one of agent and not resale. Therefore, the risk of being liable for a repayment is considered low.

### c. Payment of National Minimum Wage (NMW) or National Living Wage (NLW) for sleep-in shifts

The Employment Tribunal found, in the case of Royal Mencap Society vs Tomlinson-Blake that an employee who slept-in in order to carry out duties if required was working for the duration of her shift and therefore should be paid in line with national minimum wage legislation. However, the judgement did not provide a definitive view on how national minimum wage legislation should be applied to sleeping-in shifts and the tribunal's decision has been appealed by Mencap.

This is particularly relevant to employees in the social care sector, who may be required to sleep in residential care facilities or in a client's home in case they are required during the night, and who may have historically received a flat-rate allowance rather than an hourly rate for doing so. The Court of Appeal overturned the decision of the Employment Tribunal, but it is now being considered by the Supreme Court. If the judgement is upheld, it could have significant implications for care providers and commissioners, who may be required to make backdated payments to affected staff to compensate for any shortfall in pay arising from historic sleeping-in arrangements.

The Council has ensured that all payments to its care providers from 26 July 2017 comply with the relevant legislation, but it has not been possible to determine with any accuracy the potential liability for any backdated costs that could be incurred by external providers.

## 40. Events after the Reporting Date

The draft Statement of Accounts was authorised for issue by the Director of Resources and Deputy Chief Executive on 12 June 2020. This is then subject to audit and may be amended following the audit. Events taking place after 12 June 2020 are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and the notes have been adjusted, where material, to reflect the impact of this information.

The following events have happened between 31 March 2020 and 12 June 2020 but are considered to be non-adjusting events:

**Covid-19 Pandemic**
During the last quarter of 2019/20, a novel coronavirus began to spread from China, resulting in the imposition of ‘lockdown’ measures in countries across the world. In England, the strictest measures did not come into effect until 23 March 2020 and, although the impact on the Council’s finances for 2019/20 was minimal, costs are expected to be significant for 2020/21, as reported to Cabinet in June 2020.

The CI&ES includes £0.279 million of additional costs incurred in 2019/20 in relation to Covid-19 but otherwise the main implication for the 2019/20 accounts relates to the valuation of the Council’s investments. These have been valued with the future impact of Covid-19 being a key consideration and the value recorded as at 31 March in these accounts reflects the conditions at that date.

**Blythe Valley Innovation Centre (BVIC)**
Blythe Valley Innovation Centre ceased trading on 20 June 2018. However, the actual wind up of the company was not completed until April 2020. Therefore BVIC remain consolidated into our group accounts for the 2019/20 financial year.

The remaining balances were transferred to the Council accounts in April 2020 and will be incorporated into the single entity accounts from 2020/21.

**Pension Payment 2020/21 – 2022/23**
The Council has once again taken advantage of the opportunity to agree with the West Midlands Pension Fund to pay for the estimated pension payments for the next three year actuarial period (2020/21 – 2022/23) in advance in order to receive a discount on the payment.

In April 2020, the Council paid £58.300 million in total, of which £19.900 million relates to 2020/21. The balance of £38.400 million will be a payment in advance on the Balance Sheet, which will be offset by a reduction in cash and cash equivalents and investments.

For information, the following events are expected to take place during 2020/21:

**Academy Schools**
Ten schools are due to transfer to academy status, at no cost, following the Balance Sheet date of 31 March 2020. The subsequent transfer of the school buildings will result in a loss on disposal in the CI&ES of £0.440 million. The associated land (playgrounds and playing fields) will be revalued resulting in a reduction in asset values of £0.209 million in 2020/21.

## 41. Accounting Standards that have been Issued but not yet Adopted

The Council is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code. At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

**IFRS 16 Leases**
This will require councils that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.

**IAS 19 Employee Benefits**
This will require the remeasurement of net pension liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1 April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.

## 42. Statement of Accounting Policies

These are the specific principles, bases, conventions, rules and practices adopted by the Council in preparing and presenting the financial statements.

### i. General Principles

The Statement of Accounts summarises the Council's transactions for the financial year 2019/20 and its position at the year end of 31 March 2020. The Council is required under the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice 2019/20, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003.

The Statement of Accounts has been prepared on a 'going concern' basis. The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments. International Reporting Standard IAS 8 requires entities to disclose the expected impact of new standards that have been issued but not yet adopted and these have been included within the Disclosure Notes to the Accounts.

### ii. Accruals of Expenditure and Income

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- Revenue from council tax and business rates is recognised when the amount of revenue can be measured reliably and it is probable the revenue will be received by the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Dividends are deemed to be receivable when the Council's right to receive payment has been established;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

There is a de minimis level of £10,000 in place, reviewed annually, for all accruals of income and expenditure. Accruals are not required to be made for individual transactions under this value, with the exception of the following:

- Any grant where applying the de minimis level would affect the claim;
- Accruals which are calculated using system automated reports;
- For a group of similar transactions where there would be a material impact upon the management or financial accounts of not processing the accrual, for example trading services.

### iii. Business Improvement District (BID)

BID projects are projects for the benefit of a particular area that are financed (in whole or in part) by a BID levy paid by the non-domestic ratepayers in the BID area. There are two key participants in the Solihull BID – the Council as the billing authority for the area and Solihull BID as the BID Body. The Council acts as the agent therefore neither the proceeds of the levy nor the payment to the BID Company are shown in the Council's accounts.

### iv. Cash and Cash Equivalents
Cash is represented by cash in hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 1 month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

### v. Charges to Revenue for Non-Current Assets
Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

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

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

The Council's Minimum Revenue Provision (MRP) policy ensures a prudent charge is made to the MIRS for the Council's Capital Financing Requirement (CFR). For pre-2008 CFR the MRP charge will be on a 2% straight line basis, with post-2008 CFR being charged using an asset life method, ensuring that charges made are in line with the life of the asset supported by the capital expenditure.

Charges for depreciation, revaluation and impairment losses and amortisations are therefore reversed in the MIRS (within Adjustments between accounting basis and funding basis under regulations). These are effectively replaced by the Minimum Revenue Provision charged to the General Fund Balance.

### vi. Community Infrastructure Levy
The Council has elected to charge a Community Infrastructure Levy (CIL) on new builds (chargeable developments for the Council) with appropriate planning consent. The income from the levy, with the exception of amounts applied to meet administrative expenses in accordance with the CIL Regulations, is used to fund projects to support the area’s infrastructure (e.g. transport, schools and digital). Where some or all of a chargeable development takes place in a parished area, 15% of the income is passed to the relevant parish/town council – the Council acts as an agent for these amounts.

CIL is received without outstanding conditions. It is therefore recognised at the commencement date of the chargeable development in the CI&ES in accordance with the accounting policy for Government Grants and Contributions.

### vii. Employee Benefits
<u>Benefits Payable during Employment:</u>
Short term employee benefits such as wages and salaries, paid annual and sick leave and expenses are paid monthly on an accruals basis and charged to the relevant service line of the CI&ES.

<u>Termination Benefits:</u>
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy, and are charged on an accruals basis to the relevant service line in the CI&ES. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, allocations are required to and from the Pensions Reserve to remove the accounting entries for pension enhancement termination benefits and replace them with accounting entries for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits:
Employees of the Council are members of one of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- The Local Government Pension Scheme, administered by Wolverhampton City Council;
- The National Health Service (NHS) Pension Scheme, administered by NHS Pensions Business Services Authority.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

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

- The liabilities of the West Midlands Metropolitan Authorities Pension Fund (WMMAPF) 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 projected earnings for current employees;
- Liabilities are discounted to their value at current prices;
- The assets of WMMAPF attributable to the Council are included in the Balance Sheet at their fair value.

The change in the net pensions liability is analysed into the following components:

*Service cost comprising:*

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CI&ES to the services for which the employees worked;
- past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to Resources in the Cost of Services in the CI&ES;
- net interest on the net defined benefit liability – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the CI&ES;
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Resources line in the Cost of Services in the CI&ES.

*Remeasurements comprising:*

- return on assets less net interest - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return charged to the Pensions reserve as Other Comprehensive Income and Expenditure in the CI&ES;
- actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions reserve as Other Comprehensive Income and Expenditure in the CI&ES.

*Contributions paid to the WMMAPF* – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense in the CI&ES.

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

Discretionary Benefits:
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.

**viii. Events after the Balance Sheet Date**
These are events that have happened after the Balance Sheet date and before the date that the Statement of Accounts was authorised for issue. An adjusting event is one that existed at the Balance Sheet date and has a material impact on the accounts. The accounts are adjusted where this type of event has taken place. A non-adjusting event is one that is indicative of conditions that arose after the Balance Sheet date. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.

**ix. Material Items and Prior Period Adjustments**
Prior period adjustments are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors. A material error is one that could influence the decisions or assessments of users made on the basis of the financial statements. Prior period adjustments are accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and notes and adjusting the opening balance of reserves for the cumulative effect. When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the CI&ES or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

**x. Fair Value Measurement**
The Council measures some of its non-financial assets, such as investment properties and surplus assets, and some of its financial instruments e.g. some of its equity share holdings, at fair value at each reporting date. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosure notes.

A definition of fair value is the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction at the measurement date under current market conditions. A fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The concept of highest and best use applies only when determining the fair value of non-financial assets, e.g. surplus assets or investment property. They do not apply to financial assets or to financial liabilities on the basis that financial assets or financial liabilities do not have alternative uses.

