

# Annual Accounts

## 2005/2006

Birmingham City Council



# Birmingham City Council - Statement of Accounts 2005/2006

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# Foreword

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## Introduction

These accounts set out the financial results of Council activities for the year ended 31st March 2006.

The main statements within the accounts and their purposes are:

- **Consolidated Revenue Account** - this account gives details of the cost of services which the City Council provides and shows how the net cost (after departmental income and movements to and from reserves) has been financed from Revenue Support Grant and local taxpayers.
- **Housing Revenue Account** - this account reflects the statutory obligation to 'ring-fence' and show separately the financial transactions relating to the provision of Council housing.
- **Collection Fund** - is maintained separately, as a statutory requirement, to show the transactions of the Council as a Billing Authority in relation to non-domestic rates and council tax. It illustrates the way in which the income has been distributed to Precepting Authorities.
- **Consolidated Balance Sheet** - summarises the financial position of the City Council including the Housing Revenue Account and the Collection Fund. It provides a statement of the assets and liabilities at the end of the financial year (31st March 2006).
- **Statement of Movements in Reserves** - summarises the movements in the City Council's revenue and capital reserves.
- **Cash Flow Statement** - summarises the total cash movements during the year for revenue and capital purposes.
- **Group Accounts** - these statements consolidate the City Council's accounts with those of the National Exhibition Centre (NEC) Ltd and NEC Finance plc.

## Changes in Accounting Policies

The main change in accounting policies is the production for the first time of a full set of consolidated financial statements. These consolidate the accounts of the City Council with those of the NEC Ltd. And show the total resources and liabilities of the council and subsidiary companies as one group.

A Business Improvement District was inaugurated in the Broad Street area of Birmingham City Centre in August 2005. Local businesses elect in a ballot to set up a BID and appoint the board of the company that manages it, and provides additional services and environmental improvements. A levy is raised by the Council and paid over to the company.

2005/06 was the first year of the operation of the Landfill Allowances Trading Scheme. The Council has recognised the value of its allowances on the balance sheet. The Council did not trade any allowances in 2005/06.

## Foreword

### A summary of the City Council's financial performance for the financial year 2005/2006

The City Council's revenue and capital budget is allocated between the Portfolio holders who make up the Executive Cabinet and Committees of the Council. Spending against these budgets is carefully monitored throughout the year and reported monthly to Cabinet. The table below gives a summary of revenue and capital expenditure by portfolio and committee.

| <b>Committee/Portfolio</b>            | <b>Revenue<br/>Outturn<br/>£'000</b> | <b>Capital<br/>Outturn<br/>£'000</b> |
|---------------------------------------|--------------------------------------|--------------------------------------|
| Leader                                | 32,510                               | 227,887                              |
| Deputy Leader                         | 30,552                               | 6,216                                |
| Education & Lifelong Learning         | 781,180                              | 54,724                               |
| Equalities & Human Resources          | 3,967                                | 683                                  |
| Housing                               | 32,454                               | 154,012                              |
| Leisure, Sport & Culture              | 46,301                               | 32,447                               |
| Local Services & Community Safety     | 7,367                                | 7,875                                |
| Regeneration                          | 21,951                               | 16,934                               |
| Social Care & Health                  | 350,969                              | 5,417                                |
| Transportation & Street Services      | 91,504                               | 43,389                               |
| Council Business Management           | 8,130                                | 0                                    |
| Planning Committee                    | 2,515                                | 0                                    |
| Licensing Committee                   | (360)                                | 0                                    |
| Public Protection Committee           | 12,936                               | 504                                  |
| District Committees                   | 99,282                               | 0                                    |
| Sub-Total                             | 1,521,258                            | 550,088                              |
| Capital Financing & Other Adjustments | (67,372)                             | 0                                    |
| <b>Total</b>                          | <b>1,453,886</b>                     | <b>550,088</b>                       |

|   | <b>Original Estimate<br/>2005/06<br/>£'000</b> | <b>Actual Net<br/>2005/06<br/>£'000</b> | <b>Variation<br/>£'000</b> |
|---|--|---|----------------------------|
| Net cost of City Council Services               | 1,452,330                                      | 1,453,886                               | 1,556                      |
| Funded by Government grants and local taxpayers | (1,452,330)                                    | (1,457,182)                             | (4,852)                    |
| Contribution (from)/to General Balances         | 0  | 3,296                                   | 3,296                      |

# Foreword

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## General Fund Reserves and Balances

Balances at the end of 2005/06 stand at £28.9m .

## Capital Expenditure

Total expenditure on capital schemes in 2005/06 was £550.1m (2004/05 £268.7m). This compared to the latest capital budget of £574.7 million. Full details are given in Note 1 to the Consolidated Balance Sheet.

## Housing Revenue Account (HRA)

The net deficit for 2005/06 was £3.5 million which will be deducted from the surplus of £16.9 million brought forward to make a carry forward surplus of £13.4 million.

## Other Matters

### Borrowing

The Council's authorised limit for external debt in 2005-06 was £1,704 million. The maximum external debt during the year amounted to £1,423 million.

Other resources available to finance capital expenditure include :

- Capital receipts
- Section 106 balances
- Grants
- Revenue Balances

Full details of the financing of capital expenditure in 2005-06 are shown in Note 1 to the Council's Balance Sheet on page 43.

### Provisions

The Council has carried a provision for the repayment of the debt of the NEC Ltd. when this matures in 2016. In August 2005 the Council purchased the bonds in exchange for a new issue of Council bonds with a longer maturity date and lower coupon. This has had the effect of reducing the NEC Ltd.'s finance costs while releasing the existing provision for use in funding refurbishment works on the exhibition halls at the NEC. The Council's balance sheet therefore shows both an asset and a liability in respect of this transaction. The bonds are shown at nominal value.

### Pension Liability

There is currently a net deficit on the fund and this will be reviewed periodically by the West Midland Pension Fund Actuary and steps will be taken to address the deficit. The City Council's share of the deficit is £950.9 million.

# Statement of Responsibilities

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## The City Council's Responsibilities

The City Council is required to:

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

## The Chief Financial Officer's Responsibilities

The City Council's chief financial officer is the Director of Corporate Finance and Asset Management. He is responsible for the preparation of the City Council's Statement of Accounts. In preparing the statement, he has:

- selected suitable accounting policies and applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- complied with the Code of Practice on Local Authority Accounting.
- applied the accounting concept of a 'going concern' by assuming that the Authority's services will continue to operate for the foreseeable future.

## The Chief Financial Officer has also:

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

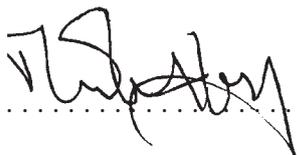
## Certification of Accounts

I certify that the Statement of Accounts presents fairly the position of Birmingham City Council at 31st March 2006 and its income and expenditure for the year ended 31st March 2006.



Brendan Arnold  
Director of Corporate Finance and Asset Management

I confirm that these accounts were approved by the Council Business Management Committee on 27th June 2006. Signed on behalf of Birmingham City Council:



Cllr Mike Whitby  
Leader of the Council and Chair of meeting and approving the accounts

# Statement of Internal Control

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## Birmingham City Council

### Statement on Internal Control 2005/2006

#### 1. Scope of Responsibility

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

In discharging this overall responsibility, Birmingham City Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of Birmingham City Council's functions and which includes arrangements for the management of risk.

#### 2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Birmingham City Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at Birmingham City Council for the year ended 31 March 2006 and up to the date of approval of the Statement of Accounts.

#### 3. The Internal Control Environment

The key elements of the internal control environment include:

- Birmingham City Council has established a Council Plan setting out its objectives and there is an accompanying Performance Plan in which achievement of the authority's objectives is monitored.
- Birmingham City Council facilitates policy and decision-making via a Cabinet Structure with Member activity portfolios. There are Scrutiny Committees covering all portfolios and a Co-ordinating Overview and Scrutiny Committee. The City Council has also, during 2005/06 established an Audit Committee to provide independent assurance to the Council on risk management and control, and the effectiveness of the arrangements the Council has for these matters. The Constitution is reviewed annually and has been codified into one document and is available on the intranet and external web pages.

# Statement of Internal Control

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- Birmingham City Council ensures compliance with established policies, procedures, laws and regulations - including risk management. There is a comprehensive corporate induction programme in place and information regarding policies and procedures are held on our intranet, which continues to be enhanced and developed. The City Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with External Audit. The Audit Commission through its inspectorate functions also reviews compliance with policies, procedures, laws and regulations within their remit.
- Birmingham City Council has continued to enhance and strengthen its internal control environment through the introduction of new policies and procedures.
- The City Council first established a risk management strategy in July 2002, and this has been updated subsequently. Leadership is provided to the risk management process by the Strategic Director of Resources being the Officer Corporate Governance Champion and the Deputy Leader is designated as the Member's Corporate Governance Champion. The City Council has approached embedding risk management in accordance with best practice guidance as a "top down" process, with a Corporate Risk Register supported by Directorate and Divisional risk registers. Birmingham Audit continues to give presentations, provide training, facilitate workshops and provide guidance through the publication of a risk management toolkit which has been produced to give managers at all levels a better understanding of how to implement risk management in their area of responsibility and to have some understanding of the process up and down the City Council. The toolkit provides a step by step approach to implementing Risk Management using the Council's methodology.
- Birmingham City Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency, and effectiveness as required by the Best Value duty.
- Under the new Comprehensive Performance Assessment (CPA) framework, the Council is improving well and its overall category is 'two-star'. The Audit Commission's annual assessment of the Council identified that it "has improved in most of its priority services. There are significant improvements to children's social care and its housing service, which were previously poor. Both were inspected during 2005 and received improved ratings with promising prospects for further improvement. However, much more work is needed to ensure that the services fully meet people's needs."
- Financial management in Birmingham City Council and the reporting of financial management is undertaken through a General Ledger and Management Information System, GLAMIS, which integrates the general ledger function with those of budgetary control and payments. These are supported by a Corporate Accounting Procedures Manual held on the Council's Intranet which contains information on financial and business procedures and processes to be followed in all areas of the City Council. A Scheme of Delegation which sets out the powers of Directors, the Financial Regulations and Contract Standing Orders form part of the Constitution. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action is initiated.
- Performance management in Birmingham City Council and the reporting of performance management continues to be improved with a more focussed Council Plan setting our priorities

# Statement of Internal Control

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and is supported by a Performance Plan. The Performance Plan explains how we will deliver the priorities and the commitments made in the Cabinet and Corporate Plan. The Performance Plan focuses on corporate priorities and reflects our determination to prioritise the areas of greatest importance for the people of Birmingham. Information on performance across the remaining Best Value Performance Indicators is also included. The Performance Plan is also supported by a range of Service Plans. These set out detailed objectives, priorities and actions, plus performance indicators and resources, for every major area of Council service. A new system to record and monitor performance indicators, Performance Plus, was introduced during the year. The Audit Commission noted that the Council has achieved some improvement in performance across all of its core service areas, and 52 per cent of core service performance indicators improved in 2005/06, compared with 2004/05.

## 4. Review of Effectiveness

Birmingham City Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

The Council has developed key policy documents, such as the Council Plan 2005+ and the Performance Plan 2005/06 through which the Council expresses its objectives and puts in place the mechanisms by which it can monitor their achievement. We monitor and report publicly on progress so residents can see how we are tackling the issues that matter to them. The Plan is monitored on a quarterly basis both by the Executive and Overview and Scrutiny Committees. Further progress is outlined in the Council Plan 2006+ which has been published recently.

Directorate, Divisional and Service unit business plans that contain a variety of performance indicators and targets, that are regularly reviewed, support these plans.

The Council's Constitution, which is annually reviewed by the Monitoring Officer, sets out the responsibilities of both Members and senior managers. In particular the Council has identified the three statutory posts as follows:-

|                         |   |
|-------------------------|---|
| Head of Paid Service    | - Chief Executive   |
| Monitoring Officer      | - Chief Legal Officer   |
| Chief Financial Officer | - Strategic Director of Resources<br>(since July 2005 the Director of Corporate Finance and<br>Asset Management has been acting in this role) |

The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/Solace guidance and has developed a local code of corporate governance.

The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which is included within the Constitution. The Strategic Director of

# Statement of Internal Control

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Resources is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2003. The internal audit provision is managed, independently by the Assistant Director, Audit and Risk Management and operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2003. The Birmingham Audit plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Council establishments and fraud investigations. The resulting work plan is discussed and agreed with the Strategic Directors and Members and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses. These are submitted to Members, Strategic Directors, School Heads and Chairs of Governors as appropriate. The Council's review of the effectiveness of the system of internal control is informed by:

- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
- the work undertaken by Birmingham Audit during the year;
- the work undertaken by the external auditor reported in their annual audit letter;
- other work undertaken by independent inspection bodies.

From the work undertaken by Birmingham Audit in 2005/06 the Assistant Director, Audit & Risk Management was able to give the following assurance "I am able to provide a 'reasonable assurance". In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. Internal Audit did identify a number of concerns that required remedial action and these were reported to the appropriate Strategic Director or Senior Manager during the year. The more significant of these are set out in section 5 below.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by Birmingham City Council, and a plan to address weakness and ensure continuous improvement of the system is in place.

## **5. Significant Internal Control Issues**

**The Council has set three central priorities:**

- ◆ Investing for improvement
- ◆ Improving Services - Aspiring for Excellence in all our services
- ◆ A city of vibrant urban villages

These form the basis for the Council Plan and Performance Plans in the recently published Council Plan 2006+ referred to above and provide the focus for the improvements which are being made in all areas of the Council.