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

IFRS 13 includes a "Fair Value Hierarchy" that classifies valuations according to the nature of available inputs. In summary, the three levels of hierarchy are as follows:

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

Criteria for the various levels are listed in the following table.

| Criteria | Level |
|---|---|
| • Comparable evidence that is identical to the asset that is being measured in terms of physical location, condition, orientation, levels of natural light, view, access and visibility, tenure and covenant, construction type and cost, size and layout, facilities, lease options, obsolescence | 1 |
| • Comparable evidence available within an active market of similar assets<br>• Comparable evidence for similar assets or liabilities in markets that are not active<br>• Non-value comparable evidence (e.g. yields) for similar asset types available<br>• Comparable evidence corroborated by observable market evidence<br>• Implied and non-implied covenants within the lease negating the need for comparable evidence<br>• Transparency of market data<br>• Minimal principal adjustment of comparable evidence, non-significant adjustment<br>• Comparable analysis | 2 |
| • No comparable evidence available<br>• Unobservable inputs<br>• Comparable evidence requires significant adjustment from the principal market | 3 |

Where Level 1 inputs are not available the Council's qualified internal valuation team uses appropriate valuation techniques for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

Three widely used valuation techniques are:

(i) market approach – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business);

(ii) cost approach – reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost);

(iii) income approach – converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

There has been no change in the valuation techniques used during the year for investment properties.

For all investment properties where a fair value review is conducted, fair values are based on multiplying an estimated net income by an appropriate investment yield or having regard to the capital value of similar assets. The net income figure is based on market rent. All comparable evidence used for valuing this class of property has been ranked into three groups based upon the criteria above. All investment property fair value measurements have been assessed at level two and financial instruments have been assessed at level two or level three.

It is considered rare for local authority valuations to transfer between the three levels of the hierarchy. No such transfers have taken place in 2019/20.

**xi. Financial Instruments**

Financial Assets:
Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost
Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CI&ES 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CI&ES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CI&ES.

Financial Assets Measured at Fair Value through Profit of Loss
Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus/ Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the accounting policy set out in section 12. Fair Value Measurement. Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CI&ES.

IFRS 9 Financial Instruments sets out that investments in equity should be classified as fair value through profit and loss unless there is an irrevocable election to recognise changes in fair value through other comprehensive income. The Council will assess each investment on an individual basis and assign an IFRS 9 category. The assessment will be based on the underlying purpose for holding the financial instrument.

Any changes in the fair value of instruments held at fair value through profit or loss will be recognised in the net cost of service in the CI&ES and will have a General Fund impact.

Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)

The Council has equity instruments designated at fair value through other Comprehensive Income (FVOCI). The Council has made an irrevocable election to designate equity instruments as FVOCI on the basis that they are held for non-contractual benefits, and not held for trading but for strategic purposes. These assets are initially measured and carried at fair value. The value is based on the principle that the equity shares have no quoted market prices and is based on an independent appraisal of the company valuation.

Dividend income is credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Changes in fair value are posted to Other Comprehensive Income and Expenditure and are balanced by an entry in the Financial Instruments Revaluation Reserve.

When the asset is de-recognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Financial Instruments Revaluation Reserve and recognised in the Surplus/ Deficit on the Provision of Services.

Expected Credit Loss Model
The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease

receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Liabilities:
Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CI&ES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CI&ES is the amount payable for the year according to the loan agreement.

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

### xii. Government Grants and Contributions
Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments;
- the grants or contributions will be received.

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

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

Where capital grants are credited to the CI&ES, they are reversed out of the General Fund Balance in the MIRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where revenue grants without conditions are credited to the CI&ES but have not yet been spent, if they have been earmarked for a specific purpose, they are appropriated out of the General Fund Balance to earmarked reserves in the MIRS.

### xiii. Heritage Assets
Heritage assets are assets which have historical, artistic, scientific, technological, geographical or environmental qualities, that are held and maintained principally for their contribution to knowledge and culture. They are intended to be preserved in trust for future generations because of their cultural,

environmental or historical associations and can include historical buildings, historic motor vehicles, civic regalia, museum and gallery collections, statues and works of art.

Heritage assets (other than operational heritage assets) shall normally be included in the Balance Sheet at their current value, where this is above the £20,000 de minimis level for assets. Where it is not practical to obtain a valuation at a reasonable cost, heritage assets are valued at cost. Where applicable the insurance valuation will be used for heritage asset valuation. Where the Council has no information on the value of a heritage asset and historical cost information cannot be obtained the asset can be excluded from the balance sheet.

Heritage assets are deemed to have indefinite lives and are not subject to depreciation, but the carrying amounts are reviewed where there is evidence of impairment such as physical damage. Any impairment is recognised and measured in accordance with the Council's general accounting policy on impairment.

The Council does not have or require an active policy for the acquisition, preservation, management and disposal of heritage assets due to the insignificant number of material heritage assets. The material heritage assets are contained within public buildings and parks and therefore public access is permitted.

**xiv. Infrastructure assets**

Infrastructure assets are carried at depreciated historical cost. They are currently depreciated over a life of 40 years, or a useful life verified by a qualified professional officer.

**xv. Intangible Assets**

Expenditure on assets that do not have physical substance (e.g. software licenses) but are identifiable and controlled by the Council, is capitalised when it brings benefits to the Council for a period of more than one financial year. The balance is amortised to revenue on a systematic basis over the economic life of the assets.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council’s goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the CI&ES.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the CI&ES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure section in the CI&ES.

**xvi. Interests in Companies and Other Entities**

The Council has material interests in companies and other entities that have the nature of subsidiaries and jointly controlled entities and is required to prepare group accounts. Subsidiaries are fully consolidated and jointly controlled entities are consolidated on an equity basis within the Council’s group accounts.

In the Council’s own single-entity accounts, interests in companies and other entities are recorded as investments at fair value. These are subject to a full revaluation every 5 years; annual desktop valuation exercises are undertaken in the interim periods.

**xvii. Inventories and Long-term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Long-term contracts are accounted for on the basis of charging the Surplus/ Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

### xviii. Investment Property

Investment property is that which is used solely to earn rental income 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. Investment property is 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. As a non-financial asset, an investment property shall be measured at highest and best use. The fair value of investment property held under a lease is the lease interest.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. These are classified as recurring fair value measurements. There are three categories of investment property (Garden Extension Licences, Gas Governor Stations and Electricity Sub stations) that individually as sites are de minimis in value and are considered annually but are only valued on a non-recurring basis if the value is considered to have materially changed year on year.

Gains and losses on revaluation and disposal are posted to the Financing and Investment section in the CI&ES. However, regulations do not allow revaluation and disposal gains and losses to have an impact on the General Fund balance. The gains and losses are therefore reversed via the MIRS and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Rental income received in relation to investment properties is credited to the Financing and Investment Income line in the CI&ES and result in a gain for the General Fund Balance.

### xix. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

**(a) The Council as Lessee**

<u>Finance Leases</u>

Property, plant and equipment held under finance leases with an original fair value over the capital de minimis level of £20,000 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. Any 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. Subsequent rent increases (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;
- a finance charge (debited to the Financing and Investment Income and Expenditure section in the CI&ES).

Property, Plant and Equipment recognised under finance leases are 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.

Operating Leases
Rentals paid under operating leases are charged to the CI&ES 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.

**(b) The Council as Lessor**
Finance Leases
Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal, in line with the Council's policy on disposals.

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

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 CI&ES on a straight-line basis over the life of the lease.

**xx. Property Plant & Equipment**
All expenditure on the acquisition, construction or improvement of tangible non-current assets is capitalised, provided that the asset brings benefit to the Council and the services it provides for longer than one financial year.
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.

Assets are initially measured at cost, comprising:

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

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the CI&ES, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account.

Where gains are credited to the CI&ES, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the MIRS. The Council has set a de minimis level of £20,000. This means that any expenditure below this level that otherwise meets the definition of capital expenditure as outlined above can be charged to a revenue budget.

Recognition of School Assets
School assets are carried on the balance sheet in accordance with the legal status of ownership, or intended legal status and any other arrangements in place regarding the use of these schools. In line with the guidance provided in LAAP bulletin 101 'Accounting for Non-Current Assets Used by LA Maintained Schools',

school assets that are controlled by the Governing Body will be recognised on the Council's Balance Sheet - academy schools are excluded.

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

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

The significant assumptions applied in estimating the fair values are:

- Fair value is defined as the amount for which an asset could be exchanged, between knowledgeable, willing parties, in an arm's length transaction;
- Fair value represents the price that would be reasonably agreed between two specific parties for the exchange of an asset;
- Although the parties may be unconnected and negotiating at arm's length, the asset is not necessarily exposed in the wider market and the price agreed may be one that reflects the specific advantages (or disadvantages) of ownership to the parties involved rather than the market at large;
- In accounting standards, fair value is normally equated to market value;
- Fair value is a broader concept than market value. Although in many cases the price that is fair between two parties will equate to that obtainable in the general market, there will be cases where the assessment for fair value will involve taking into account matters that have to be disregarded in the assessment of market value.

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.

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.

The valuation basis used for the various property types is shown in the following table:

| Service Area | Operational / Non Operational | Basis of Valuation |
|---|---|---|
| **HRA** | | |
| Housing Stock , Hostels, Service Tenancies | Operational | Existing Use Value - Social Housing |
| Offices, Community Centres, additional properties not allocated to a beacon | Operational | Fair Value |
| Surplus Land, Leased Properties | Non Operational | Fair Value |
| **Education** | | |
| ***Schools*** | | |
| School Buildings | Operational | Depreciated Replacement Cost |
| School Playing Fields | Operational | Fair Value |
| ***Non School Assets*** | | |
| i.e. Youth Centres and Nurseries | Operational | Combination of DRC and Fair Value depending on individual property |
| **Transport & Highways** | | |
| Multi Storey Car Parks | Operational | Depreciated Replacement Cost |
| Surface Car Parks | Operational | Fair Value |
| **Other** | | |
| Leisure Centres, Cemeteries/crematoria, Libraries | Operational | Depreciated Replacement Cost |

| Service Area | Operational / Non Operational | Basis of Valuation |
|---|---|---|
| Day Centres and Residential Care Homes | Operational | Combination of DRC and Fair Value depending on individual property |
| Council Offices | Operational | Fair Value |
| Parks Buildings - changing rooms, attendants' huts | Operational | Combination of DRC and Fair Value depending on individual property |
| Investment property, industrial units, shops | Non Operational | Fair Value |

For non-property assets 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 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. All valuations have been carried out by our in-house valuers. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CI&ES where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for in the following ways:

- 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 CI&ES.

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

Depreciation
Depreciation is provided for on all non-current assets with a finite useful life. The length of this life is determined at the point of acquisition or revaluation according to the following policy:

- Assets acquired in the first half of a financial year are depreciated on the basis of a full year's charge; assets acquired in the second half are not depreciated until the following financial year;
- Assets that are not fully constructed are not depreciated until they are brought into use.

Depreciation is calculated using the straight-line method, which charges an equal annual amount to the CI&ES, so that the asset's value is fully written down over its useful life.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components can be depreciated separately and will be considered for componentisation. Any assets identified as requiring depreciation under component accounting policies are not depreciated under this methodology until the following financial year.

The following useful lives normally apply following acquisition or construction, and depreciation rates have been calculated based on remaining life:

- Council Dwellings: 25 - 70 years;
- Other Land and Buildings: 25 - 99 years;
- Vehicles, Plant, Furniture & Equipment: 3 - 20 years;
- Infrastructure Assets: 10 – 40 years.

Asset Life – Remaining Life
Whilst an attempt is made to correctly identify each individual asset's useful life, there are some generalisations. For example, new buildings tend to have a useful life of 50 years, although in specific examples based upon a valuation review a new building can have a life as short as 25 years or as long as 99

years depending on the construction materials used. This life would be recorded in accordance with the local qualified Royal Institution of Chartered Surveyors (RICS) or Chartered Institute of Building (CIB) Member.

Equipment and vehicles are typically depreciated over 5 years, plant over 12 years and infrastructure over 40 years, except for items of plant, equipment and vehicles that are held under a finance lease, which are depreciated over the length of the lease.

Residual Values – Depreciation

As the Council policy is to use building and equipment to the end of their useful life, it is the policy not to adopt residual values. Any IT equipment is recycled to schools or the voluntary sector. Any other equipment with a residual value would be insignificant. For these reasons residual values will not be adopted for the calculation of depreciation. The residual values of assets carried at historical cost (i.e. community and infrastructure assets) will not be material.

Impairments

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

Where impairment losses are identified, they are accounted for in the following ways:

- 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 CI&ES.

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

Disposals and Non-current Assets Held for Sale

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

In general, the following conditions must be met for an asset to be classified as held for sale:

- management is committed to a plan to sell;
- the asset is available for immediate sale;
- an active programme to locate a buyer is initiated;
- the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions);
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value;
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

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.

The assets need to be disposed of through sale. Therefore, assets that are expected to be scrapped or abandoned would not meet the definition. 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 CI&ES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CI&ES 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 receipts relating to housing disposals is payable to the government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the MIRS.

Component Accounting

Where an asset is deemed material (valued at over £2 million) and has major components whose cost is significant to the total cost of the asset, and which have markedly different useful lives, components are separately identified and depreciated. For this purpose the asset is the non-land element recognised in the accounts. The objective is to ensure that the financial value of the assets is fairly reflected in the Balance Sheet and that the CI&ES appropriately reflects the consumption of economic benefits inherent in those assets

A significant component is defined as one that has a significant value/cost when compared to the total cost of the asset as a whole but has a significantly shorter useful life and will require replacement at least on one occasion during the life of the asset.

**xxi. Provisions, Contingent Liabilities and Contingent Assets**

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council makes provisions for insurance risks not covered by the Council's policies where the potential costs have been estimated.

Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.

Contingent Liabilities and Contingent Assets

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.

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

Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts. Where practicable an estimate of the financial effect and an indication of the uncertainties relating to the timing will be disclosed. However, if disclosure of some or all of the information required could be expected to prejudice seriously the position of the Council in a dispute with other parties, then the general nature of the dispute and recognition of the fact that information has been withheld, together with the reason, will be disclosed.

**xxii. Reserves**
The Council sets aside specific amounts as reserves for future policy purposes. Reserves are created by appropriating amounts out of the General Fund Balance in the MIRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in the CI&ES. The reserve is then appropriated back into the General Fund Balance in the MIRS so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

**xxiii. Revenue Expenditure Funded from Capital under Statute**
Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CI&ES in the year. Where the Council has met the cost of this expenditure from existing capital resources or by borrowing, so that there is no impact on the level of council tax, the cost is subsequently reversed out from the CI&ES to the Capital Adjustment Account, in the MIRS.

**xxiv. Schools**
The Code confirms that the balance of control for local authority maintained schools (i.e. community, voluntary aided and voluntary maintained schools) lies with the Council. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council, rather than requiring consolidation in the Group Accounts. Academies are outside of the Council's control and their transactions are not reflected in the Council's accounts.

**xxv. Service Concession Arrangements - Private Finance Initiatives (PFI), Public-Private Partnership (PPP) and similar contracts**
PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. In accordance with the latest recommended practice in the Code, based on IFRIC 12 the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The exception is when a PFI school transfers to academy status, in which case the building asset is disposed of and the land subject to revaluation with the Balance Sheet subsequently amended. The unitary charge payment liability for the academy schools remains with the Council.
The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

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

The amounts payable to the PFI operators each year are analysed into five elements:
- fair value of the services received during the year – debited to the relevant service in the CI&ES;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CI&ES;
- 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 CI&ES;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- lifecycle replacement costs – a proportion of the amount payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

**xxvi. Value Added Tax (VAT)**
VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

# Group Accounts

Full group accounts, to include all the organisations in which the Council has a material interest, have been prepared for 2019/20 and are included on the following pages.

**Consolidated Group Entities**

Solihull Community Housing Ltd (SCH)

Solihull Community Housing, an arm's length company set up to manage the Council's housing stock, was formed on the 1 April 2004 as a wholly owned subsidiary of the Council. Its accounts have been consolidated into the group accounts on a line by line basis.

Blythe Valley Innovation Centre Ltd

Blythe Valley Innovation Centre Ltd was set up in 2000, as a joint venture with Blythe Valley JV Sarl, in order to promote business enterprise. In July 2013, the Council acquired the shares owned by Blythe Valley JV Sarl, thereby becoming the sole shareholder in the business. As a subsidiary, the accounts of the Company have been consolidated into the group accounts on a line by line basis.

Blythe Valley Innovation Centre Ltd ceased trading on the 30 June 2018 and was not wound up until April 2020. Therefore balances for 2019/20 are still consolidated into these group accounts.

Coventry and Solihull Waste Disposal Company Ltd

The Council's interest in Coventry and Solihull Waste Disposal Company Ltd, whose business is the disposal of waste, is set out in Note 22a. The Council's interest in the joint venture has been consolidated into the group accounts under the equity method.

The Urban Growth Company (UGC)

The Urban Growth Company was set up in 2016 as an arm's length company to deliver projects within the UK Central programme. As a subsidiary, the accounts of the Company have been consolidated into the group accounts on a line by line basis.

**Unconsolidated Group Entities**

North Solihull Partnership LP

The North Solihull Partnership ceased trading on 3 July 2019 and all remaining funding and activities were transferred to the Council to run and operate from 1 August 2019.

## Group Comprehensive Income and Expenditure Statement (CI&ES)

The Group Comprehensive Income and Expenditure Statement combines the income and expenditure figures of the Council with the Council's share of the operating results of those entities in which it has a financial interest.

| 2018/19 (Restated [1]) | | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| 100,421 | (47,278) | 53,143 | Adult Social Care and Health | 106,986 | (50,665) | **56,321** |
| 193,768 | (151,257) | 42,511 | Children, Education and Skills | 208,878 | (158,689) | **50,189** |
| 3,743 | (2,687) | 1,056 | Climate Change, Planning and Housing | 4,062 | (2,819) | **1,243** |
| 34,363 | (7,941) | 26,422 | Environment and Highways | 35,972 | (9,808) | **26,164** |
| 11,968 | (10,954) | 1,014 | Growth and Infrastructure Delivery | 16,185 | (15,139) | **1,046** |
| 2,873 | (1,377) | 1,496 | Leisure, Tourism and Sport | 2,815 | (1,504) | **1,311** |
| 99,094 | (61,638) | 37,456 | Resources | 87,170 | (61,901) | **25,269** |
| 32,793 | (51,908) | (19,115) | Stronger and Safer Communities (includes HRA) | 40,806 | (52,616) | **(11,810)** |
| 479,023 | (335,040) | 143,983 | **Cost of Services [2]** | **502,874** | **(353,141)** | **149,733** |
| | | | | | | |
| | | 1,325 | Parish precepts | | | **1,366** |
| | | 8,567 | Levies payable | | | **8,559** |
| | | 1,344 | Amounts payable into the housing capital receipts pool | | | **1,249** |
| | | (4,149) | (Gain)/ loss on disposal of non-current assets | | | **8,347** |
| | | 7,087 | **Total Other Operating Expenditure** | | | **19,521** |
| | | | | | | |
| | | 19,901 | Interest payable and similar charges | | | **16,776** |
| | | 7,301 | Net interest on the net defined benefit liability | | | **7,207** |
| | | (749) | Investment interest income | | | **(1,299)** |
| | | (1,151) | Other investment income | | | **(1,118)** |
| | | 432 | (Surplus)/ deficit of trading operations not allocated to services | | | **0** |
| | | (1,693) | Income, expenditure and changes in the fair value of investment properties | | | **459** |
| | | 24,041 | **Total Financing and Investment Income & Expenditure** | | | **22,025** |
| | | | | | | |