The Comprehensive Performance Assessment (CPA) in 2005 identified the Council as improving well and categorised as "two stars". Significant improvement was achieved in Children's Social

# Statement of Internal Control

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Care and Housing although the Audit Commission commented that "much more work is needed to ensure that the services fully meet people's needs."

The review of internal control also highlights these as significant areas for the delivery of change by the Council although the systems to ensure the management of the risks have been shown to be sound. The main areas are:

- ◆ Improving Social Care provided to children. The City Council's Social Care & Health Services were reassessed in 2005 and the service is currently assessed as one star. The annual review letter identified the significant improvements that had been made and that prospects for further improvement continue to be 'promising'. Budget management during 2005/06 has also significantly improved assisted by Steering Group meetings, chaired by the Leader of the Council. All outstanding recommendations are managed and monitored through the Directorate Business Plan and through the normal regulatory arrangements with the External Inspectorate.
- ◆ Improving landlord services, in particular the Housing repairs service. The Housing service also showed significant improvements and achieved a "one star" rating following the Audit Commission inspection in May 2005. The repairs contract for the south of the City was successfully re-tendered for April 2006.
- ◆ Supporting People. This service was subject to a two-stage inspection by the Audit Commission in 2005. This identified a number of areas of concern and an improvement plan is now in place and will be closely monitored. Service improvements will focus on the introduction of eligibility criteria, steady state contracts and service reviews for all providers.

The Council continues to be actively involved in developing the way it works with partners and organises itself to deliver services. Developments of this nature require careful management and the Council have sought to identify and minimise the impact of risks associated with this change. The major developments are:

- ◆ 2005/06 was the second year of the arrangements for Devolution and Localisation of services to Districts. District Strategic Partnerships were developed, and plans and service provision continued to be embedded into the operation of the local services. The Council is undertaking a Scrutiny Review of these arrangements which is due to report in July 2006.
- ◆ In response to the Children Act, the Council has restructured to form two new Directorates; Children, Young People and Families, and Adults and Communities. A priority for 2006/07 will be to develop these new arrangements to establish an outcomes-based planning culture, in partnership with other agencies, to improve planning, delivery and integration of services.
- ◆ The Council worked with partners in the Birmingham Strategic Partnership during 2005/06 to enter into a Local Area Agreement with Central Government from April 2006. This covers four service areas: Children and Young People, Healthy Communities and Older People, Safer and Stronger Communities, and Economic Development and Enterprise, and involves the aligning of over £300m of resources including some £30m pooled funds.
- ◆ The Council continues to develop plans for a PFI for Highways from April 2008.

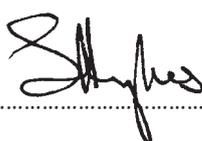
# Statement of Internal Control

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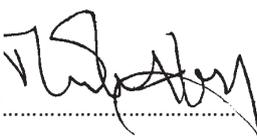
- ◆ The Council agreed arrangements for the future management of the Town Hall by a reformed Trust.
- ◆ The Council finalised a strategic partnership for Business Transformation with a consortium led by Capita and established "Service Birmingham", a joint venture company from April 2006.
- ◆ Alongside the strategic partnership the Council continues to develop and implement an extensive business transformation and efficiency programme to improve services and respond to the challenges of the Gershon report and the need to identify significant on-going savings in both the current and future years.

Other areas which have been highlighted in the review of the Council's internal control include those listed below. In each case the Directors responsible have identified the risk involved and prepared plans to contain the risks and deliver the necessary improvements.

- ◆ Reviews of internet usage shows that this has grown substantially in recent years without a corresponding investment in security or monitoring.
- ◆ The Council continues to develop its arrangements for responding to equalities legislation and best practice and to embed this throughout the organisation.
- ◆ A new Revenues and Benefits integrated computer system has been successfully implemented which will improve services to customers in terms of administration of housing benefit, council tax benefit and council tax collection, as well as achieving support cost efficiencies and continuing to reduce claimant fraud.
- ◆ The Council continues to address sickness levels to enable better services to be provided.
- ◆ A significant fraud was identified during the year and as a consequence the Council is implementing a range of improvements to payments systems, procedures and structures.

Signed.....

Stephen Hughes  
Chief Executive

Signed.....

Councillor Mike Whitby  
Leader of the Council

Signed.....

Brendan Arnold  
Director of Corporate Finance and Asset Management

# Accounting Policies

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## Introduction

The City Council's Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2005. The code has been approved as a Statement of Recommended Practice (SORP).

The following policies have been adopted in compiling the accounts:

## Best Value Accounting Code of Practice (BVACOP)

In 2000 the Chartered Institute of Public Finance and Accountancy published their Best Value Accounting Code of Practice (BVACOP). Several substantial revisions to this Code have been published, the most recent in 2004. BVACOP sets out "proper practice" with regard to consistent financial reporting below the level shown in this statement of accounts. The Code covers a definition of Total Cost and a revised Service Expenditure Analysis. The Total Cost part of the Code also covers the treatment of partnerships, trading accounts, Corporate and Democratic Core and other overheads. The Consolidated Revenue Account and Note 1 on trading activities have been prepared in accordance with BVACOP.

## Accruals

The City Council accounts are kept on an accruals basis in accordance with the Accounting Code of Practice and objectives of financial reporting set out in FRS18.

Income and expenditure are accounted for in the year to which they relate by the creation of debtors and creditors.

Certain periodic payments, such as those to utilities, are not accrued for per FRS18. These are accounted for on a cash basis, but result in no material difference to the accounts.

The City Council has adopted a de minimis level for accruals of £5,000. Debtors and creditors below this level are not included in the accounting statements. This is intended to improve the efficiency of the final accounts process in order that earlier closedown deadlines can be achieved.

## Support Services

In line with CIPFA guidance, the cost of corporate management is not charged to service departments. Corporate management includes such items as the costs of external audit, treasury management and Member services. Where support services are allocated, the bases vary between staff time spent, number of employees, usage, areas occupied and in accordance with Service Level Agreements (see also item on the Best Value Accounting Code of Practice).

## Asset Charges

Service revenue accounts, including the Housing Revenue Account, are debited with asset charges equivalent to depreciation plus a notional interest charge of 3.5% of the asset value (4.95% for infrastructure). The percentages for General Fund assets are determined by the Local Authority Accounting Panel of the Chartered Institute of Public Finance and Accountancy and subject to regular review. The percentage for HRA assets is determined by the DCLG in the Housing Resource Accounting Manual. A corresponding credit is made to the Asset Management Revenue Account, which ensures that asset charges do not affect the level either of local taxation or of Council Housing rents.

# Accounting Policies

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## **Deferred Charges**

Deferred Charges represent capital expenditure that does not result in a tangible fixed asset, such as improvement grants. Expenditure of this nature is written off to the revenue account in the year it occurs, but does not affect the City Council's net operating expenditure as an offsetting appropriation is made from the Capital Financing Account.

## **Leases**

### **a) Finance leases**

The City Council has no finance leases in primary rental. All amounts paid are treated as interest, since the principal value of the asset is deemed to have been fully repaid during the primary period.

### **b) Operating leases**

Rentals payable under operating leases are charged to the service revenue account making use of the asset on a straight-line basis over the term of the lease. The asset and future lease liability are not shown in the balance sheet.

## **Pension schemes**

The City Council participates in two pension schemes, one for teachers and one for all other employees. Both schemes provide members with defined benefits related to pay and service. The two schemes are as follows:

### **a) Teachers' Pension Scheme**

Teachers may be members of the Teachers' Pension Scheme. This is a defined benefit scheme administered by Capita Teachers' Pensions on behalf of the Department for Education and Skills. The employers' rate is set nationally by that department. Further information on this scheme may be obtained from the website at [www.teacherspensions.co.uk](http://www.teacherspensions.co.uk). Although this is a defined benefit scheme, it is accounted for as a defined contribution scheme as the Council's share of the assets and liabilities cannot be separately identified. A liability is shown in the balance sheet arising from the award of added years to retired teachers.

### **b) Local Government Pension Scheme**

Employees of the City Council, other than teachers, may be members of the Local Government Pension Scheme. This is a funded defined benefit scheme. The appropriate Fund is the West Midlands Pension Fund, which is administered by Wolverhampton City Council, from whom a copy of the annual report may be obtained. The fund's website may be visited at [www.westmids-pensions.org.uk](http://www.westmids-pensions.org.uk)

The fund is subject to an actuarial valuation every three years, the last one being 31st March 2004. At this time the fund's assets were valued at 74.0% of the value of the liabilities.

FRS 17 requires the recognition of the Council's share of the fund's assets and liabilities in its accounts, as well as requiring recognition in the Council's revenue account of the full costs of providing for future retirement benefits. In accordance with Government regulations, a Pensions Reserve has been set up and the Council's liabilities arising from its participation in the scheme have been written onto the balance sheet. The revenue account has been debited with the full cost of providing for future pension liabilities arising from in year service. Appropriations equal to the difference between this amount and the actual employers' pension contribution are made from the Pensions Reserve so that the additional costs of providing for retirement benefits in accordance with FRS17 do not impact on levels of local taxation.

# Accounting Policies

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Disclosure Note 3 to the Consolidated Revenue Account provides details of contributions made in respect of both pension schemes.

## **Interest Charges**

Interest on loans is charged to the Asset Management Revenue Account based on the amount which is due and payable within the financial year.

## **Government Grants**

Revenue grants are matched with the expenditure to which they relate. Grants and contributions relating to fixed assets are credited to a government grants deferred account and released to the Asset Management Revenue Account in line with depreciation of the asset. Where an asset is not depreciated the grant or contribution is transferred to the Capital Financing Account.

## **Value Added Tax**

VAT is included in the accounts only to the extent that it is irrecoverable.

## **Fixed Assets**

### **a) Asset Categories**

Fixed assets are categorised as follows:

| Type             | Examples   |
|------------------|--|
| Operational      | Council dwellings, other land and buildings, vehicles and equipment used to deliver services directly. |
| Non operational  | Investment property, surplus property  |
| Infrastructure   | Highways   |
| Community Assets | Parks, museum exhibits   |

### **b) Recognition of Fixed Assets**

New assets are recognised in accordance with the provisions of FRS 15. Expenditure on existing assets is taken to the balance sheet only where it is considered to have a material effect on the value of the asset. Otherwise it is written off to the Fixed Asset Restatement Account.

### **c) Valuation Bases**

Operational assets are included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use (Existing Use Value - EUV). Short life operational assets, such as vehicles, plant and equipment, are included at historic cost less depreciation as a proxy for the current value required by the SORP. This is not considered to have a material effect on the accounts.

Non operational assets, including investment properties and assets that are surplus, are included in the balance sheet at market value (MV).

Infrastructure assets are included in the balance sheet at historical cost less depreciation.

## Accounting Policies

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Community assets are assets which are not used for service provision and, in many cases, may not be sold or otherwise disposed of. Additionally there may be restrictive covenants regarding their use. Examples include parks, historic buildings and museum exhibits. These assets were valued at a nominal £1 at April 1st 1994. Expenditure incurred after that date has been written off to the Fixed Asset Restatement Account.

### d) Revaluation Cycle

When an asset is included in the balance sheet at Market Value (MV) or Existing Use Value (EUV), it is formally revalued at intervals of not more than five years, and the revised amount included in the balance sheet. The difference between the value and the amount at which that asset was included in the balance sheet immediately prior to the latest valuation is credited or debited to a Fixed Asset Restatement Account. The City Council has a rolling programme in place to revalue approximately 20% of its property assets each year. The entire Housing Portfolio was revalued in 2005/06 to meet the Government's requirements for Housing Resource Accounting.

### e) Disposals

Income from the disposal of fixed assets is credited to the Usable Capital Receipts Reserve, and accounted for on an accruals basis. The proportion reserved for the repayment of external loans is credited to a Capital Financing Account. New arrangements for pooling of Housing capital receipts came into effect on April 1st 2004. The percentage, (75% for house sales and 50% for disposals of land), previously reserved for repayment of debt and taken to the Capital Financing Account is now required to be paid over to the DCLG on a quarterly basis. These payments are shown in the Consolidated Revenue Account as levies below the Net Cost of Services and an appropriation is made from the Useable capital Receipts Reserve to finance the levy. Upon disposal, the net book value of the asset disposed of is written off against the Fixed Asset Restatement Account.

### f) Depreciation

**Council Dwellings** - The Housing Revenue Account (HRA) has been charged with an amount of depreciation equivalent to the Major Repairs Allowance received from Central Government. This amount has been calculated as that required to maintain the housing stock in its current condition and Central Government allows this to be used as a proxy for depreciation.

**Other Land and Buildings** -In line with the requirements of FRS15 freehold buildings are depreciated over their estimated useful life. Freehold land is not depreciated. Leasehold property is depreciated over the life of the lease.

**Vehicles, Plant, Furniture, and Equipment** - depreciation is applied on a straight-line basis over the useful life of the asset. The book value of these assets is not materially different to the current value which is the basis of valuation required by the SORP.

**Infrastructure** - infrastructure assets are depreciated on a straight-line basis over the following periods:

| Type of expenditure                               | Depreciation period |
|---|---------------------|
| Expenditure incurred prior to 1/4/1994            | 25 years            |
| Major schemes expenditure incurred after 1/4/1994 | 40 years            |
| Street furniture acquired after 1/4/1994          | 10 years            |
| Other expenditure incurred after 1/4/1994         | 20 years            |

(1994 was the year when the current capital accounting arrangements were introduced.)

# Accounting Policies

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**Community Assets** - community assets are not depreciated.