| 2018/19 (Restated [1]) | | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| | | (102,644) | Council tax | | | **(106,434)** |
| | | (46,937) | Business rates | | | **(47,106)** |
| | | (8,041) | Non ring-fenced government grants | | | **(9,694)** |
| | | (19,006) | Recognised capital grants and contributions | | | **(14,446)** |
| | | (176,628) | **Total taxation and non-specific grant income** | | | **(177,680)** |
| | | | | | | |
| | | (1,517) | **(Surplus) / deficit on the provision of services** | | | **13,599** |
| | | | | | | |
| | | (4,156) | Joint venture accounted for on an equity basis | | | **(3,368)** |
| | | 75 | Taxation of group entities | | | **12** |
| | | 799 | Share of taxation of joint venture | | | **968** |
| | | (4,799) | **Group (surplus) / deficit** | | | **11,211** |
| | | | | | | |
| | | (1,345) | (Surplus)/ deficit on revaluation of property, plant & equipment | | | **16,212** |
| | | 0 | Impairment losses on non-current assets charged to the revaluation reserve | | | **7,314** |
| | | (54) | (Surplus)/ deficit from investments in equity instruments designated at fair value through other comprehensive income | | | **7,381** |
| | | (27,065) | Remeasurement of the net defined benefit liability | | | **(19,503)** |
| | | (23) | Any other (gains)/losses | | | **116** |
| | | (28,487) | **Other comprehensive income and expenditure** | | | **11,520** |
| | | | | | | |
| | | (33,286) | **Total comprehensive income and expenditure** | | | **22,731** |

[1] In May 2019, the Council's cabinet structure was changed and therefore in order to provide meaningful comparative information, the 2018/19 figures have been restated.

[2] Group adjustments relating to SCH are included in the Safer and Stronger Communities line and those relating to the UGC are in Growth and Infrastructure Delivery line.

## Group Movement in Reserves Statement (MIRS)

The Group Movement in Reserves Statement shows the movement in the year on the different reserves held by the Council, together with the movement in the Council's share of those entities in which it has a financial interest.

| 2019/20 | Total Council Usable Reserves | Total Council Unusable Reserves | **Total Council Reserves** | Council Share of Group Reserves | **Total Reserves (Inc. Group)** |
|---|---|---|---|---|---|
| | £000 | £000 | **£000** | £000 | **£000** |
| **Balance at 31 March 2019** | (124,766) | (499,416) | **(624,182)** | 20,557 | **(603,625)** |
| | | | | | |
| **Total Comprehensive Income and Expenditure** | 8,349 | 15,673 | **24,022** | (1,291) | **22,731** |
| Adjustments between accounting basis & funding basis under regulations | (21,607) | 21,607 | **0** | 0 | **0** |
| **(Increase)/decrease in 2019/20** | (13,258) | 37,280 | **24,022** | (1,291) | **22,731** |
| **Balance at 31 March 2020** | **(138,024)** | **(462,136)** | **(600,160)** | **19,266** | **(580,894)** |

| 2018/19 | Total Council Usable Reserves | Total Council Unusable Reserves | **Total Council Reserves** | Council Share of Group Reserves | **Total Reserves (Inc. Group)** |
|---|---|---|---|---|---|
| | £000 | £000 | **£000** | £000 | **£000** |
| **Balance at 31 March 2018** | (108,343) | (474,554) | **(582,897)** | 12,558 | **(570,339)** |
| | | | | | |
| **Total Comprehensive Income and Expenditure** | (11,775) | (29,510) | **(41,285)** | 7,999 | **(33,286)** |
| Adjustments between accounting basis & funding basis under regulations | (4,648) | 4,648 | **0** | 0 | **0** |
| **(Increase)/decrease in 2018/19** | (16,423) | (24,862) | **(41,285)** | 7,999 | **(33,286)** |
| **Balance at 31 March 2019** | **(124,766)** | **(499,416)** | **(624,182)** | **20,557** | **(603,625)** |

# Group Balance Sheet

The Group Balance Sheet shows as at 31 March the assets and liabilities of the Group, through combining the Council's assets and liabilities with its share of the assets and liabilities of those entities in which it has a financial interest.

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £000 | | £000 |
| 1,151,783 | Property, Plant and Equipment | **1,146,361** |
| 950 | Heritage Assets | **950** |
| 17,579 | Investment Property | **16,749** |
| 1,720 | Intangible Assets | **3,848** |
| 18,938 | Long-term Investments | **11,557** |
| 11,583 | Investments in Joint Ventures | **10,523** |
| 620 | Long-term Debtors | **842** |
| 1,203,173 | **Long-term Assets** | **1,190,830** |
| | | |
| 46,179 | Short-term Investments | **100,667** |
| 921 | Inventories | **1,198** |
| 46,396 | Short-term Debtors | **43,287** |
| 28,265 | Cash and Cash Equivalents | **13,854** |
| 121,761 | **Current Assets** | **159,006** |
| | | |
| (16,562) | Bank Overdraft | **(14,115)** |
| (3,066) | Short-term Borrowing | **(3,134)** |
| (64,890) | Short-term Creditors | **(72,935)** |
| (8,078) | Short-term Provisions | **(6,032)** |
| (92,596) | **Current Liabilities** | **(96,216)** |
| | | |
| (8,244) | Long-term Provisions | **(7,683)** |
| (254,684) | Long-term Borrowing | **(286,267)** |
| (302,947) | Net Pensions Liability | **(320,177)** |
| (54,964) | Other Long-term Liabilities | **(49,721)** |
| (7,874) | Capital Grants Receipts in Advance | **(8,878)** |
| (628,713) | **Long-term Liabilities** | **(672,726)** |
| | | |
| 603,625 | **Net Assets** | **580,894** |
| | | |
| | **Financed by:** | |
| (124,520) | Usable Reserves (see Note G5) | **(138,171)** |
| (456,176) | Unusable Reserves (see Note **G6**) | **(421,650)** |
| (22,929) | Group Income & Expenditure Reserve | **(21,073)** |
| | | |
| (603,625) | **Total Reserves** | **(580,894)** |

## Group Cash Flow Statement

The Group Cash Flow Statement shows the change in the year of cash and cash equivalents of the Council and those entities in which it has a financial interest.

| 2018/19 | | **2019/20** |
|---|---|---|
| £000 | | **£000** |
| (4,799) | Net group (surplus)/deficit | **11,211** |
| (55,941) | Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note G3) | **(94,787)** |
| 28,519 | Adjustments for items in the net surplus or deficit on the provision of services that are investing and financing activities | **18,816** |
| (32,221) | **Net cash flows from operating activities** | **(64,760)** |
| | | |
| 35,407 | Purchase of property, plant & equipment, investment property and intangible assets | **68,539** |
| 120,023 | Purchase of short-term and long-term investments | **226,977** |
| 4,775 | Other payments for investing activities | **5,634** |
| (10,232) | Proceeds from the sale of property, plant & equipment, investment property and intangible assets | **(5,202)** |
| (24,127) | Capital grants received | **(18,005)** |
| (103,888) | Proceeds from short-term and long-term investments | **(172,489)** |
| (38) | Other receipts from investing activities | **(882)** |
| 21,920 | **Net cash flows from investing activities** | **104,572** |
| | | |
| (10,000) | Cash receipts of short and long-term borrowing | **(32,800)** |
| (729) | Other movements from financing activities | **66** |
| 2,402 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts | **2,573** |
| 11,093 | Repayments of short-term and long-term borrowing | **2,313** |
| 2,766 | **Net cash flows from Financing Activities** | **(27,848)** |
| | | |
| (7,535) | **Net (increase) / decrease in cash and cash equivalents** | **11,964** |
| | | |
| | Overall movement in cash and cash equivalents | |
| 4,168 | Cash and cash equivalents at the beginning of the reporting period | **11,703** |
| 7,535 | Net increase/ (decrease) in cash and cash equivalents | **(11,964)** |
| 11,703 | **Cash and cash equivalents at the end of the reporting period** | **(261)** |

## Disclosure notes – notes supporting the Council's Group Accounts

Group disclosure notes are only included where there are differences to the single entity disclosure notes. For all other disclosures, please see the main disclosure notes to the accounts.