**Investment Properties** - the depreciation provisions of FRS 15 do not apply to investment properties. These assets are, therefore, not depreciated. Former investment properties, reclassified as operational following a change of definition in the 2004 SORP, were depreciated for the first time in 2005/06.

## **h) Impairment of Fixed Assets**

In accordance with FRS 11 (Impairment of Fixed Assets), a review was carried out to identify any land and/or buildings whose current values had fallen below the carrying amount (the balance sheet value) as a result of, for example, obsolescence or physical damage. Assets so identified are considered to be impaired. The diminution in value is charged to the relevant service revenue account with a corresponding appropriation being made from the Capital Financing Account so that there is no impact on the Council's net revenue expenditure. In 2005/06 10 assets were found to be impaired. The total impairment was £1.317 million

## **i) Housing Stock Revaluation**

The entire Housing Portfolio was revalued in 2005/06 to meet the Government's guidance on Housing Resource Accounting. The basis used was Existing Use Valuation (Social Housing). In accordance with the guidance, a sample of properties was chosen to be representative of each type of property and were valued as "beacons". The full valuation was obtained by extrapolating these beacon values across the whole housing stock. These beacon values will be reviewed annually to reflect movements in property market values: High rise flats and defective dwellings continued to be valued using a Discounted Cash Flow method, in the absence of appropriate market evidence.

## **Private Finance Initiative (PFI)**

The City Council follows FRS5 (Reporting the Substance of Transactions). Where the balance of risks and rewards of ownership of the PFI are borne by the PFI operator, the PFI payments are recorded as an operating expense.

Where the balance of risks and rewards of the PFI property are borne by the City Council, it is recognised as a fixed asset along with the liability to pay for it. The transaction is accounted for as a finance lease in accordance with SSAP21, with the exception that the assets are revalued in accordance with the Council's policy on fixed asset valuation. Payments made to the contractor are split between service payments, such as cleaning, and availability payments for making the asset available for use. Service payments are accounted for in the year in which the service was provided. Availability payments are split between interest and principal elements. Over the term of the lease the interest is charged to the Consolidated Revenue Account and the liability to pay for the PFI property is written down by the principal element.

The particular application of this policy is further explained in Note 30 to the Consolidated Balance Sheet.

## **Investments**

Investments in listed and unlisted companies, established for the promotion of local authority activities, and in marketable securities are shown in the balance sheet at cost or nominal value. One exception is the City Council's investment in Birmingham Airport Holdings Limited, which is shown at its 1997 value following the sale of part of the City Council's investment. Investment income is credited to the revenue account when received or receivable.

# Accounting Policies

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## **Stocks and Work in Progress**

Stocks are included in the balance sheet at latest price. This valuation method does not comply with SSAP9 which requires stocks to be valued at the lower of cost or net realisable value. The effect of this is not considered material to the accounts. For trading activities, the amount recognised in the appropriate revenue accounts for contract work in progress is the payments received and receivable, less related costs.

The amount at which contract work in progress is included in the balance sheet is cost plus any attributable profit less any foreseeable losses.

## **Redemption of Debt**

The City Council is required to set aside from revenue each year, a minimum amount for the redemption of debt. The revenue account is charged with the Minimum Revenue Provision (MRP) which represents 4% of the Capital Financing Requirement, effectively the net sum of Long Term assets and Long Term liabilities derived from the opening balance sheet. This is a change from the previous calculation of MRP based on outstanding loans less reserved capital receipts. This change results from the introduction of prudential borrowing from April 1st 2004 under the Local Government Act 2003, which repealed the provisions of Section Four of the Local Government and Housing Act 1989. Local authorities may also make a revenue provision in excess of the minimum and this is known as a Voluntary Revenue Provision (VRP). In 2005/06 the Council elected to make a VRP of £36.6 million, setting aside receipts arising from the early redemption of amounts owed to the Council by the University of Central England and from the National Exhibition Centre refinancing. Formal restrictions on borrowing have been removed and replaced by authority to borrow within "prudential" limits of what the Council can afford to service from revenue resources. The prudential limits are calculated by reference to balance sheet figures. The requirement for a MRP in the HRA has been removed. The Council has, however, elected to make a voluntary provision for HRA debt repayment of £0.6 million. These amounts are not charges to service revenue accounts which receive an asset charge consisting of notional interest and depreciation as described in notes (f) and (g) on fixed assets above. The difference between MRP and depreciation is appropriated to or from the Capital Financing Account (CFA) so that depreciation does not impact on the City Council's net revenue expenditure.

## **Provisions**

Provisions are made for any known quantifiable liabilities arising from past events in accordance with FRS 12. Provisions are created by charging the relevant service revenue accounts. When expenditure is incurred to which the provision relates, it is offset directly against the specific provision. Provision is made for doubtful debts, and known uncollectable debts are written off against this.

## **Reserves**

Amounts set aside for specific purposes that do not meet the criteria for provisions laid down in FRS12 are treated as reserves. Expenditure funded from reserves is charged directly to service revenue accounts with a compensating appropriation being made from the reserve. Accounting standards do not permit direct reserve accounting.

Details of reserves held at 31st March 2006 are shown in the notes supporting the balance sheet and the Statement of Total Movements in Reserves.

# Accounting Policies

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## **Contributions from Developers (Section 106 monies)**

Contributions from Developers (Section 106 monies) are shown on the balance sheet as Capital Contributions Unapplied. Where these monies are invested externally they are shown under short term investments.

## **Landfill Allowances**

In 2005/06 the Landfill Allowances Trading Scheme was introduced. Under this scheme local authorities are given an allowance of tonnes of refuse that may be disposed of by landfill. Disposal in excess of this incurs a financial penalty payable to the Department for Rural Affairs (DEFRA). Alternatively allowances may be purchased from other local authorities. Authorities not planning to make full use of their allowances may sell them. The Council did not trade any allowances in 2005/06, but has recognised the value of allowances as an asset in accordance with accounting guidance issued by CIPFA.

## **Post Balance Sheet Events**

Where a material post balance sheet event occurs, concerning conditions that did not apply at the balance sheet date, the nature of the event and its financial effect are disclosed in the accounts.

## **Group Accounts**

The City Council has material interests in a number of subsidiary and associated companies. In accordance with FRS 2 (Accounting for Subsidiary Undertakings) consolidated financial statements have been prepared as an annex to the main accounts. The 2004 SORP introduced enhanced requirements for the preparation of consolidated financial statements, specifically the requirement for a group cash flow statement and Statement of Total Movements in Reserves and the requirement to align accounting policies. In 2004/05 the Council took advantage of transitional arrangements and did not prepare full group accounts. These are now included for the first time. The companies making up the NEC Group are regarded as subsidiaries and have been consolidated on a line by line basis, while NEC Developments plc is regarded as an associate and has been consolidated on a net equity basis, where the Council's investment is recorded at cost and adjusted each year for its share of the company's profit and unrealised gains or losses.

## **Business Improvement District**

In accordance with the provisions of the Business Improvement Districts Regulations 2004 a ballot of traders in the Broad Street area of the city resulted in the creation of a Business Improvement District. Business ratepayers in this area pay a levy in addition to the National Non-Domestic Rate to fund a range of specified additional services. These services are provided by a company set up for the purposes and expenditure and related income are included in the Council's Consolidated Revenue Account (CRA).

# Consolidated Revenue Account

| 2004/05                  |  | 2005/06                    |                          |
|--------------------------|--|----------------------------|--------------------------|
| Net Expenditure<br>£'000 |  | Gross Expenditure<br>£'000 | Net Expenditure<br>£'000 |
|                          |  | Income<br>£'000            |                          |
| 12,568                   | Central Services to the Public                                     | 105,972                    | 15,283                   |
| 4,987                    | Court & Probation Services   | 1,483                      | 1,217                    |
| 197,884                  | Cultural, Environmental & Planning Services                        | 396,518                    | 178,643                  |
| 720,698                  | Education Services   | 1,078,197                  | 792,370                  |
| 107,000                  | Highways, Roads & Transport  | 124,171                    | 103,619                  |
| 69,569                   | Housing Services   | 716,378                    | 96,683                   |
| 326,295                  | Social Services  | 479,724                    | 358,346                  |
| 18,109                   | Corporate & Democratic Core  | 17,764                     | 17,214                   |
| 18,706                   | Non Distributed Costs  | (34,681)                   | (34,681)                 |
| <b>1,475,816</b>         | <b>Cost of Services</b>  | <b>2,885,526</b>           | <b>1,528,694</b>         |
|                          |  | <b>(1,356,832)</b>         |                          |
| 32                       | Parish Precept   |                            | 58                       |
| (9,069)                  | (Surpluses)/Deficits on Trading Undertakings                       |                            | (4,021)                  |
| 70,359                   | Levies   |                            | 57,905                   |
| (66,522)                 | Surplus on Asset Management Revenue Account                        |                            | (83,582)                 |
| 134,508                  | Interest cost - Pensions   |                            | 144,704                  |
| (108,202)                | Expected return on Pensions Assets                                 |                            | (116,929)                |
| (9,826)                  | Interest & Investment Income                                       |                            | (37,178)                 |
| <b>1,487,096</b>         | <b>Net Operating Expenditure</b>                                   |                            | <b>1,489,651</b>         |
|                          | <b>Appropriations</b>  |                            |                          |
| (43,533)                 | Appropriation to/(from) Pensions Reserve                           |                            | 4,183                    |
| 5,777                    | Contributions to/(from) HRA Balances                               |                            | (3,476)                  |
|                          | Contributions to/(from) Earmarked Reserves                         |                            |                          |
| 7,355                    | Schools Balances   |                            | 4,443                    |
| (44,074)                 | Other Reserves   |                            | 19,610                   |
| (50,396)                 | Appropriation to/(from) Capital Financing Account                  |                            | (61,139)                 |
| <b>1,362,225</b>         | <b>Amounts to be met from Government Grants and Local Taxation</b> |                            | <b>1,453,272</b>         |
|                          | <b>Sources of Finance</b>  |                            |                          |
| 0                        | Bid Levy   |                            | (225)                    |
| (814,779)                | Revenue Support Grant*   |                            | (839,448)                |
| (276,538)                | Non Domestic Rates redistribution                                  |                            | (330,592)                |
| (274,955)                | Council Tax  |                            | (288,034)                |
| 517                      | Transfer in respect of Collection Fund surpluses                   |                            | 1,117                    |
| <b>(3,530)</b>           | <b>(Surplus)/Deficit for Year</b>                                  |                            | <b>(3,910)</b>           |
| <b>(22,105)</b>          | <b>General Balance Brought Forward</b>                             |                            | <b>(25,635)</b>          |
| (3,530)                  | (Surplus)/Deficit for Year   |                            | (3,910)                  |
| <b>(25,635)</b>          | <b>General balance Carried Forward</b>                             |                            | <b>(29,545)</b>          |

\* This figure includes PFI Grant of £5.533 million in 2004/05 and £4.564 million in 2005/06

# Notes to the Consolidated Revenue Account

## 1. Trading Services

Income and Expenditure on the Major Trading Activities, adjusted for FRS17 (see disclosure note 3) is set out below:

| 2004/05<br>Profit/(Loss)<br>£'000 | Trading activity (see brief<br>descriptions below) | 2005/06<br>Turnover<br>£'000 | Expenditure<br>£'000 | Profit/(Loss)<br>£'000 |
|-----------------------------------|--|------------------------------|----------------------|------------------------|
| 65                                | Highways & Sewers                                  | 9,411                        | 9,446                | (35)                   |
| 6,126                             | Property Services                                  | 80,593                       | 78,733               | 1,860                  |
| 156                               | Legal Services                                     | 9,296                        | 8,806                | 490                    |
| 1,090                             | Markets  | 7,507                        | 6,684                | 823                    |
| 70                                | Non-Schools Cleaning                               | 3,585                        | 3,654                | (69)                   |
| 139                               | Catering   | 1,926                        | 1,773                | 153                    |
| (21)                              | Street Lighting                                    | 6,926                        | 7,209                | (283)                  |
| 21                                | Vehicle Maintenance                                | 4,944                        | 5,039                | (95)                   |
| (116)                             | Education Catering                                 | 26,553                       | 27,341               | (788)                  |
| 77                                | Education Staff Agency                             | 8,904                        | 8,803                | 101                    |
| 432                               | Trade Refuse                                       | 5,636                        | 5,268                | 368                    |
| 643                               | Urban Design                                       | 17,130                       | 16,474               | 656                    |
| 219                               | Grounds Maintenance                                | 5,915                        | 5,994                | (79)                   |
| 28                                | Education Cleaning                                 | 7,899                        | 7,890                | 9                      |
| 33                                | Design & Print                                     | 3,110                        | 3,091                | 19                     |
| (32)                              | Meals Direct                                       | 2,540                        | 2,561                | (21)                   |
| 245                               | Birmingham City Laboratories                       | 2,839                        | 2,545                | 294                    |
| 45                                | Landscape Practice                                 | 1,230                        | 1,196                | 34                     |
| (13)                              | Community Day Nurseries                            | 1,458                        | 1,490                | (32)                   |
| (138)                             | Other Trading Activities                           | 3,343                        | 3,528                | (185)                  |
| <b>9,069</b>                      |  | <b>210,745</b>               | <b>207,525</b>       | <b>3,220</b>           |

### Details of Trading Undertakings

#### Highways and Sewers

Highways carries out highway functions including highway maintenance and structures, land drainage and new street works. (All of these functions are procured via in-house contracting and externally tendered contracts).