### G1. Group Segmental Analysis

The following table uses the segmental analysis given in the Single Entity Expenditure and Funding Analysis (Note1) as the starting point and shows the cabinet portfolio to which the Group adjustments have been applied, to give the net expenditure in the Group CI&ES.

| 2018/19 (restated [1]) | | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| Net expenditure in the CI&ES | Group Adjustments | Net expenditure in the Group CI&ES | | Net expenditure in the CI&ES | Group Adjustments | Net expenditure in the Group CI&ES |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| 53,143 | 0 | 53,143 | Adult Social Care and Health | 56,321 | 0 | **56,321** |
| 42,511 | 0 | 42,511 | Children, Education and Skills | 50,189 | 0 | **50,189** |
| 1,056 | 0 | 1,056 | Climate Change, Planning and Housing | 1,243 | 0 | **1,243** |
| 26,422 | 0 | 26,422 | Environment and Highways | 26,164 | 0 | **26,164** |
| 1,014 | 0 | 1,014 | Growth and Infrastructure Delivery | 1,046 | 0 | **1,046** |
| 1,496 | 0 | 1,496 | Leisure, Tourism and Sport | 1,311 | 0 | **1,311** |
| 37,456 | 0 | 37,456 | Resources | 25,269 | 0 | **25,269** |
| (20,008) | 893 | (19,115) | Stronger and Safer Communities (includes HRA) | (13,223) | 1,413 | **(11,810)** |
| **143,090** | **893** | **143,983** | **Net cost of services** | **148,320** | **1,413** | **149,733** |
| (154,865) | 6,083 | (148,782) | Other income and expenditure | (139,971) | 1,449 | **(138,522)** |
| **(11,775)** | **6,976** | **(4,799)** | **Group (Surplus) / Deficit** | **8,349** | **2,862** | **11,211** |

[1] In May 2019, the Council's cabinet structure was changed and therefore in order to provide meaningful comparative information, the 2018/19 figures have been restated.
[2] Group adjustments relating to SCH are included in the Safer and Stronger Communities line and those relating to the UGC are in Growth and Infrastructure Delivery line.

### G2. Expenditure & Income Analysed by Type

| 2018/19 | | 2019/20 |
|---|---|---|
| £000 | | **£000** |
| | **Expenditure** | |
| 166,519 | Employee benefits expenses | **171,875** |
| 21,137 | Employee benefits expenses for voluntary aided schools | **21,600** |
| 271,448 | Other service expenses | **286,476** |
| 27,652 | Depreciation, amortisation, impairment and revaluation losses | **30,130** |
| 19,901 | Interest payments | **16,776** |
| 9,892 | Precepts & levies | **9,925** |
| 1,344 | Payments to the housing capital receipts pool | **1,249** |
| 0 | Loss on disposal of non-current assets | **8,347** |
| 799 | Share of taxation of joint venture | **968** |
| 0 | Investment properties including fair value adjustments | **459** |
| 75 | Taxation of group entities | **12** |
| 518,767 | Total expenditure | **547,817** |
| | | |
| | **Income** | |
| (110,548) | Fees, charges and other service income | **(128,784)** |
| (1,693) | Investment properties including fair value adjustments | **0** |
| (4,149) | Gain on disposal of non-current assets | **0** |
| (1,900) | Interest and investment income | **(2,417)** |
| (149,581) | Income from council tax and business rates | **(153,540)** |
| (251,539) | Government grants and contributions | **(248,497)** |
| (4,156) | (Surplus) or deficit on joint venture | **(3,368)** |
| (523,566) | Total Income | **(536,606)** |
| | | |
| (4,799) | **Group (surplus)/ deficit** | **11,211** |

### G2a. Revenue from external customers

The following table reconciles the revenue received by the Council from external customers (Note 6a) to the total fees, charges and other service income received by the Group.

| 2018/19 | | 2019/20 |
|---|---|---|
| £000 | | **£000** |
| (108,388) | Total revenue from external customers (Council) (Note 6a) | **(122,640)** |
| (683) | SCH income (excluding income from the council) | **(1,248)** |
| (1,477) | UGC income (excluding income from the council) | **(4,896)** |
| (110,548) | **Total fees, charges and other service income** | **(128,784)** |

### G3. Cash Flow Statement - Adjustments to Net Group (Surplus) or Deficit on the Provision of Services for non-cash movements

| 2018/19 | | 2019/20 |
|---|---|---|
| £000 | | £000 |
| (35,299) | Depreciation and amortisation | (37,332) |
| 7,646 | Impairments and revaluations | 7,202 |
| (41,592) | Net movement in pension liability | (36,733) |
| (6,083) | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (13,549) |
| 10,450 | Increase/(decrease) in debtors | (2,493) |
| 6,028 | (Increase)/decrease in creditors | (10,745) |
| 2,909 | Other non-cash items charged to the net (surplus)/ deficit on the provision of services | (1,137) |
| (55,941) | **Total** | (94,787) |

### G4. Cash Flow Statement - Operating Activities

The cash flows from operating activities include the following items:

| 2018/19 | | 2019/20 |
|---|---|---|
| £000 | | £000 |
| (750) | Interest received | (1,299) |
| 19,915 | Interest paid | 16,789 |
| (1,130) | Dividends received | (947) |
| 18,035 | **Included within cash flow from Operating Activities** | 14,543 |

### G5. Usable Reserves

The Group usable reserves are summarised in the following table:

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £000 | | £000 |
| (4,983) | General Fund Working Balance | (6,738) |
| (65,637) | Earmarked Revenue Reserves | (69,672) |
| (14,325) | Housing Revenue Account (HRA) | (16,030) |
| (17,701) | Capital Receipts Reserve | (20,712) |
| (3,194) | Major Repairs Reserve | (4,284) |
| (18,680) | Capital Grants Unapplied Account | (20,735) |
| (124,520) | **Total Usable Reserves** | (138,171) |

## G6. Unusable Reserves

The Group unusable reserves are summarised in the following table:

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £000 | | £000 |
| 2,137 | Accumulated Absences Account | 2,661 |
| 0 | Available for Sale Financial Instruments Reserve | 0 |
| (491,705) | Capital Adjustment Account | (501,276) |
| (3,151) | Collection Fund Adjustment Account | (6,431) |
| 2,773 | Financial Instruments Adjustment Account (FIAA) | 2,711 |
| (13,785) | Financial Instruments Revaluation Reserve | (6,404) |
| 320,347 | Pensions Reserve | 320,177 |
| (272,792) | Revaluation Reserve | (233,088) |
| (456,176) | **Total Unusable Reserves** | (421,650) |

## G7. Subsidiaries

**Solihull Community Housing Ltd (SCH)**
SCH has operated as an arm's length company managing the Council's housing stock since 1 April 2004.

SCH has recognised one contingent liability during the last financial year in relation to HRA water rates. This is already disclosed as a contingent liability for the Council, as any loss would be funded from the Council's HRA. As at 31 March 2020 SCH, as a separate entity, had no outstanding capital commitments. (2018/19: no capital commitments).

**Blythe Valley Innovation Centre Ltd (BVIC)**
BVIC operated since 2000 as a joint venture with BV JV Sarl in order to promote business enterprise. In July 2013 the Council acquired the shares of BV JV Sarl and became the sole shareholder in the Company.

As BVIC ceased trading on 30 June 2018, the company has not incurred any contingent liabilities during the last financial year. As at 31 March 2020 BVIC, as a separate entity, had no outstanding capital commitments (2018/19: no capital commitments).

**The Urban Growth Company (UGC)**
UGC was created as an arm's length company during 2016 to deliver the elements of the UKC Programme.

UGC has not incurred any contingent liabilities during the last financial year. As at 31 March 2020 UGC, as a separate entity, had no outstanding capital commitments (2018/19: no capital commitments).

## G8. Joint Ventures

**Coventry & Solihull Waste Disposal Company Ltd (CSWDC)**
The Council's interest in CSWDC is identified in Note 22a -Fair values of Assets and Liabilities.

The Council (as reporting authority) has not incurred any contingent liabilities in relation to its interest in Joint Ventures. CSWDC has declared no contingent liabilities which apply to the Council (as reporting authority).

The Council (as reporting authority) does not have any capital commitments in relation to its interest in CSWDC. The company has declared capital commitments of £0.498 million as at 31 March 2020 (2018/19: £0.703 million).

## G9. Defined Benefit Pension Schemes

Details of the Council's involvement in the Local Government Pension Scheme, Teachers' Pension Scheme and NHS Pension Scheme are provided in Notes 33 and 34 to the Council's single entity accounts.

**Solihull Community Housing Ltd (SCH)**
Employees of SCH are entitled to membership of the Local Government Pension Scheme, the details of which are included within Note 34. The most recent valuation of Fund assets and the present value of the defined benefit obligation was carried out as at 31 March 2020.

**Group Comprehensive Income and Expenditure Statement**
The following amounts represent the consolidation of items within the profit and loss account of Solihull Community Housing Ltd into the Group Comprehensive Income and Expenditure Statement:

| 2018/19 | | **2019/20** |
|---|---|---|
| £000 | | **£000** |
| | *Cost of Services:* | |
| | Service cost comprising: | |
| 29,442 | Current service cost | **33,570** |
| 7,724 | Past service costs | **257** |
| (464) | (Gain)/loss from settlements | **(1,881)** |
| 299 | Administration costs | **438** |
| | *Financing and Investment Income and Expenditure:* | |
| 7,301 | Net interest expense | **7,207** |
| 44,302 | **Sub-total post-employment benefit charged to the (surplus)/ deficit on the provision of services** | 39,591 |
| | | |
| | *Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement:* | |
| | Remeasurement of the net defined benefit liability comprising: | |
| (7,731) | Return on assets less interest | **41,502** |
| 0 | Experience (gains)/losses | **38,682** |
| 0 | Other actuarial gains/(losses) | **(26,293)** |
| (50,808) | Actuarial (gains)/losses arising on changes in demographic assumptions | **27,910** |
| 31,474 | Actuarial (gains)/losses arising on changes in financial assumptions | **(101,304)** |
| (27,065) | **Sub-total post-employment benefits charged to Other Comprehensive Income and Expenditure** | (19,503) |
| | | |
| 17,237 | **Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement** | 20,088 |

**Pensions Assets and Liabilities Recognised in the Balance Sheet**
The following amounts have been recognised in the Balance Sheet of Solihull Community Housing Ltd and subsequently consolidated into the Group Balance Sheet:

| 2018/19 | | | 2019/20 | |
|---|---|---|---|---|
| Teachers | Staff | | **Teachers** | **Staff** |
| £000 | £000 | | **£000** | **£000** |
| (11,072) | (976,631) | Present value of the defined benefit obligation | **(10,462)** | **(975,298)** |
| 0 | 684,756 | Fair value of Fund assets | **0** | **665,583** |
| (11,072) | (291,875) | Net liability arising from defined benefit obligation | **(10,462)** | **(309,715)** |
| | (302,947) | **Net Pensions Liability** | | **(320,177)** |

**Reconciliation of the present value of the defined benefit obligation**

| Teachers | Staff | | **Teachers** | **Staff** |
|---|---|---|---|---|
| 2018/19 | 2018/19 | | **2019/20** | **2019/20** |
| £000 | £000 | | **£000** | **£000** |
| (12,087) | (954,350) | **Opening balance at 1 April** | **(11,072)** | **(976,631)** |
| 0 | (29,442) | Current service cost | **0** | **(33,570)** |
| (278) | (24,087) | Interest cost | **(233)** | **(23,177)** |
| (355) | (32,026) | Change in financial assumptions | **704** | **94,502** |
| 655 | 50,153 | Change in demographic assumptions | **(843)** | **(27,067)** |
| 0 | 0 | Experience loss/(gain) | **0** | **(38,682)** |
| 0 | 652 | Liabilities assumed / (extinguished) on settlements | **0** | **2,808** |
| 0 | 24,376 | Estimated benefits paid net of transfers in | **982** | **26,301** |
| 0 | (7,724) | Past service costs, including curtailments | **0** | **(257)** |
| 0 | (5,327) | Contributions by Scheme participants and other employers | **0** | **(5,846)** |
| 993 | 237 | Unfunded pension payments | **982** | **223** |
| 0 | 907 | Remeasurement gains/(losses) | **0** | **6,098** |
| (11,072) | (976,631) | **Closing value at 31 March** | **(9,480)** | **(975,298)** |

**Reconciliation of the fair value of the Fund assets**

| Teachers | Staff | | **Teachers** | **Staff** |
|---|---|---|---|---|
| 2018/19 | 2018/19 | | **2019/20** | **2019/20** |
| £000 | £000 | | **£000** | **£000** |
| 0 | 678,018 | **Opening balance at 1 April** | **0** | **684,756** |
| 0 | 17,064 | Interest on assets | **0** | **16,203** |
| 0 | 7,731 | Return on assets less interest | **0** | **(41,502)** |
| | 0 | Other actuarial gains/(losses) | **0** | **26,293** |
| 0 | (299) | Administration expenses | **0** | **(438)** |
| 933 | 1,716 | Contributions by employer including unfunded | **982** | **1,876** |
| 0 | 5,327 | Contributions by Scheme participants and other employers | **0** | **5,846** |
| (933) | (24,613) | Estimated benefits paid net of transfers in | **(982)** | **(26,524)** |
| 0 | (188) | Settlement prices received / (paid) | **0** | **(927)** |
| 0 | 684,756 | **Closing value at 31 March** | **0** | **665,583** |

**Analysis of the scheme assets at the reporting date**

| 2018/19 | | | 2019/20 | |
|---|---|---|---|---|
| Percentage share | Fair value of assets | | **Percentage share** | **Fair value of assets** |
| % | £000 | | **%** | **£000** |
| 59 | 404,728 | Equity instruments | **57** | **378,880** |
| 10 | 68,304 | Government bonds | **12** | **80,078** |
| 4 | 23,865 | Other bonds | **4** | **25,099** |
| 8 | 58,159 | Property | **9** | **59,200** |
| 3 | 21,686 | Cash/ liquidity | **4** | **31,165** |
| 16 | 108,014 | Other assets | **14** | **91,161** |
| 100 | 684,756 | Average Return / Total Assets | **100** | **665,583** |

**The sensitivity of the overall pension liability to changes**

| Impact on the Defined Benefit Obligation in the Scheme | |
|---|---|
| Change in Assumption | **Impact** |
| | **£000** |
| Life expectancy assumptions (increase by 1 year) | **(42,032)** |
| Pension increase and deferred revaluation (increase by 0.1%) | **(18,152)** |
| Long-term salary increase (increase by 0.1%) | **(1,807)** |
| Discount rate (increase by 0.1%) | **19,477** |

## Housing Revenue Account

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 and government grants. The Council charges rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the HRA Balance.

| 2018/19 | | 2019/20 |
|---|---|---|
| £000 | | **£000** |
| | **Expenditure** | |
| 9,345 | Repairs and maintenance | **9,325** |
| 10,973 | Supervision and management | **10,901** |
| 1,389 | Rents, rates, taxes and other charges | **1,283** |
| 9,708 | Depreciation and amortisation | **10,470** |
| (14,820) | Revaluation (gain) /losses of non-current assets | **(9,527)** |
| 74 | Debt management costs | **70** |
| 511 | Movement in the impairment allowance for bad debts | **668** |
| 17,180 | **Total Expenditure** | **23,190** |
| | **Income** | |
| (40,700) | Dwelling rents | **(40,513)** |
| (1,157) | Non-dwelling rents | **(1,187)** |
| (2,167) | Charges for services and facilities | **(2,292)** |
| 21 | Contributions towards expenditure | **(60)** |
| **(44,003)** | **Total Income** | **(44,052)** |
| (26,823) | **Net income from HRA services as included in the CI&ES** | **(20,862)** |
| 89 | HRA services' share of corporate and democratic core | **89** |
| (26,734) | **Net income for HRA services** | **(20,773)** |
| | | |
| | **HRA share of the operating income and expenditure included in the CI&ES:** | |
| (1,553) | Gain on sale of HRA non-current assets | **(721)** |
| 7,308 | Interest payable and similar charges | **7,283** |
| (151) | Interest and Investment Income | **(224)** |
| (1,124) | Changes in fair value of investment properties | **1,120** |
| (329) | Capital grants and contributions receivable | **(845)** |
| (22,583) | **Surplus for the year on HRA services** | **(14,160)** |

### Movement on the HRA Balance

| 2018/19 | | 2019/20 |
|---|---|---|
| £000 | | **£000** |
| (22,583) | (Surplus)/ deficit for the year on the HRA Income and Expenditure Account | **(14,160)** |
| 21,183 | Adjustments between accounting basis and funding basis under statute | **12,848** |
| (1,400) | **(Increase)/ decrease in year on the HRA** | **(1,312)** |
| (13,154) | Balance on the HRA at the end of the previous reporting period | **(14,554)** |
| (14,554) | **Balance on the HRA at the end of the current reporting period** | **(15,866)** |

# Disclosure notes – notes supporting the Housing Revenue Account

### H1. Housing Stock

On 31 March 2020 the Council held 9,868 dwellings. There was a net decrease of 34 dwellings during the year (46 sales, 2 acquisitions and 10 new build dwellings) compared to a decrease of 4 dwellings in 2018/19.

| 31 March 2019 | | **31 March 2020** |
|---|---|---|
| 3,198 | Houses | **3,158** |
| 4,875 | Flats | **4,881** |
| 1,762 | Bungalows | **1,762** |
| 67 | Maisonettes | **67** |
| 9,902 | **Total** | **9,868** |

### H2. Balance Sheet Value

The values of HRA land, dwellings and other property are detailed as follows:

| 31 March 2019 | | **31 March 2020** |
|---|---|---|
| £000 | | **£000** |
| 418,498 | Dwellings | **430,689** |
| 19,183 | Garages | **19,475** |
| 437,681 | **Sub-total Council Dwellings** | **450,164** |
| 2,089 | Other Land and Buildings | **2,534** |
| 1,102 | Vehicles, Plant and Equipment | **867** |
| 940 | Assets Under Construction | **316** |
| 3,087 | Investment Property | **1,966** |
| 368 | Intangible Assets | **322** |
| 445,267 | **Total Balance Sheet value** | **456,169** |

### H3. Vacant Possession Value of Dwellings

As at 1 April 2020 the vacant possession value of dwellings within the Council's HRA was £1.059 billion, valued in accordance with the Guidance on Stock Valuation for Resource Accounting (£1.028 billion as at 1 April 2019). The difference between this figure and the £430.689 million valuation in the Balance Sheet shows the economic cost of providing council housing at less than market rents.