#### Property Services

Birmingham Property Services (BPS) is the largest In-House Local Authority Property Consultancy. BPS provides an integrated professional property service to the City Council, with a responsibility to manage and dispose of city-owned commercial land and property, including shops, offices, industrial units, warehouses, business parks and development sites.

#### Legal Services

The Legal Services Office of the Legal & Democratic Services Department is a highly successful trading organisation and is the largest in-house local authority legal department in the UK - and

# Notes to the Consolidated Revenue Account

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amongst the largest, in Europe - providing high quality legal advice and representation services to meet the full requirements of the City Council, its Departments and the citizens of Birmingham.

## Markets

Markets section manages the wholesale market and Birmingham's historic Bull Ring markets - site of a Market for more than 800 years. Within the complex are three retail markets which attract around 10 million customers a year.

## Non-Schools Cleaning

Birmingham City Cleaning currently undertakes cleaning business worth approximately £3.6 million and covers some 320 locations employing a team of 350 full and part-time staff.

## Catering

Catering and Domestic Management Services are provided to approximately 75 Social Services locations and catering in 5 Civic and Commercial Venues across the City.

## Street Lighting

We refer to street lighting as the lighting on all roads - main roads, side roads, residential roads, city centre squares, footpaths, tunnels and subways. The lights can vary in height from small side road ones to tall high masts at main junctions.

## Vehicle Maintenance

The Waste Management Division of Local Services Directorate operate a service from workshops at Montague Street, Digbeth, and Park Road, Aston, carrying out major repairs plus servicing for vehicles and items of plant and equipment. Montague Street supports ex Environmental & Consumer Service vehicles on Refuse Collection, Street Cleansing, Laboratory, Urban Renewal, Waste Management, Trade Team, Recycling, Stores, Pest Control, Markets, Enforcement, Consumer Services, Cemeteries and Crematoriums and miscellaneous services. Park Road supports the remaining City fleet across all departments, including external contractors for Housing Services. They also provide a taxi MOT service.

## Education Catering

Direct Services (Catering) has specialist knowledge of the education sector and has decades of experience working with school pupils in Birmingham. Armed with this comprehensive experience we possess an inherent understanding of school catering and its specialist requirements. The following services are available: Pre-school breakfast service; Mid morning refreshments; Mid-day meals service ; After school refreshment service; Subsidised & Free Milk schemes; Vending Service; Staff Room Pre Paid Service; 6th Form Pre Paid Service; Water Facilities; Tuck Shops.

## Education Staff Agency

Education Staff Agency supply high quality temporary workers to both schools and education offices and other Birmingham City Council Directorates.

## Trade Refuse

Birmingham City Council offers a competitive waste management service to businesses and industrial premises and can provide Clinical Waste Removal Services, Graffiti Removal, Septic Tank and Cesspit emptying, Containers and Skips, Prepaid Sacks, Hire of Equipment and Special Collection.

# Notes to the Consolidated Revenue Account

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## Urban Design

Urban Design delivers professional, high quality construction-related design and maintenance services to the council and external clients. Urban Design leads on sustainability of the built environment and whole life value construction procurement.

## Grounds Maintenance

Grounds Maintenance are responsible for the maintenance of all of the City's parks, open spaces and golf courses as well as the floral displays that have helped to promote the city over the years. In addition, they look after all of the 'green' maintenance of council estates, highway verges, traffic islands, schools, social services homes, cemeteries and crematoria, playing fields, allotments and children's outdoor playgrounds.

## Education Cleaning

Education Cleaning provide cleaning services to all types of establishment, from a 50- place nursery school to colleges of higher education, with many thousands of students. It is this diversity of provision, on a daily basis, that helps us to develop and maintain the highest levels of modern cleaning practice and technology.

## Design & Print

Design and Print is the in-house provider of Design, Print and Print Finishing to Birmingham City Council Directorates/Divisions, schools and colleges plus other public sector customers.

## Meals Direct Service

Meals Direct Service produces 2,000 individual meals in a day. The Meals Direct Service contributes to Care in the Community by providing a home delivery service of frozen or hot meals to meet the needs of our customers.

## Birmingham City Laboratories

BCL is approved to carry out specific United Kingdom Accreditation Service (UKAS) tests. Its specialist team of scientists and engineers are also able to undertake a wide range of on-site and laboratory inspection services, ranging from microscopic analysis of samples, through to full scale testing/appraisal of civil engineering structures.

## Landscape Practice

The Landscape Practice Group is the provider of landscape architectural services for the City Council.

## DSD Trading Community Day Nurseries

There are 852 places for Birmingham children, in 23 Community Day Nurseries, managed and maintained by the Education Service. The nurseries are open 52 weeks of the year and cater for children from 6 weeks old.

## Others

This includes Highbury, pest control, general works - sign shops DLO, gully emptying, educations other catering , and outdoor educational centres.

# Notes to the Consolidated Revenue Account

## 2. Minimum Revenue Provision

The Local Government Act 2003 requires the City Council to charge to the revenue account a provision for the redemption of debt calculated as 4% of the Capital Financing Requirement. There is no longer a requirement to make a revenue provision in the Housing Revenue Account. The amount set aside in 2005/06 was £34.5 million. An additional voluntary provision of £0.6 million was made in the Housing Revenue Account. £36.6 million of capital receipts were also set aside but these do not form part of the MRP charged to the Consolidated Revenue Account.

Service revenue accounts are charged with depreciation on the fixed assets to which the loan debt relates. Where this depreciation is more or less than MRP, a corresponding appropriation is made from or to the Capital Financing Account. This is explained further in the note on Accounting Policies.

## 3. Transactions in the Asset Management Revenue Account

The Asset Management Revenue Account brings together the capital charges made to portfolios and regulatory committees under the capital accounting system, and the real external interest charges paid by the City Council. The balance on the Asset Management Revenue Account is transferred to the Consolidated Revenue Account after the net cost of services has been determined, thus ensuring that capital charges have a neutral effect on the amounts required from council taxpayers.

The transactions on the asset management revenue account in 2005/06 are summarised below:

| 2004/05<br>£m | £m      |   | £m      | 2005/06<br>£m |
|---------------|---------|---|---------|---------------|
|               |         | <b>Income</b>                           |         |               |
| (250.9)       |         | Capital Charges                         | (294.0) |               |
| (0.2)         |         | Government Grants - Magistrates Courts  | (0.3)   |               |
| (9.2)         |         | Deferred Grant write down               | (12.1)  |               |
|               | (260.3) |   |         | (306.4)       |
|               |         | <b>Expenditure</b>                      |         |               |
| 104.5         |         | Provision for Depreciation*             | 112.4   |               |
| 3.2           |         | Premiums on premature repayment of debt | 2.5     |               |
| 86.1          |         | External Interest Charges               | 107.9   |               |
|               | 193.8   |   |         | 222.8         |
|               | (66.5)  | Balance to Consolidated Revenue Account |         | (83.6)        |

\*This figure includes impairments of £1.3 million

## 4. Council Tax

Further details of this source of income are covered in the Collection Fund Statement and notes.

# Notes to the Consolidated Revenue Account

## Disclosure Notes

### 1. Publicity Expenditure

The Council is required by Section 5(1) of the Local Government Act 1986 to provide details of its spending on Publicity. During 2005/06 £9.2m was spent including £0.6m in respect of the National Exhibition Centre (2004/05 £0.6m).

| 2004/05<br>£m |                         | 2005/06<br>£m |
|---------------|-------------------------|---------------|
| 1.9           | Recruitment Advertising | 1.8           |
| 1.0           | Other Advertising       | 0.9           |
| 6.1           | Promotions & Publicity  | 6.5           |
| <b>9.0</b>    | <b>Total</b>            | <b>9.2</b>    |

### 2. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended by the Local Government and Housing Act 1989 and the Local Government Act 2000 permits the Council to spend up to £3.80 per annum for each resident on grants and donations to voluntary and not for profit organisations. Total expenditure incurred in 2005/06 was £0.3 million (2004/05 £0.6 million) against a limit of £3.8 million (2004/05 £3.8 million).

### 3. Pensions

Employees of the City Council, other than teachers, may be members of the Local Government Pension Scheme (LGPS), which is a funded defined benefits scheme. The appropriate Fund is the West Midlands Pension Fund which is administered by Wolverhampton City Council. The Fund is subject to an actuarial valuation every three years, the last one being 31st March 2004.

Teachers may be members of the Teachers Pension Scheme (TPS). This is also a defined benefit scheme where all employers in England and Wales pay pension contributions to the scheme which is managed by the Department for Education and Skills. The contributions are invested in a notional fund, which is valued at least every five years by the Government Actuary. Because the scheme is not valued on an individual employer basis the Council's share of the assets and liabilities of the scheme cannot be identified.

- i. The City Council's employer's contribution for the year 2005/06 was £61.5m (£57.6m in 2004/05).
- ii. The cost of awarding discretionary additional benefits and their associated inflation proofing is borne separately by the City Council. Expenditure in 2005/06 was £5.3m (representing 1.08% of members' aggregated pensionable pay). This amount is made up of £5.2m (£5.1m in 2004/05) in respect of ongoing added years pension payments and associated pensions increase charges and £0.1m (£0.2m in 2004/05) in respect of one off added years lump sum payments.
- iii. In the latest Actuarial Valuation as at 31st March 2004 74% of past service liabilities were funded. An employer's contribution rate was set for the City Council of 12.50% for the year from 1st April 2005 to 31st March 2006. This rate will increase to 13.3% in 2006/07 and 14.0% for 2007/08. From 1st April 2005 the City Council has also elected to fund the cost of its early retirements on an individual basis rather than through an addition to the employer's pension contribution rate.

## Notes to the Consolidated Revenue Account

retirements on an individual basis rather than through an addition to the employer's pension contribution rate.

For teachers, the City Council paid an employer's contribution of £45.6million (13.5% of pensionable pay) in 2005/06 to the Teachers' Pension Scheme. The equivalent figure for 2004/05 was £43.6 million (13.5% of pensionable pay). The Teachers' Pension Scheme is administered by Capita Teachers' Pensions and is not the direct responsibility of the City Council. In addition, £6.0m (£5.4 million in 2004/05) was paid to retired teachers in respect of added years benefits and, in certain cases, the employer share of teacher pension benefits. These figures include pension increases, where appropriate. A liability is shown on the balance sheet in respect of the Council's obligations to pay added years benefits.

iv. The following costs have been charged to the City Council's revenue account to reflect full compliance with FRS17 in 2005/06.

| <b>Operating Costs</b>          | <b>2004/05<br/>£'000</b> | <b>2005/06<br/>£'000</b> |  |
|---------------------------------|--------------------------|--------------------------|--|
| Current Service Cost            | 77,370                   | 85,657                   | Current service cost is charged directly to services. Past service and curtailment costs are shown as Non Distributed Costs. |
| Past Service Cost/(Gain)        | 1,637                    | (46,397)                 |  |
| Curtailment Cost                | 1,104                    | 1,404                    |  |
| <b>Total Cost</b>               | <b>80,111</b>            | <b>40,664</b>            |  |
| <b>Finance Costs</b>            |                          |                          |  |
| Expected Return on Assets       | 108,202                  | 116,929                  |  |
| Interest on Pension Liabilities | (134,508)                | (144,704)                |  |
| <b>Net Gain (Cost)</b>          | <b>(26,306)</b>          | <b>(27,775)</b>          |  |

The balance on the Pensions Reserve is included in the balance sheet on page 42 of these accounts and detail of the movements in Note 17 to the balance sheet. The movement on the reserve in 2005/06 is included in the Statement of Total Movements in Reserves on page 67.

# Notes to the Consolidated Revenue Account

## 4. Officers Emoluments and Members Allowances

The number of employees whose remuneration, including employee superannuation contributions, was £50,000 or more in bands of £10,000 were:

The increase in numbers is due primarily to the effect of the annual pay award together with progression up incremental pay scales.