### H4. Capital Financing

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £000 | | £000 |
| | **Expenditure on Capital during the year** | |
| 14,683 | Council Dwellings | **11,146** |
| 299 | Vehicles, Plant and Equipment | **158** |
| 210 | Intangible Assets | **58** |
| 915 | Assets Under Construction | **316** |
| 16,107 | **Total** | **11,678** |
| | | |
| | **Funded by:** | |
| 2,609 | Usable Capital Receipts | **200** |
| 1,842 | Prudential Borrowing | **0** |
| 445 | Capital Grants and Contributions | **379** |
| 417 | Revenue and Reserve Contributions | **308** |
| 10,794 | Major Repairs Reserve | **10,791** |
| 16,107 | **Total** | **11,678** |

### H5. Capital Receipts

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £000 | | £000 |
| (4,433) | Sale of Council dwellings | **(3,601)** |
| 1,344 | Less pooling contributions | **1,249** |
| (3,089) | Gross capital receipts before admin costs | **(2,352)** |
| 77 | Administration costs | **60** |
| (3,012) | **Total** | **(2,292)** |

### H6. HRA Depreciation and Amortisation

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £000 | | £000 |
| 7,331 | Dwellings | **7,806** |
| 1,932 | Garages | **2,132** |
| 37 | Other Land and Buildings | **35** |
| 345 | Equipment | **393** |
| 62 | Intangible Assets (amortisation) | **104** |
| 9,707 | **Total depreciation and amortisation** | **10,470** |

### H7. Rent Arrears

Rent arrears are the amount of rent owed to the Council.

| At 31 March 2019 | | At 31 March 2020 |
|---|---|---|
| 2,061 | Total Rent Arrears (£000) | **2,236** |
| 4.62 | % of total income due in year | **5.07** |

**H8. Other HRA Arrears**

Other arrears owed to the Council include leaseholder planned maintenance costs, housing benefit overpayments, court costs and repairs.

| At 31 March 2019 | | **At 31 March 2020** |
|---:|---|---:|
| 1,706 | Total Other Arrears (£000) | **1,703** |
| 3.82 | % of total income due in year | **3.87** |

**H10. Housing Debt Impairment Allowance**

The Council puts aside money to allow for the possibility that a proportion of the outstanding rent arrears (Note H7) and other HRA arrears (Note

**H8**) will not be paid. That money is known as the Housing Debt Impairment Allowance in accordance with the Code. The movement during the years is shown below:

| 31 March 2019 | | **31 March 2020** |
|---:|---|---:|
| £000 | | **£000** |
| (2,818) | Balance at 1 April | **(2,949)** |
| (39) | Arrears reinstated | **(34)** |
| (511) | Contribution to impairment allowance | **(668)** |
| 419 | Net write offs | **521** |
| (2,949) | **Balance at 31 March** | **(3,130)** |

## Collection Fund

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

## Collection Fund Income and Expenditure Statement

| | | 2018/19 | | | | 2019/20 |
|---|---|---|---|---|---|---|
| Council Tax | Business Rates | Total | | **Council Tax** | **Business Rates** | **Total** |
| £000 | £000 | £000 | | **£000** | **£000** | **£000** |
| | | | **Amounts required by statute to be credited to the Collection Fund** | | | |
| (117,842) | (118,641) | (236,483) | Income receivable (net of exemptions and reliefs) | (124,023) | (119,211) | **(243,234)** |
| 0 | 3,025 | 3,025 | Transitional protection payments | 0 | 1,381 | **1,381** |
| (117,842) | (115,616) | (233,458) | **Total amounts required by statute to be credited to the Collection Fund** | **(124,023)** | **(117,830)** | **(241,853)** |
| | | | **Amounts required by statute to be debited to the Collection Fund** | | | |
| | | | **Precepts, demands and shares** | | | |
| 101,590 | 111,682 | 213,272 | Solihull MBC | 105,861 | 113,214 | **219,075** |
| 9,767 | 0 | 9,767 | West Midlands Police & Crime Commissioner | 11,738 | 0 | **11,738** |
| 4,470 | 1,128 | 5,598 | West Midlands Fire & Rescue Authority | 4,663 | 1,144 | **5,807** |
| | | | **Charges to the Collection Fund** | | | |
| 813 | 762 | 1,575 | Increase/(reduction) in allowance for impairment of debts | 1,098 | 1,109 | **2,207** |
| 0 | (458) | (458) | Increase/(reduction) in business rate appeals provision | 0 | (2,868) | **(2,868)** |
| 0 | 252 | 252 | Charge for allowable collection costs for business rates | 0 | 251 | **251** |
| | | | **Contributions towards previous year's estimated Collection Fund surplus** | | | |
| 1,054 | (52) | 1,002 | Solihull MBC | 1,206 | 1,018 | **2,224** |
| 0 | 380 | 380 | Central Government | 0 | 0 | **0** |
| 47 | 3 | 50 | West Midlands Fire & Rescue Authority | 54 | 10 | **64** |
| 97 | 0 | 97 | West Midlands Police & Crime Commissioner | 117 | 0 | **117** |

| | | 2018/19 | | | | 2019/20 |
|---|---|---|---|---|---|---|
| Council Tax | Business Rates | Total | | Council Tax | Business Rates | Total |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| 117,838 | 113,697 | 231,535 | **Total amounts required by statute to be debited to the Collection Fund** | 124,737 | 113,878 | 238,615 |
| | | | | | | |
| (4) | (1,919) | (1,923) | **Movement on the Collection Fund balance** | 714 | (3,952) | **(3,238)** |
| | | | | | | |
| (1,222) | (177) | (1,399) | Opening balance at 1 April | (1,226) | (2,096) | **(3,322)** |
| (4) | (1,919) | (1,923) | Movement on the fund balance | 714 | (3,952) | **(3,238)** |
| (1,226) | (2,096) | (3,322) | **Closing Balance at 31 March [1]** | (512) | (6,048) | (6,560) |

[1] Note C3 to the Collection Fund gives a further analysis of the movement on the Collection Fund balance.

# Disclosure notes – notes supporting the Collection Fund

### C1. Council Tax

As part of the annual budget setting for the year, the Council calculates the level of council tax required to pay for its services. The amount of tax paid by local residents is based on the value of their property adjusted for any discounts or exemptions that apply. There are eight property valuation bands: A to H.

The council tax base, which represents the number of domestic properties in the borough expressed as equivalent to Band D properties, can be broken down as follows for 2019/20:

| Dwellings as Band D equivalents 2018/19 | Band | Number of dwellings on Valuation List | Dwellings for council tax purposes | Multiplier | Dwellings as Band D equivalents 2019/20 |
|---|---|---|---|---|---|
| 5,452 | A | 14,313 | 8,447 | 6/9 | **5,632** |
| 6,471 | B | 12,138 | 8,506 | 7/9 | **6,616** |
| 16,053 | C | 22,435 | 18,365 | 8/9 | **16,324** |
| 14,609 | D | 16,847 | 14,754 | 9/9 | **14,754** |
| 13,157 | E | 11,818 | 10,790 | 11/9 | **13,187** |
| 11,923 | F | 8,861 | 8,318 | 13/9 | **12,014** |
| 8,501 | G | 5,451 | 5,167 | 15/9 | **8,611** |
| 721 | H | 399 | 367 | 18/9 | **735** |
| 76,887 | Total Band D equivalents (tax base) | | | | **77,873** |
| (915) | Adjustment for collection rate of 98.81% | | | | **(927)** |
| 75,972 | **Net tax base (Band D equivalents)** | | | | **76,946** |

The level of council tax paid by a Band D property is calculated by dividing the total amount that the Council needs to raise from council tax by the tax base and assuming a 98.81% collection rate. This is converted to the amount payable by properties in other bands by applying the multiplier given in the table above. In 2019/20, the average Band D council tax including police, fire and parish precepts was £1,588.94 (2018/19: £1,524.60).

The actual gross income in 2019/20 was £124.023 million, which in council tax base terms would be 78,054. The effect of this higher than anticipated tax base was a council tax surplus in the year of £0.663 million (2018/19: £1.202 million surplus), as shown in the following table:

| 2018/19 | | 2019/20 |
|---|---|---|
| £000 | | **£000** |
| 117,222 | Anticipated gross income from council tax *(from multiplying the gross tax base by the average council tax)* | **123,735** |
| (117,842) | Actual gross income | **(124,023)** |
| (620) | **Surplus for the year before allowance for impairment** | **(288)** |
| (1,395) | Anticipated allowance for impairment *(from multiplying the adjustment for collection rate by the average council tax)* | **(1,473)** |
| 813 | Actual allowance for impairment of debts | **1,098** |
| (582) | **Surplus for the year in relation to the allowance for impairment** | **(375)** |
| (1,202) | **Surplus for the year** | **(663)** |

**C2. Business Rates**

Local businesses pay business rates to the Council. The Council belongs to a 100% business rates retention pilot, with the other members of the West Midlands Combined Authority (WMCA), and as a result retains 99% of the business rates it collects, with 1% being paid to the West Midlands Fire and Rescue Authority and a share of growth since April 2016 payable to the WMCA to support its investment programme. The Council is also required to pay a tariff to the government out of its share in order for there to be equalisation of business rates income across the country.

The government determines the level of business rates payable, which was set at 50.4 pence per pound of rateable value in 2019/20 (2018/19: 49.3 pence). There is also a small business rate multiplier which was set at 49.1 pence per pound of rateable value in 2019/20 (2018/19: 48.0 pence). The Valuation Office Agency sets the rateable value of each property and periodically undertakes a national revaluation exercise, the most recent of which resulted in a valuation list which took effect from April 2017. As at 31 March 2020, the total rateable value for properties in Solihull was £269.072 million (31 March 2019: £268.362 million).

| 2018/19 | | **2019/20** |
|---|---|---|
| £000 | | **£000** |
| (128,814) | Gross business rates income *(from multiplying the total rateable value as at 31 March 2020 by the small business rate multiplier)* | **(132,114)** |
| 2,835 | less reduction in income due to rateable value changes throughout year | **1,443** |
| (125,979) | Gross business rates income 2019/20 | **(130,671)** |
| 7,338 | less mandatory, discretionary and unoccupied property reliefs | **11,460** |
| (118,641) | **Net business rates income receivable** | **(119,211)** |

**C3. Analysis of the movement on Collection Fund balance**

| 2018/19 | | 2019/20 | | |
|---|---|---|---|---|
| Total | | Council Tax | Business Rates | **Total** |
| £000 | | £000 | £000 | **£000** |
| (1,399) | Balance at 1 April | (1,226) | (2,096) | **(3,322)** |
| 1,529 | Declared surplus/ (deficit) distributed in year | 1,377 | 1,028 | **2,405** |
| | In-year (surplus)/deficit for year: | | | |
| (3,282) | Solihull MBC | (573) | (4,930) | **(5,503)** |
| (69) | West Midlands Fire & Rescue Authority | (26) | (50) | **(76)** |
| (101) | West Midlands Police & Crime Commissioner | (64) | 0 | **(64)** |
| (3,322) | **Balance at 31 March** | **(512)** | **(6,048)** | **(6,560)** |

Council tax income credited to the CIES of £106.434 million comprises the Council's precept of £105.861 million plus the Council's share of the in-year surplus of £0.573 million shown in note C3.