Allowances paid to members of the City Council in 2005/06 totalled £2.5m (2004/05 £2.2m).

| No. of Employees<br>2004/05 |                     | No. of Employees<br>2005/06 |
|-----------------------------|---------------------|-----------------------------|
| 346                         | £50,000 - £59,999   | 468                         |
| 104                         | £60,000 - £69,999   | 135                         |
| 39                          | £70,000 - £79,999   | 43                          |
| 22                          | £80,000 - £89,999   | 21                          |
| 4                           | £90,000 - £99,999   | 7                           |
| 2                           | £100,000 - £109,999 | 0                           |
| 1                           | £110,000 - £119,999 | 0                           |
| 5                           | £120,000 - £129,999 | 2                           |
| 0                           | £130,000 - £139,999 | 4                           |
| 1                           | £170,000 - £179,999 | 0                           |
| 524                         |                     | 680                         |

## 5. Related Party Transactions

The City Council received a number of general and specific grants from Central Government totalling £1,647.3 million. Precepts were paid to the West Midlands Police Authority, the West Midlands Fire & Civil Defence Authority and New Frankley in Birmingham Parish Council amounting to £35.4 million. Payments to other local authorities and health authorities, excluding precepts, totalled £7.5 million. Receipts from other local authorities totalled £3.9 million. In addition, payments of Employers' Pension Contributions were made to Wolverhampton M.B.C. in respect of members of the Local Government Pension Scheme, and to the Teachers' Pensions Agency in respect of teachers. The amounts of these are detailed in disclosure note 3 above. The City Council paid £102.5 million in grants to a range of voluntary and community organisations. These grants were the main source of funding for a number of these organisations. The City Council also has interests in a number of companies, as detailed in the notes to the Balance Sheet. The following transactions are considered material:

## Notes to the Consolidated Revenue Account

There were no other material transactions between the City Council and its Chief Officers, other than the payment of salaries. Details of these are disclosed in Note 4 above.

| <b>Payments</b>                               | <b>£m</b> |
|---|-----------|
| Azard Kashmir Welfare Centre                  | 0.1       |
| Birmingham Citizens Advice Bureaux            | 0.1       |
| Birmingham Hippodrome Theatre Trust           | 1.4       |
| Birmingham Repertory Theatre                  | 0.1       |
| Birmingham & Solihull Connexions Services Ltd | 1.5       |
| Birmingham Technology Ltd                     | 0.2       |
| Birmingham Wheels Ltd                         | 0.1       |
| Groundwork Birmingham Ltd                     | 2.0       |
| Local Leagues Ltd                             | 0.2       |
| Marketing Birmingham Partnership              | 0.1       |
| Midlands Arts Centre                          | 0.5       |
| Optima Community Association                  | 0.2       |
| Symphony Hall (Enterprises) Ltd               | 0.1       |
| The Academy of Youth                          | 0.1       |
| The National Exhibition Centre                | 0.8       |
| The Rathbone Society                          | 0.7       |
| Witton Lodge Community Association Ltd        | 0.8       |
| <b>Receipts</b>                               | <b>£m</b> |
| Birmingham Research Park                      | 0.1       |
| Birmingham & Solihull Connexions Services Ltd | 1.0       |
| Birmingham Technology Ltd                     | 0.6       |
| Birmingham Wheels Ltd                         | 0.2       |
| Broad Street Partnership Ltd                  | 0.1       |
| Groundwork Birmingham Ltd                     | 0.5       |
| Marketing Birmingham Partnership              | 0.3       |
| Midlands Arts Centre                          | 0.1       |
| Optima Community Association                  | 0.9       |
| The National Exhibition Centre                | 0.4       |

### 6. Building Control Account

The Building Act 1984 and Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the Building Control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the Building Control Unit divided between the chargeable and non chargeable activities. The cost of non-chargeable activities is met from the Council's revenue budget.

# Notes to the Consolidated Revenue Account

## Planning

### Building Regulations Outturn 2005/06

| 2004/05        |   | 2005/06                                   |   |                |
|----------------|---|---|---|----------------|
| Total<br>£'000 |   | Total<br>Chargable<br>Activities<br>£'000 | Total<br>Non-chargable<br>Activities<br>£'000 | Total<br>£'000 |
| 3,040          | Expenditure                               | 2,580                                     | 642   | 3,222          |
| (2,652)        | Income                                    | (2,507)                                   | (128)   | (2,635)        |
| 388            | Net (Surplus)/Deficit                     | 73  | 514   | 587            |
| 46             | Appropriation (from)/to Reserve           | (73)                                      | 0   | (73)           |
| 434            | Net (Surplus)/Deficit after Appropriation | 0   | 514   | 514            |

# Notes to the Consolidated Revenue Account

## 7. Pooled Funding

### Integrated Community Equipment Service

A pooled budget has been established with four Primary Care Trusts (PCTs) to promote the more effective and efficient equipment purchase and maintenance. The aim is to support intermediate care, palliative care and hospital discharge initiatives.

Expenditure in 2005/06 was:

|  | Planned<br>Spend<br>£ | Actual<br>Spend<br>£ | Carry<br>Forward<br>£ |
|--|-----------------------|----------------------|-----------------------|
| <b>PCT'S Main Fund</b>                   |                       |                      |                       |
| Scheme:                                  |                       |                      |                       |
| General Schemes                          | 179,776               | 80,036               | 99,740                |
| Telecare Development                     | 43,000                | 43,028               | (28)                  |
| Beds Co-Ordinator                        | 12,052                | 11,779               | 273                   |
| <b>Carry Forward</b>                     | <b>234,828</b>        | <b>134,843</b>       | <b>99,985</b>         |
| HOB - Children's Equipment -             |                       |                      |                       |
| East Birmingham PCT Children's Equipment | 50,140                | 27,784               | 22,356                |
| Birmingham City Council                  | 50,000                | 38,786               | 11,214                |
| <b>Carry Forward</b>                     | <b>410,000</b>        | <b>410,000</b>       | <b>0</b>              |
| <b>Carry Forward</b>                     | <b>510,140</b>        | <b>476,570</b>       | <b>33,570</b>         |
| <b>Memorandum Carry Forward:</b>         |                       |                      |                       |
| Eastern 24.41%                           |                       |                      | 24,407                |
| North 13.66%                             |                       |                      | 13,657                |
| South 34.30%                             |                       |                      | 34,295                |
| HOB 27.63%                               |                       |                      | 27,626                |
|  |                       |                      | <b>99,985</b>         |

# Notes to the Consolidated Revenue Account

## Pooled Fund to Support the Provision of Adult Learning Disability Services

The Council established a partnership agreement with Eastern Birmingham Primary Care Trust using powers under section 31 of the Health Act 1999 to pool funds from the two organisations and create a single fund necessary to receive and manage the Development Fund and combined Advocacy Fund. Eastern Birmingham PCT has been nominated by the remaining Birmingham PCTs to commission the services on their behalf. The aims of the Partners in establishing this agreement are to:-

- ◆ Fulfil national objectives set out in the Joint Investment Plan and the white paper;
- ◆ Make more effective use of resources by the establishment and maintenance of a joint fund.

|  | <b>Cash Contributions</b> |                  |
|--|---------------------------|------------------|
|  | 2004/05<br>£              | 2005/06<br>£     |
| Eastern Birmingham PCT                 | 490,116                   | 967,922          |
| Birmingham City Council                | 240,762                   | 163,854          |
| Balance Brought Forward                | 20,000                    | 0                |
| <b>Total Funding</b>                   | <b>750,878</b>            | <b>1,131,776</b> |
| Expenditure                            | 750,878                   | 1,131,776        |
| <b>Net Underspend/ Carried Forward</b> | <b>0</b>                  | <b>0</b>         |

There are nine projects included in this plan:

1. Advocacy Services
2. Health Related
3. Supported Living
4. Person Centred Planning
5. Carers
6. Modernising Day Activities
7. Employment
8. Leadership
9. Transition

## 8. Auditors Remuneration

The Council's appointed auditors are the Audit Commission. Payments to the auditors in 2005/06 totalled £1.2 million (£1.5 million in 2004/05) of which £0.7million (£1.0million in 2004/05) related to the audit of the Council's statutory accounts, service inspections, and assessments of the Council's improvement programmes. The £0.7 million was made up of £0.2million inspection work and £0.5million code of practice work. The remaining £0.5 million (£0.5 million in 2004/05) related to the audit of grant claims submitted to Central Government and the European Union.

# Notes to the Consolidated Revenue Account

## 9. Local Government (Goods and Services) Act 1970

Income and expenditure on goods and services provided to other public bodies are as follows:

| 2004/05<br>Net<br>£'000 |  | Expenditure<br>£'000 | 2005/06<br>Income<br>£'000 | Net<br>£'000 |
|-------------------------|--|----------------------|----------------------------|--------------|
| (1)                     | Property Services                              | 63                   | (63)                       | 0            |
| (26)                    | Education Services                             | 0                    | 0                          | 0            |
| 0                       | Brasshouse Translation & Interpreting Services | 171                  | (171)                      | 0            |
| (39)                    | Catering Services                              | 0                    | 0                          | 0            |
| (10)                    | Birmingham City Laboratories                   | 226                  | (264)                      | (38)         |
| (2)                     | Urban Design                                   | 65                   | (87)                       | (22)         |
| 0                       | Highways                                       | 700                  | (700)                      | 0            |
| <b>(78)</b>             | <b>Total</b>                                   | <b>1,225</b>         | <b>(1,285)</b>             | <b>(60)</b>  |

## 10. Levies

The following levies were paid by the Council in 2005/06:

| Payments   | £m<br>2004/05 | £m<br>2005/06 |
|--|---------------|---------------|
| Passenger Transport Authority  | 19.0          | 25.7          |
| Environment Agency   | 0.3           | 0.3           |
| Housing Capital Receipts Pooling Payment<br>To the Office of the Deputy Prime Minister | 51.1          | 31.9          |
| <b>Total</b>   | <b>70.4</b>   | <b>57.9</b>   |

## 11. Private Finance Initiative

The Council currently has two Private Finance Initiative Schemes in operation, one for the provision of ten new schools and the other for the replacement of public conveniences. Full details of these, including a note of undischarged obligations are given in Note 30 to the Balance Sheet.

## 12. Business Improvement District

The Broad Street area of the city centre has been a Business Improvement District since August 2005. Under this scheme local businesses pay a levy, collected by the City Council, and paid over to the BID Management Company, which is used to fund additional services and environmental improvements. The amount billed in 2005/06 was £224,615. The Council incurred collection costs of £12,000. Any uncollectable levies are a charge to the BID Company and not to the Council.

## Housing Revenue Account

| Actual<br>2004/05<br>£'000 | Actual<br>2004/05<br>£'000 |  | Actual<br>2005/06<br>£'000 | Actual<br>2005/06<br>£'000 |
|----------------------------|----------------------------|--|----------------------------|----------------------------|
|                            |                            | Management & Maintenance                             |                            |                            |
| 62,072                     |                            | Repairs  | 75,468                     |                            |
| 2,492                      |                            | Leasing  | 2,205                      |                            |
| 39,827                     |                            | General Management                                   | 39,904                     |                            |
| 15,935                     |                            | Estate Services                                      | 17,886                     |                            |
|                            | <b>120,326</b>             | <b>Total Management &amp; Maintenance</b>            |                            | <b>135,463</b>             |
|                            |                            | Rents, Rates, Taxes & Other Charges                  |                            |                            |
| 1,706                      |                            | Other Premises Costs                                 | 2,294                      |                            |
| 5,421                      |                            | Compensation Claims s82/11                           | 4,920                      |                            |
|                            | <b>7,127</b>               | <b>Total Rents, Rates, Taxes &amp; Other Charges</b> |                            | <b>7,214</b>               |
|                            | 3,734                      | Provision for Bad or Doubtful Debts                  |                            | 7,322                      |
|                            | 60,257                     | Cost of Capital/Impairment/Deferred Charges          |                            | 85,480                     |
|                            |                            | Cost of Capital                                      |                            |                            |
|                            | 39,618                     | Depreciation   |                            | 39,379                     |
|                            | 175                        | Dwellings  |                            | 202                        |
|                            |                            | Debt Management Expenses                             |                            |                            |
|                            | <b>231,237</b>             | <b>Total Expenditure</b>                             |                            | <b>275,060</b>             |
|                            |                            | Gross Rental Income                                  |                            |                            |
| (194,859)                  |                            | Gross Debit - Dwellings                              | (199,467)                  |                            |
| 4,709                      |                            | Voids  | 4,133                      |                            |
| (1,650)                    |                            | Shop Rents   | (1,883)                    |                            |
| (3,153)                    |                            | Land & Various Properties                            | (4,401)                    |                            |
| 892                        |                            | Voids  | 780                        |                            |
|                            | <b>(194,061)</b>           | <b>Total Gross Rental Income</b>                     |                            | <b>(200,838)</b>           |
|                            | (516)                      | Charges for Services & Facilities                    |                            | (1,560)                    |
|                            | (5,700)                    | Supporting People                                    |                            | (5,116)                    |
|                            |                            | HRA Subsidy Receivable (inc. MRA)                    |                            |                            |
| 24,533                     |                            | Housing Element                                      | 18,806                     |                            |
| (39,618)                   |                            | MRA  | (39,379)                   |                            |
|                            | <b>(15,085)</b>            | <b>Total HRA Subsidy Receivable (inc. MRA)</b>       |                            | <b>(20,573)</b>            |
|                            | 0                          | Contributions towards Expenditure                    |                            | 0                          |
|                            |                            | GF Contributions                                     |                            |                            |
|                            | 2,912                      | Housing Benefits transfer from General Fund          |                            | 0                          |
|                            | <b>(212,450)</b>           | <b>Total Income</b>                                  |                            | <b>(228,087)</b>           |
|                            | <b>18,787</b>              | <b>Net Cost of Services</b>                          |                            | <b>46,973</b>              |

## Housing Revenue Account

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|                 |   |                 |
|-----------------|---|-----------------|
| (27,068)        | Adjusting transfer from AMRA              | (48,567)        |
| 2,736           | Amortised Premiums and Discounts          | 1,774           |
| (232)           | Investment Income/ Mortgage Interest etc. | (259)           |
| <u>(5,777)</u>  | Net Operating Expenditure                 | <u>(79)</u>     |
|                 | <b>Appropriations</b>                     |                 |
|                 | Revenue Contributions to Capital          |                 |
| 0               | HRA set-aside                             | 0               |
| 0               | Revenue Contribution to Capital           | 3,555           |
|                 | <b>Housing Revenue Account Balance</b>    |                 |
| <u>(11,105)</u> | (Surplus)/ Deficit at beginning of year   | <u>(16,882)</u> |
| (5,777)         | (Surplus)/ Deficit for year               | 3,476           |
| (16,882)        | (Surplus)/ Deficit at end of year         | (13,406)        |

# Notes to Housing Revenue Account

## 1. Housing Stock

At the end of the year the stock was made up as follows:

|                                    | 1<br>Bed      | 2<br>Bed      | 3 or<br>More<br>Bed | Total         |
|------------------------------------|---------------|---------------|---------------------|---------------|
| Flats                              | 16,638        | 12,182        | 4,861               | 33,681        |
| Housing & Bungalows                | 3,832         | 9,115         | 21,619              | 34,566        |
| <b>Housing Stock at 31.03.2006</b> | <b>20,470</b> | <b>21,297</b> | <b>26,480</b>       | <b>68,247</b> |

The movement in stock is analysed below:

|                            | 2004/05       | 2005/06       |
|----------------------------|---------------|---------------|
| Stock at 1st April         | 73,036        | 70,435        |
| Sales                      | (1,847)       | (960)         |
| Demolitions/Transfers      | (754)         | (1,228)       |
| <b>Stock at 31st March</b> | <b>70,435</b> | <b>68,247</b> |

The housing stock, land and other property within the HRA are valued in line with the Guidance on stock valuation published in May 2000. The basis of the valuation is in accordance with the Royal Institute of Chartered Surveyors using the existing use value for social housing (EUV-SH).

The balance sheet values of HRA fixed assets are as follows:

The change reflects properties lost through sales, demolitions, acquisitions and revaluation of Beacon values and depreciation.

The balance sheet value of non-operational assets includes surplus vacant property awaiting demolition and development land, as well as HRA properties let.

|                                 | 31 March 2005<br>£m | 31 March 2006<br>£m |
|---------------------------------|---------------------|---------------------|
| Council Dwellings               | 2,139               | 2,269               |
| Other Land and Buildings        | 5                   | 5                   |
| <b>Total Operational Assets</b> | <b>2,144</b>        | <b>2,274</b>        |
| Non Operational Assets          | 20                  | 20                  |
| <b>Total</b>                    | <b>2,164</b>        | <b>2,294</b>        |

## 2. Value of dwellings on vacant possession

- The vacant possession value of dwellings within the authority's HRA (valued in accordance with the Guidance) as at 1 April 2005 is £4,942m.
- The difference between the above figure and the £2,422m in the balance sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the former DETR's stock valuation model.

## Notes to Housing Revenue Account

### 3. Deferred charges

Deferred charges are a reflection of capital expenditure that does not result in an asset. There are no deferred charges in the financial year 2005/06.

### 4. Impairment charges

Impairment charges reflect a reduction in the value of fixed assets due to the economic environment or something has occurred to the assets. This could include a decline in demand, obsolescence and commitments to make significant changes to housing. No impairment charges have been identified in the 2005/06 accounts.

### 5. Major Repairs Reserve

The major repairs allowance is a cash sum allocated per property per annum based on type and size. The allowance is provided to maintain properties in their present condition of repair.

The main movements on the Major Repairs Reserve are set out below

|   | 2004/05<br>£'000 | 2005/06<br>£'000 |
|---|------------------|------------------|
| Opening balance on the Major Repairs reserve on 1 April   | 16,128           | 0                |
| The Amount transferred to the Major Repairs Reserve during the year   | 39,618           | 39,379           |
| The charge to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the authority's HRA | (55,746)         | (39,379)         |
| <b>The balance on the Major Repairs Reserve on 31 March</b>   | <b>0</b>         | <b>0</b>         |

### 6. Housing Revenue Account Subsidy

This now includes two components namely, Housing Subsidy and the Major Repairs Allowance. The rent rebate subsidy is not accounted for in the HRA from 2005/06 in line with the transfer of rent rebates to the General Fund. The HRA Subsidy element is calculated using stock numbers, allowances for management/maintenance, capital financing costs and notional rent income. The MRA (explained in Note 5) is paid through HRA Subsidy administration system.

An analysis of the HRA subsidy payable to the authority for this financial year and prior years in accordance with the regulations of the General Determination of Housing Revenue Account Subsidy 2005/06 is;

|                         | 2004/05<br>£'000 | 2005/06<br>£'000 |
|-------------------------|------------------|------------------|
| Rent Rebate Subsidy     | 0                | 0                |
| HRA Element             | (24,533)         | (18,806)         |
| Major Repairs Allowance | 39,618           | 39,379           |
| <b>Total</b>            | <b>15,085</b>    | <b>20,573</b>    |

## Notes to Housing Revenue Account

### 7. Capital Expenditure on HRA Assets

The total expenditure for HRA assets in 2005/06 was £115.6m. This was funded from the following sources:

|  | 2004/05<br>£'000 | 2005/06<br>£'000 |
|--|------------------|------------------|
| Supported Borrowing (Regional Housing Board) | 10,703           | 15,394           |
| Prudential Borrowing                         | 15,000           | 0                |
| Useable Capital Receipts (Right to Buy)      | 6,065            | 53,263           |
| Major Repairs Reserve                        | 55,746           | 39,379           |
| Revenue Contributions                        | 0                | 3,555            |
| Other Resources primarily Grants             | 3,394            | 3,992            |
| <b>Total</b>                                 | <b>90,908</b>    | <b>115,583</b>   |

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £64.1m (land £15.4m, houses £48.7m). The values for 2004/05 were £90.1m (land £16.3m and houses £73.8m). The government introduced a new capital receipts pooling framework from 2004/05. The total receipts generated in the financial year were £64.1m, of which £31.9m was forwarded to the Government and £32.2m retained by the City Council.

### 8. Cost of Capital Charges

The cost of capital charge is calculated using the EUV-SH valuation as explained in Notes 1 and 2. The charge is calculated using the statutory interest rate of 3.5% and totals £85.480m for 2005/06 (£60.257m for 2004/05).

The actual capital finance charge is calculated in accordance with the Item 8 Debit (General Determination 2005/06) and is based on the interest payable on average debt outstanding. This was calculated at £36.067m (£35.501m for 2004/05).

### 9. Depreciation Charges

The total charge for depreciation for the land, houses and other property within the authority's HRA is £39.379m (£39.618m in 2004/05). The principle adopted by the authority follows guidance from DCLG that the major repairs allowance is a satisfactory proxy as this is based on maintaining properties in their present condition.

|                                   | 2004/05<br>£'000 | 2005/06<br>£'000 |
|-----------------------------------|------------------|------------------|
| Dwellings                         | 39,618           | 39,379           |
| Other Land, Buildings and garages | 0                | 0                |
| <b>Operational Total</b>          | <b>39,618</b>    | <b>39,379</b>    |
| Non Operational                   | 0                | 0                |
| <b>Total Depreciation</b>         | <b>39,618</b>    | <b>39,379</b>    |

## Notes to Housing Revenue Account

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### 10. Rent Arrears

Rent arrears from current tenants at 31 March 2006 totalled £13.9m (31 March 2005: £12.4m). Other services and income arrears, including Housing Benefit overpayments, totalled £11.0m at 31 March 2006 (31 March 2005: £7.6m).

A provision for bad debts has been made to meet possible future write offs of rent and other services/income. The provision was £19.8m at 31 March 2006 (31 March 2005 £15.9m) and has been calculated based a value/aged analysis in accordance with government guidelines.

### 11. Revenue Contribution to Capital

A revenue contribution to capital expenditure was made amounting to £3.5 million (nil in 2004/05). This is identified in Note 8.

## Collection Fund

| 2004/05        |   |      | 2005/06 |                |
|----------------|---|------|---------|----------------|
| £'000          |   | Note | £'000   | £'000          |
|                | <b>Income</b>   |      |         |                |
| 233,879        | Council Tax:<br>Income  | 2    | 247,048 |                |
| 78,233         | Transfers from General Fund:<br>Council Tax Benefit                                       |      | 80,393  |                |
| 15             | Decrease in provision for bad debts   | 5    | 928     |                |
| <b>312,127</b> |   |      |         | <b>328,369</b> |
| 289,456        | Business Ratepayers:<br>Income collectable  | 3    |         | 316,136        |
| 26             | Community Charge:<br>Income collected resulting in a reduction to provision for bad debts |      |         | 5              |
| <b>601,609</b> |   |      |         | <b>644,510</b> |
|                | <b>Expenditure</b>  |      |         |                |
| 274,406        | Demands on the Collection Fund:<br>Birmingham City Council                                | 4    | 286,859 |                |
| 32             | Frankley in Birmingham Parish   |      | 58      |                |
| 10,938         | West Midlands Fire and Rescue Authority   |      | 11,662  |                |
| 22,281         | West Midlands Police Authority  |      | 23,681  |                |
| <b>307,657</b> |   |      |         | <b>322,260</b> |
| 0              | Council Tax:<br>Increase in Provision for Bad Debts                                       | 5    | 0       |                |
| 4,172          | Debts written off   |      | 4,847   |                |
| 287,491        | Business Rates:<br>Payment to National Pool   |      | 314,178 |                |
| 1,965          | Cost of Collection Allowance  |      | 1,958   |                |
| <b>289,456</b> |   |      |         | <b>320,983</b> |
| 916            | (Surplus)/ Deficit Brought Forward  |      |         | 592            |
| <b>602,201</b> |   |      |         | <b>643,835</b> |
| 592            | (Surplus)/ Deficit Carried Forward  |      |         | (675)          |

# Note to the Collection Fund

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## 1. General

These accounts represent the transactions of the Collection Fund.

This is a statutory fund which the City Council administers on its own behalf, and that of New Frankley in Birmingham Parish Council and of the West Midlands Police, and Fire and Rescue Authorities. It records major sources of funding and their distribution. As the City Council is the billing authority, the fund is consolidated with other accounts in the Consolidated Balance Sheet.

The accounts have been prepared on an accruals basis.

## 2. Contribution from Council Taxpayers

The council's tax base at January 2005 (the number of chargeable dwellings in each valuation band net of discounts) converted to an equivalent number of Band D dwellings was calculated as follows:

| Band                                 | No. of Properties | Ratio | Band D Equivalent Dwellings |
|--------------------------------------|-------------------|-------|-----------------------------|
| AR                                   | 364               | 5/9   | 202                         |
| A                                    | 127,066           | 6/9   | 84,711                      |
| B                                    | 102,260           | 7/9   | 79,536                      |
| C                                    | 61,120            | 8/9   | 54,329                      |
| D                                    | 29,123            | 1     | 29,123                      |
| E                                    | 17,377            | 11/9  | 21,238                      |
| F                                    | 7,532             | 13/9  | 10,880                      |
| G                                    | 5,134             | 15/9  | 8,557                       |
| H                                    | 661               | 18/9  | 1,323                       |
| <b>Total</b>                         | <b>350,637</b>    |       | <b>289,899</b>              |
| Less: adjustment for collection rate |                   |       | (5,798)                     |
|                                      |                   |       | <b>284,101</b>              |

The level of Council Tax is calculated at the beginning of the year and is calculated so as to ensure that the Council has enough money to pay for the services it provides. The amount of tax paid by local residents is based on how much the property they live in is worth. There are eight property valuation bands, A to H.

The total required by the Collection Fund is divided by the Council Tax base. This represents the number of properties in the borough, expressed as equivalent Band D properties. The level of Council Tax paid for a Band D property is the total income required divided by the Council Tax base, subject to any discounts to which a Council Tax payer may be entitled. The amount is adjusted for discounts and exemptions that particular residents in the borough are entitled to.

## Note to the Collection Fund

These discounts and exemptions are reimbursed by Central Government. The Council also offers discounts for prompt payment.

The figures for the New Frankley in Birmingham Parish are:

| Band                                 | No. of Properties | Ratio | Band D Equivalent Dwellings |
|--------------------------------------|-------------------|-------|-----------------------------|
| AR                                   | 0                 | 5/9   | 0                           |
| A                                    | 1,279             | 6/9   | 853                         |
| B                                    | 1,432             | 7/9   | 1,114                       |
| C                                    | 98                | 8/9   | 87                          |
| D                                    | 54                | 1     | 54                          |
| E                                    | 1                 | 11/9  | 1                           |
| F                                    | 0                 | 13/9  | 0                           |
| G                                    | 0                 | 15/9  | 0                           |
| H                                    | 1                 | 18/9  | 1                           |
| <b>Total</b>                         | <b>2,865</b>      |       | <b>2,110</b>                |
| Less: adjustment for collection rate |                   |       | (42)                        |
|                                      |                   |       | <b>2,068</b>                |

### 3. Business Ratepayers

Under the arrangements for uniform business rates, the council collects National Non-Domestic Rates (NNDR) for its area which are based on local rateable values multiplied by a uniform rate which is set by the Government (42.2p for 2005/06 : 45.6p for 2004/05). The total non-domestic rateable value at 31 March 2006 was £957.3m (£808.4m at 31 March 2005). The total amount, less certain reliefs and deductions, is paid to a central pool (the NNDR pool) managed by Central Government, which in turn pays back to authorities their share of the pool based on a standard amount per head of resident population.

Details of the NNDR transactions during 2005/06 are analysed as follows:

| 2004/05<br>£'000 |   | 2005/06<br>£'000 |  |
|------------------|---|------------------|--|
| 426,801          | a) Contribution to the NNDR pool: Non-Domestic Rates                | 459,058          |  |
| (674)            | Less: Transitional Relief Adjustments                               | (18,292)         |  |
| (138,636)        | Less: Allowances and Adjustments                                    | (126,588)        |  |
| <b>287,491</b>   | <b>Net Contribution to NNDR pool</b>                                | <b>314,178</b>   |  |
| 290,965          | Amount actually paid during the year                                | 303,469          |  |
| (3,474)          | Payment to/ (refund due from) pool                                  | 10,709           |  |
| <b>287,491</b>   |   | <b>314,178</b>   |  |
| 278,543          | b) Redistribution from the NNDR pool:<br>Net income to City Council | 330,592          |  |

# Note to the Collection Fund

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## 4. Precept Payments

The preceptors on the Collection Fund are the City Council, New Frankley in Birmingham Parish Council, the West Midlands Fire and Rescue Authority and the West Midlands Police Authority.