Business rates income credited to the CIES of £47.106 million comprises the Council's share of net business rates income of £113.214 million plus the Council's share of the in-year surplus of £4.930 million shown in note C3 and a residual £0.009 million from the business rates pool in settling the final levy payment due, less the share of growth due to the West Midlands Combined Authority of £0.620 million and the net tariff payment due to the business rates pool of £70.427 million.

## Independent auditor's report to the members of Solihull Metropolitan Borough Council

# Glossary and Contact Details

**Academy**
A school which chooses to opt out of the local authority's control and maintain their own funding.

**Accounting Standards**
International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are the accounting standards that councils are required to follow when producing their financial statements.

**Accruals**
An accounting principle that recognises income and expenditure as they are earned or incurred, not as money is received or paid.

**Actuarial Assumptions**
Predictions made for factors that will affect the financial position of the pension scheme.

**Amortisation**
The measure of the consumption of an intangible asset over its useful life.

**Asset**
An item that is owned by and can be used by the Council. A current asset is held for a short period of time, for example cash in the bank, stocks and debtors. In contrast, a non-current asset such as a piece of land, a building or a vehicle is used by the Council over a longer period of time (i.e. more than one year).

**Budget**
A budget is a plan of approved spending during a financial year (see also Financial Year).

**Business Rates**
Business rates or non-domestic rates collected by councils are a way in which those who occupy or own non-domestic property contribute to the cost of providing local services.

**Capital Adjustment Account**
This account includes money we have set aside to finance spending on non-current assets.

**Capital Programme**
The plan of approved spending on non-current assets.

**Capital Receipts**
Money received from selling non-current assets, and from grant and loan repayments.

**CIPFA**
The Chartered Institute of Public Finance and Accountancy, the institute that governs accounting in the public sector.

**Collection Fund**
A statutory account which billing authorities maintain for the collection and distribution of amounts due in respect of council tax and business rates.

**Contingent Assets**
A potential asset that may arise but is dependent on future events that are not under the Council's control.

**Contingent Liabilities**
A potential liability that may occur, depending on the outcome of an uncertain future event.

**Community Assets**
Assets held by the Council, for example parks and historic buildings, which have no determinable useful life and may have restrictions on their disposal.

**Core Council**
This term refers to those of the Council's services which are funded from business rates and council tax income, i.e. excluding the HRA and services funded from the DSG.

**Council Tax**
A tax paid by residents of the borough to the Council, based on the value of their property, to be spent on local services.

**Creditors**
People or organisations that the Council owes money to at the end of the financial year.

**Debtors**
People or organisations who owe the Council money at the end of the financial year.

**Dedicated Schools Grant (DSG)**
Schools are funded separately from other Council services through the DSG, which is received directly from the government and paid over to schools.

**Deficit**
This occurs when spending exceeds income (opposite of surplus).

**Depreciation**
The measure of the wear and tear, consumption or other reduction in the useful economic life of a non-current asset.

**Earmarked Reserves**
Money set aside for a specific purpose in a future year.

**Fair Value**
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Financial Instrument**
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial Year**
The Council's financial year runs from 1 April to the following 31 March.

**General Fund**
The account that summarises the revenue cost of providing services by the Council.

**Impairment Allowance**
The Council sets aside an amount in an impairment allowance for debts it believes may not be repaid.

**Impairment of Asset**
An asset has been impaired when it is judged to have lost value other than through normal use.

**Infrastructure assets**
Assets held by the Council such as highways and footpaths.

**Intangible Assets**
An item which does not have physical substance (for example, software licenses) but can be identified and used by the Council over a number of years.

**Inventories**
Items of stock owned by the Council which have not been used by the end of the financial year.

**Investment Properties**
Interest in land and/or buildings which are held for their investment potential rather than for operational purposes.

**Housing Revenue Account (HRA)**
A statutory account that contains all expenditure and income relating to the provision of council housing for rent. The HRA is a ring-fenced account outside the General Fund.

**Lease**
A finance lease is an agreement to pay for an asset, for example a vehicle, in regular instalments where the person paying the lease (the lessee) is deemed to own the asset. In contrast, an operating lease occurs when the lessee is not considered to own the asset.

**Levy**
A payment made by the Council for another local service, for example, local transport and the Environment Agency.

**Liability**
Money the Council will have to pay to other people or organisations in the future.

**LOBO**
Lender's Option Borrower's Option. A form of loan, where the lender can change certain conditions of the loan, such as the dates and the interest rate. If this occurs the borrower then has the option of either continuing with the loan or redeeming it in full without a penalty.

**Long-term Borrowing**
Debts which are not due within the forthcoming financial year.

**Major Repairs Reserve**
A reserve to pay for large scale repairs to Council housing.

**Materiality**
An item is material if its inclusion in the financial statements would influence or change the judgment of a reasonable person. If the information would have no impact on the decision-maker, it is deemed not material.

**Net Asset Value**
The value of the Council's assets less its liabilities.

**Net Book Value (NBV)**
The amount at which fixed assets are included in the Balance Sheet, i.e. their historical cost or fair value, less the cumulative amount provided for depreciation.

**Net Spending**
The amount spent on a service after taking into account income that a service has received.

**Non-current Assets**
An asset which is not easily converted into cash or expected to become cash within the next year.

**Non-operational Assets**
This is an asset held by the Council over a number of years but not actively used by a service within the Council. An example of this would be investment properties (see also Operational Assets).

**Operational Assets**
This is an asset held by the Council over a number of years and actively used in the provision of services, such as office buildings or vehicles (see also Non-operational Assets).

**Outturn**
The final position in terms of expenditure incurred or income receivable for a financial year.

**Payments in Advance**
Payments made in the current financial year for goods and services to be received in the following financial year.

**Precept**
This is money collected by the Council on behalf of another local service, for example the Fire and Police services.

**Prior Period Adjustments**
Changes made to the previous year's accounts to show things that were not known about until after that year's accounts were produced.

**Private Finance Initiative (PFI)**
Government initiative under which the Council buys the service of a private sector supplier to design, build, finance and operate a public facility.

**Provisions**
Money set aside for a debt that is likely to arise in the future, for example insurance claims.

**Receipts in Advance**
Money received before the end of the financial year, which relates to the following financial year.

**Reserves**
Amounts put aside by the Council to provide for known future expenditure, e.g. replacement of an asset.

**Revaluation Reserve**
When the value of an asset owned by the Council changes, the increase or decrease in value is transferred to this reserve.

**Revenue Expenditure Funded From Capital Under Statute (REFCUS)**
Spending on assets that have a lasting value but are not owned by the Council, e.g. disabled facilities grant expenditure.

**Revenue Spending**
Spending on the day-to-day running of services. This includes, for example, salaries or running expenses for the Council's buildings and equipment.

**Revenue Support Grant (RSG)**
The main government grant which helps support local authority services. RSG is being phased out and is expected to cease entirely by 2020. Allocations of RSG up to that point have been incorporated into the funding the Council has received through business rates under the West Midlands business rates retention pilot.

**Ring-fenced**
Amounts which are ring-fenced are only able to be spent on specific areas.

**Specific Grants**
Grants from the government or other bodies which are to pay for a particular council service or project.

**Surplus**
What is left of income after expenses have been taken away (opposite of deficit).

**Third Party**
A person or entity who is not involved in an interaction or relationship with the Council.

**Usable Capital Receipts Reserve**
Money received from the sale of non-current assets not yet used for new capital spending.

**Useful Life**
The period over which the Council expects to derive benefits from the use of a non-current asset and over which, typically, it will be depreciated.

**Variance**
The difference between the budgeted and actual costs or income for an activity. A favourable variance means that the actual performance was better than budgeted (i.e. income was greater or expenditure lower) and an adverse variance means that the actual performance was worse than budgeted.

# Contact Details and Other Sources of Information

Enquiries or comments about this publication should be made to:

**Director of Resources and Deputy Chief Executive**
**Council House**
**Manor Square**
**Solihull**
**B91 3QB**
**Telephone: 0121 704 6855**

Other sources of information about Solihull MBC and its finances include:

**Council Tax Leaflet 2020/21**
**Medium Term Financial Strategy 2020/21 - 2022/23**

Paper copies are available on request. Electronic versions can be accessed from the Solihull Council website.

More detailed statistical information about Solihull and all other local councils is contained in a wide range of publications produced by CIPFA. Some of these publications are available in the Core Library, Solihull, or alternatively from CIPFA itself:

**Chartered Institute of Public Finance and Accountancy**
**77 Mansell Street**
**London**
**E1 8AN**

Further information about the finances of the Fire and Rescue Authority, Police and Crime Commissioner and West Midlands Combined Authority can be obtained from the following addresses:

**The Chief Finance Officer**
**West Midlands Office for Policing and Crime**
**Lloyd House**
**Colmore Circus Queensway**
**Birmingham**
**B4 6NQ**

**The Treasurer of the Authority**
**West Midlands Fire Service Headquarters**
**99 Vauxhall Road**
**Birmingham**
**B7 4HW**

**Director of Finance**
**West Midlands Combined Authority**
**16 Summer Lane**
**Birmingham**
**B19 3SD**