## 5. Bad debts

Every effort is made to recover all amounts due from Council/Community Tax and Business Ratepayers. However, where it has been proved impossible to recover unpaid charges, such amounts are written off to the Collection Fund Account. In 2005/06, £0.4m (£3.1m) in respect of unpaid NNDR and £4.8m (£4.2m) of Council Tax was written off. These write-offs represented 0.13% (1.02%) of NNDR due as at 1st April 2005 including amounts brought forward from earlier years and 1.38% (1.18%) of the amount of Council Tax due including arrears from earlier years. The figures in brackets are those for the previous year.

# Consolidated Balance Sheet

| 31st March<br>2005<br>£'000 |  | Note   | £'000     | 31st March<br>2006<br>£'000 |
|-----------------------------|--|--------|-----------|-----------------------------|
|                             | Fixed Assets                                 |        |           |                             |
|                             | Operational Assets                           |        |           |                             |
| 2,164,654                   | Council Dwellings & other HRA properties     |        | 2,293,688 |                             |
| 2,004,706                   | Other Land & Buildings                       |        | 2,291,135 |                             |
| 30,417                      | Vehicles, Plant, Furniture & Equipment       |        | 27,038    |                             |
|                             |  | 1 to 6 |           |                             |
| 393,736                     | Infrastructure Assets                        |        | 414,883   |                             |
| 0                           | Community Assets                             |        | 0         |                             |
| 253,126                     | Non-Operational Assets                       |        | 215,701   |                             |
| <b>4,846,639</b>            |  |        |           | <b>5,242,444</b>            |
| 13,579                      | Premature Debt Repayment Premiums            | 9      | 11,129    |                             |
| 83,590                      | Long Term Investments                        | 10     | 226,853   |                             |
| 32,887                      | Long Term Debtors                            | 11     | 27,995    | 265,976                     |
| <b>4,976,695</b>            | <b>Total Long Term Assets</b>                |        |           | <b>5,508,421</b>            |
|                             | Current Assets                               |        |           |                             |
| 42,473                      |  |        |           |                             |
|                             | Other Investments                            | 10     | 113,913   |                             |
| 3,060                       | Stocks & Work in Progress                    | 12     | 3,377     |                             |
| 0                           | Landfill Allowances                          | 12     | 2,853     |                             |
| 214,499                     | Debtors                                      | 13     | 242,813   |                             |
| 21,139                      | Cash in Hand                                 | 14     | 52,564    |                             |
|                             | Current Liabilities                          |        |           |                             |
| (238,629)                   | Borrowings repayable within 12 months        | 15     | (52,151)  |                             |
| (321,236)                   | Creditors                                    | 16     | (392,694) |                             |
| (29,554)                    | Cash Overdrawn                               | 14     | (52,731)  | (82,056)                    |
| <b>4,668,447</b>            | <b>Total Assets less Current Liabilities</b> |        |           | <b>5,426,365</b>            |
| (891,926)                   | Long Term Borrowing                          | 15     |           | (1,331,824)                 |
| (953,973)                   | Pensions Liability                           | 17     |           | (950,848)                   |
| (117,607)                   | Deferred Liabilities                         | 18     |           | (115,751)                   |
| (225,222)                   | Deferred Grants                              | 19     |           | (267,428)                   |
| (69,849)                    | Provisions                                   | 20     |           | (29,391)                    |
| <b>2,409,870</b>            | <b>Total Assets less Liabilities</b>         |        |           | <b>2,731,123</b>            |
| 2,361,909                   | Fixed Asset Restatement Account              | 21     |           | 2,595,854                   |
| 776,702                     | Capital Financing Account                    | 22     |           | 861,246                     |
| 78,421                      | Useable Capital Receipts Reserve             | 23     |           | 14,788                      |
| 18,727                      | Capital Contributions Unapplied              | 23     |           | 23,004                      |
| (953,973)                   | Pensions Reserve                             | 17     |           | (950,848)                   |
| 86,159                      | Earmarked Reserves                           | 23     |           | 143,453                     |
| 0                           | Housing Major Repairs Reserve                | 23     |           | 0                           |
|                             | Balances:                                    |        |           |                             |
| 25,635                      | General Fund                                 |        |           | 29,545                      |
| 16,882                      | Housing Revenue Account                      | 24     |           | 13,406                      |
| (592)                       | Collection Fund                              |        |           | 675                         |
| <b>2,409,870</b>            | <b>Net Equity</b>                            |        |           | <b>2,731,123</b>            |

# Note to the Consolidated Balance Sheet

## 1. Capital Expenditure

The City Council's capital expenditure on an accruals basis, including amounts owing but not paid in 2005/06, analysed between types of asset, is summarised below. This also includes deferred charges.

| Capital Expenditure<br>Type of Asset             | 2004/05<br>£m | 2005/06<br>£m | Capital Financing<br>Source | 2004/05<br>£m | 2005/06<br>£m |
|--|---------------|---------------|-----------------------------|---------------|---------------|
| Other Land & Buildings                           | 61.5          | 293.7         | Borrowing                   | 76.2          | 66.2          |
| Vehicles & Equipment                             | 9.8           | 7.0           | Prudential Borrowing        | 21.0          | 229.3         |
| Investment Properties                            | 6.1           | 1.2           | Capital Receipts            | 19.2          | 90.5          |
| Infrastructure                                   | 40.2          | 42.4          | Grants & Contributions      | 151.2         | 157.5         |
| Community Assets                                 | 13.8          | 29.4          | Revenue                     | 0.1           | 5.1           |
| Council Dwellings                                | 90.9          | 115.5         | Operating Leasing           | 1.0           | 1.5           |
| <b>Total Capital Expenditure re Fixed Assets</b> | <b>222.3</b>  | <b>489.2</b>  |                             |               |               |
| Deferred Charges                                 | 45.4          | 59.4          |                             |               |               |
| Operating Leasing                                | 1.0           | 1.5           |                             |               |               |
| <b>Total Capital Expenditure</b>                 | <b>268.7</b>  | <b>550.1</b>  | <b>Total</b>                | <b>268.7</b>  | <b>550.1</b>  |

The difference between expenditure on fixed assets and additions to the asset register relates to expenditure not deemed to have a material effect on asset values.

## 2. Movements in Fixed Assets

|   | Council<br>Dwellings<br>& Garages<br>£m | Other Land<br>& Buildings<br>£m | Vehicles<br>Plant &<br>Equipment<br>£m | Infrastructure<br>Assets<br>£m | Community<br>Assets<br>£m | Investment<br>Properties<br>£m | Total<br>£m    |
|---|---|---------------------------------|--|--------------------------------|---------------------------|--------------------------------|----------------|
| Gross Book Value at<br>1 April 2005                   | 2,328.4                                 | 2,108.6                         | 50.7                                   | 669.0                          | 0.0                       | 253.1                          | 5,409.8        |
| Less Accumulated<br>Depreciation at<br>1st April 2005 | (163.7)                                 | (103.9)                         | (20.3)                                 | (275.3)                        | 0.0                       | 0.0                            | (563.2)        |
| Net Book Value at<br>1st April 2005                   | 2,164.7                                 | 2,004.7                         | 30.4                                   | 393.7                          | 0.0                       | 253.1                          | 4,846.6        |
| Additions   | 0.0                                     | 48.9                            | 6.7                                    | 42.0                           | 0.0                       | 0.0                            | 97.6           |
| Disposals   | (103.4)                                 | (37.7)                          | (1.9)                                  | 0.0                            | 0.0                       | (3.6)                          | (146.6)        |
| Revaluations  | 271.8                                   | 283.4                           | 0.0                                    | 0.0                            | 0.0                       | 5.2                            | 560.4          |
| Restatements  | 0.0                                     | 36.0                            | (0.5)                                  | 0.4                            | 0.0                       | (39.0)                         | (3.1)          |
| Depreciation for year                                 | (39.4)                                  | (44.1)                          | (7.7)                                  | (21.2)                         | 0.0                       | 0.0                            | (112.4)        |
| <b>Net Book Value</b>                                 | <b>2,293.7</b>                          | <b>2,291.1</b>                  | <b>27.0</b>                            | <b>414.9</b>                   | <b>0.0</b>                | <b>215.7</b>                   | <b>5,242.4</b> |

The restatements include the reclassification of other land and buildings valued at £14.0 million as investment property.

# Note to the Consolidated Balance Sheet

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## 3. Fixed Asset Valuations

### *Operational (other than Housing) and Non-operational Assets:*

Approximately one fifth of the Council's property assets are valued each year. Peter Jones MRICS, Assistant Director and other similarly qualified staff in Birmingham Property Services, Development Directorate, carried out 90% of the valuations, and a Valuation Certificate was issued in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. A 10% proportion of the required valuations was undertaken, under identical terms, by external valuers in order to comply with recommendations included in the Carsberg Report. The effective date of the current year's valuation is the 1st April 2005. Properties regarded as operational were valued on the basis of Existing Use Value. Where the asset is of a specialist nature, the method of valuation was Depreciated Replacement Cost.

Non-operational properties have been valued on the basis of Market Value. Plant and machinery normally regarded as forming part of the "building" service installation have been included in the property valuation figure. Short lived operational assets such as vehicles have been included at historical cost less depreciation, as a proxy for current value.

### *Operational Assets (Housing):*

The entire housing stock was valued as at 1st April 2005 by Peter Jones MRICS and similarly qualified staff in Birmingham Property Services, according to the DCLG 'Guidance on Stock Valuation for Resource Accounting' updated and revised in July 2005. The valuation was on the basis of Existing Use Value for Social Housing using sample "beacon properties" and a valuation certificate was issued in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The Valuer did not inspect all properties in undertaking this work. A desktop review of the beacon values will be carried out as at 1st April 2006 by Peter Jones MRICS and his staff in accordance with the DCLG guidance.

### *Infrastructure and Community Assets:*

Infrastructure assets have been stated at the amount of outstanding debt as at 31st March 1994, when a new system of capital accounting was introduced, with adjustments for subsequent capital expenditure and depreciation.

Community assets were valued at a nominal £1 each as at April 1st 1994. Expenditure since that date was added to the values in previous years. However, in order to ensure consistency of treatment between assets, all are now included at the £1 nominal valuation.

## 4. Depreciation Policy

**Council Dwellings** - The Housing Revenue Account (HRA) has been charged with an amount of depreciation equivalent to the Major Repairs Allowance received from Central Government. This amount has been calculated as that required to maintain the housing stock in its current condition and Central Government allows this to be used as a proxy for depreciation.

**Other Land and Buildings** - In line with the requirements of FRS15 freehold buildings are depreciated over their estimated useful life. Freehold land is not depreciated. Leasehold property is depreciated over the life of the lease.

# Note to the Consolidated Balance Sheet

**Vehicles, Plant, Furniture, and Equipment** - depreciation is applied on a straight-line basis over the useful life of the asset. The book value of these assets is not materially different to the current value which is the basis of valuation required by the SORP.

**Infrastructure** - infrastructure assets are depreciated on a straight-line basis over the following periods:

| Type of expenditure  | Depreciation period |
|--|---------------------|
| Expenditure incurred prior to 1/4/1994   | 25 years            |
| Major schemes expenditure incurred after 1/4/1994  | 40 years            |
| Street furniture acquired after 1/4/1994   | 10 years            |
| Other expenditure incurred after 1/4/1994  | 20 years            |
| <i>(1994 was the year when the current capital accounting arrangements were introduced.)</i> |                     |

**Community Assets** - community assets are not depreciated.

**Investment Properties** - the depreciation provisions of FRS 15 do not apply to investment properties. These assets are, therefore, not depreciated.

## 5. Land, Buildings and Other Assets

| 31.03.05 | Property Assets (major categories)                                  | 31.03.06 |
|----------|---|----------|
| 70,435   | Council Dwellings   | 68,247   |
| 4,994    | Investment Interests  | 6,500    |
| 468      | Schools & Nurseries   | 456      |
| 59       | Other Education Establishments                                      | 53       |
| 93       | Office & Administrative Premises                                    | 126      |
| 130      | Social Services Properties  | 133      |
| 41       | Libraries   | 40       |
| 7        | Museums & Art Galleries   | 12       |
| 23       | Swimming Pools, Leisure Centres & Sports Stadia                     | 28       |
| 82       | Public Halls & Community Centres                                    | 125      |
| 133      | Parks   | 180      |
| 31       | Depots  | 26       |
| 66       | Public Car Parks  | 66       |
| 282      | Hectares of Leisure Gardens & Smallholdings                         | 282      |
| 4        | Markets   | 3        |
| 2,475    | Kilometres of Roads   | 2,475    |
| 12       | Cemeteries and Crematoria   | 11       |
|          | <b>Council Dwellings comprise the following types of properties</b> |          |
| 70,110   | Freehold/Long Leasehold   | 68,145   |
| 325      | Short Leasehold   | 102      |

# Consolidated Balance Sheet

## 6. Commitments under Capital Contracts

The City Council has to plan its capital spending in advance of work proceeding. Thus, at 31 March 2006, a number of contracts had been entered into under which payments will become due in future years as the work is carried out. Significant commitments (£1.0m or more) under capital contracts at that date were as follows:

|   | Total        | 2006/07      | 2007/08     | 2008/09     |
|---|--------------|--------------|-------------|-------------|
|   | £m           | £m           | £m          | £m          |
| <b>Transportation Schemes</b>                                       |              |              |             |             |
| Selly Oak Relief Road   | 4.95         | 4.2          | 0.75        |             |
| Northfield Relief Road  | 9.23         | 6.73         | 2.5         |             |
| <b>Local Services</b>   |              |              |             |             |
| LS414 Handsworth Park<br>(restoration & renovation of public park)  | 1.41         | 1.41         |             |             |
| <b>Economic Development Schemes</b>                                 |              |              |             |             |
| Princes Trust, Shard End<br>(construction of Community Centre)      | 1.62         | 1.62         |             |             |
| 301 Broad Street (former Lloyds TSB Bank)<br>(Acquisition & repair) | 3.61         | 3.61         |             |             |
| <b>Culture</b>  |              |              |             |             |
| Town Hall refurbishment   | 6.88         | 5.85         | 1.03        |             |
| <b>Resources</b>  |              |              |             |             |
| Council House Extension<br>(Roof replacement & repair)              | 1.29         | 1.28         | 0.01        |             |
| Sutton New Road<br>(Office block construction)                      | 6.12         | 5.18         | 0.94        |             |
| <b>Total</b>  | <b>35.11</b> | <b>29.88</b> | <b>5.23</b> | <b>0.00</b> |

## 7. Leasing

During 2005/06, the City Council paid £0.02m (2004/05 £0.05m) in finance lease rentals and £5.55m (2004/05 £6.96m) in operating lease rentals.

As at 31st March 2006, the City Council has a commitment to meet the following rental charges on both finance and operating leases:

|              | Finance<br>Leases<br>£m | Operating<br>Leases<br>£m |
|--------------|-------------------------|---------------------------|
| 2006/07      | 0.04                    | 4.24                      |
| 2007/11      | 0.03                    | 4.98                      |
| <b>Total</b> | <b>0.07</b>             | <b>9.22</b>               |

The assets financed by these leases consist entirely of vehicles, plant and equipment.

# Notes to the Consolidated Balance Sheet

## 8. Segmental Analysis of Net Assets

The Council had net assets of £3,031 million as at 31st March 2006 of which £2,364 million related to the General Fund and £667 million to the Housing Revenue Account.

## 9. Premature Debt Repayment Premiums

|   | 2004/05     | 2005/06     |
|---|-------------|-------------|
|   | £m          | £m          |
| <b>Opening Balance as at 1 April</b>                    | <b>13.7</b> | <b>13.6</b> |
| Net Discounts/ Premiums on Premature Redemption of Debt | 3.1         | 0.0         |
| Amounts charged to Asset Management Revenue Account     | (3.2)       | (2.5)       |
| <b>Closing Balance as at 31 March</b>                   | <b>13.6</b> | <b>11.1</b> |

The balance remaining represents net premiums paid on premature repayment of debt and will be charged to the Asset Management Revenue Account over the life of the replacement loan.

## 10. Investments

| 31.03.05     |  | 31.03.06     |
|--------------|--|--------------|
| £m           |  | £m           |
| 83.6         | Long Term Investments<br>Unlisted Investments intended to be held for the medium or long term at cost or valuation | 226.9        |
| 42.5         | Short Term Investments<br>Temporary Money Market Deposits and Section 106 Monies                                   | 113.9        |
| <b>126.1</b> | <b>Total Investments</b>   | <b>340.8</b> |

|                                 | £m           |
|---------------------------------|--------------|
|                                 | 2005/06      |
| Birmingham Airport Holdings Ltd | 25.7         |
| NEC Finance plc                 | 200.1        |
| Other LT Investments            | 1.1          |
| <b>Total</b>                    | <b>226.9</b> |

On 21st April 2005 the Council acquired, in consideration of an issue of City Council bonds, all the bonds issued by NEC Finance plc, valued at £215 million, and on which the Council had guaranteed payment at maturity. On 4th August 2005 £14.9 million of NEC Finance plc bonds were repurchased by the company for cancellation. The net value of the Council's investment is, therefore, £200.1 million. An investment of £56.0 million of sinking fund balances was no longer required and this investment has been written out together with the associated provision. The Council is continuing to guarantee repayment of the full amount on the principal of and interest accruing on the NEC (Developments) Limited loan stocks (see Note 25). The City Council is continuing to make a provision to repay the principal on these loan stocks. Part of these sums is now being invested by Morley Fund Management on behalf of the City Council.

# Notes to the Consolidated Balance Sheet

## 11. Long Term Debtors

A summary of the main items included in long term debtors is given below:

| 31.03.05<br>£m |  | 31.03.06<br>£m |
|----------------|--|----------------|
| 12.4           | University of Central England            | 0.0            |
| 1.2            | Mortgages:- Former Council House Tenants | 1.0            |
| 7.1            | Birmingham Airport Holdings              | 0.0            |
| 3.0            | Birmingham Technology Group              | 3.0            |
| 2.9            | Birmingham Hippodrome                    | 2.9            |
| 0.3            | Birmingham Rep                           | 0.0            |
| 1.8            | Employee Loans                           | 1.7            |
| 1.4            | N.E.C. Developments Plc                  | 1.2            |
| 0.5            | Learning & Skills Council                | 0.4            |
| 2.7            | Millennium Point                         | 16.4           |
| 0.0            | Think Tank                               | 1.1            |
| 0.3            | Other Long Term Debtors                  | 0.3            |
| (0.7)          | Bad Debt Provision                       | 0.0            |
| <b>32.9</b>    | <b>Total Long Term Debtors</b>           | <b>28.0</b>    |

The outstanding debt owed to the Council by the University of Central England was repaid in full in January 2006 together with a premium for early redemption of £3.5 million. This premium was credited to the Council's Consolidated Revenue Account.

The debt owed by Birmingham Airport Holdings is due to be repaid in March 2007 and is, therefore, included under Current Assets ( other debtors in Note 13 below).

## 12.1 Stocks and Stores

An analysis of stocks and stores is shown:

| 31.03.05<br>£'000 |                            | 31.03.06<br>£'000 |
|-------------------|----------------------------|-------------------|
| 887               | National Exhibition Centre | 936               |
| 839               | Local Services             | 879               |
| 368               | Libraries & Museums        | 376               |
| 621               | Transportation             | 669               |
| 335               | Other                      | 345               |
| 10                | Work in Progress           | 172               |
| <b>3,060</b>      | <b>Total</b>               | <b>3,377</b>      |

## 12.2 Landfill Allowances

The figure for landfill allowances represents the total allowance received of 141,233 tonnes valued at £20.20 per tonne.

# Notes to the Consolidated Balance Sheet

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## 13. Debtors

A summary of the main items included in debtors is given below:

| 31.03.05<br>£m |                                | 31.03.06<br>£m |
|----------------|--------------------------------|----------------|
|                | Sums due from:                 |                |
| 49.0           | Council Tax Payers             | 57.8           |
| 18.6           | Business Rate Payers           | 31.4           |
| 23.3           | Residential & Commercial Rents | 22.4           |
| 65.6           | Government Departments         | 68.1           |
| 112.4          | Others                         | 122.5          |
| <b>268.9</b>   |                                | <b>302.2</b>   |
| (54.4)         | Provision for Bad Debts        | (59.4)         |
| <b>214.5</b>   | <b>Total Debtors</b>           | <b>242.8</b>   |

## 14. Cash

Of the total cash held by the City Council, £22.3 million was held by schools operating their own bank accounts under schemes of delegated financial management.

## 15. Financial Instruments

The Council's financial instruments comprise borrowings, cash and investments. In common with all local authorities, it may not trade in financial instruments or use derivatives, and it is subject to CIPFA's Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities, both of which regulate the use of financial instruments.

The Council approves and monitors a treasury management policy and an annual treasury management strategy in order to manage its financial instrument risks. It also sets a number of related limits and indicators in accordance with the Prudential Code. The main risk arising from the Council's financial instruments is interest rate risk. The Council does not have a material currency risk.

### Overall level of borrowing

The Council approved an authorised limit for borrowing and other long term liabilities of £1,704m for 2005/06 and the maximum actual level in the year was £1,423m.

# Notes to the Consolidated Balance Sheet

## Interest rate risks

The Council set an upper limit on its variable interest rate exposure of 35% of its borrowing net of investments. The maximum actual exposure during the year was 20%.

The split of financial liabilities and financial assets in terms of interest risk was as follows at 31 March:

|               | Liabilities<br>£m | Assets<br>£m |
|---------------|-------------------|--------------|
| Variable Rate | 52.2              | 96.2         |
| Fixed Rate    | 1,331.8           | 200.1        |
|               | 1,384.0           | 296.3        |

## Liquidity risk and maturity profile

The Council had no undrawn committed borrowing facilities, but was able to obtain unsecured borrowing from the sterling financial markets and could borrow from the Public Works Loans Board for up to 30 years up to 6th December 2005 and up to 50 years until the year end, for all its needs within its authorised limit of £1,704m. Because the Council funds long term infrastructure assets much of its borrowing is long term, with 75% of its borrowing maturing in excess of 10 years, within a limit of 80% set by the Council. The analysis by type and the maturity structure of financial liabilities was as follows:

| 31.03.05<br>£m |                         | 31.03.06<br>£m |
|----------------|-------------------------|----------------|
|                | Analysis by Source:     |                |
| 20.1           | Stock                   | 235.0          |
| 911.8          | Public Works Loan Board | 986.8          |
| 96.9           | Other market Loans      | 156.9          |
| 101.8          | Short Term Loans        | 5.3            |
| 1,130.6        | <b>Total Borrowing</b>  | 1,384.0        |

The balance sheet shows these borrowings as follows:

| 31.03.05<br>£m |                                       | 31.03.06<br>£m |
|----------------|---------------------------------------|----------------|
| 238.6          | Borrowings repayable within 12 months | 52.2           |
| 35.1           | Between 1 & 5 years' time             | 140.0          |
| 144.7          | Between 5 & 10 years' time            | 159.2          |
| 154.6          | Between 10 & 15 years' time           | 161.8          |
| 221.7          | Between 15 & 20 years' time           | 185.3          |
| 101.1          | Between 20 & 25 years' time           | 315.7          |
| 20.0           | Between 25 & 40 years' time           | 125.0          |
| 214.8          | After more than 40 years              | 244.8          |
| 1,130.6        | <b>Total Borrowing</b>                | 1,384.0        |

# Notes to the Consolidated Balance Sheet

## Fair values of financial liabilities and assets

Set out below is the book value and fair value of financial instruments at 31 March 2006. The fair value reflects the amount of fixed rate debt taken in earlier years at a relatively high rate of interest:

|                                      | Book Value<br>£m | Fair Value<br>£m |
|--------------------------------------|------------------|------------------|
| Borrowing repayable within 12 months | 52.2             | 70.0             |
| Long term Borrowing from PWLB        | 986.8            | 1,337.9          |
| Other long term Borrowing            | 345.0            | 495.6            |
| Financial Assets                     | (296.3)          | (417.8)          |
|                                      | <b>1,087.7</b>   | <b>1,485.7</b>   |

The fair value of PWLB borrowing has been determined in accordance with PWLB circulars, and for other long term borrowing by using market prices or present value calculations as appropriate

## 16. Creditors

An analysis of creditors is shown below.

| 31.03.05<br>£m |   | 31.03.06<br>£m |
|----------------|---|----------------|
| 52.2           | General Creditors                                       | 73.3           |
| 30.2           | Government Grants                                       | 28.3           |
| 22.7           | HM Collector of Taxes (Income Tax & National Insurance) | 24.4           |
| 8.0            | Housing Benefit   | 0.0            |
| 52.5           | Receipts in Advance                                     | 62.0           |
| 17.6           | Amounts Owed to and on behalf of Employees*             | 18.0           |
| 16.8           | Collection Fund   | 39.0           |
| 121.2          | Other   | 147.7          |
| <b>321.2</b>   | <b>Total Creditors</b>                                  | <b>392.7</b>   |

\*The figure of £18m relating to Amounts owed to and on behalf of employees, includes accrued pension contributions payable to the LGPS and TPS scheme administrators amounting to £4.8m and £7.4m respectively.

## 17. Pensions Liability

Under FRS17 the City Council is required to disclose the assets and liabilities relating to the pensions accounts for past and current employees. The following information has been supplied by the actuaries (Mercer Human Resource Consulting) and covers both the LGPS and the TPS.

| Balance Sheet Items    | 31.03.2005<br>£m | 31.03.2006<br>£m |
|------------------------|------------------|------------------|
| Market Value of Assets | 1,713.4          | 2,161.3          |
| Liabilities            | (2,667.4)        | (3,112.2)        |
| <b>(Deficit)</b>       | <b>(954.0)</b>   | <b>(950.9)</b>   |

# Notes to the Consolidated Balance Sheet

The liabilities show the underlying commitment that the Council has to meet the cost of providing retirement benefits to its employees. These significantly reduce the Council's net worth although statutory arrangements for funding the deficit mean that the overall financial position is healthy. The fund is subject to triennial valuations and the actuaries will calculate revised contribution rates to meet the deficit.

The City Council's share of the assets of the Local Government Pension Fund may be analysed as follows:

|                  | Assets at 31.03.2005 |            | Assets at 31.03.2006 |            |
|------------------|----------------------|------------|----------------------|------------|
|                  | £'000                | %          | £'000                | %          |
| Equities         | 1,290.1              | 75.3       | 1,664.2              | 77.0       |
| Government Bonds | 161.1                | 9.4        | 172.9                | 8.0        |
| Other Bonds      | 77.1                 | 4.5        | 108.1                | 5.0        |
| Property         | 123.4                | 7.2        | 151.3                | 7.0        |
| Other            | 61.7                 | 3.6        | 64.8                 | 3.0        |
| <b>Total</b>     | <b>1,713.4</b>       | <b>100</b> | <b>2,161.3</b>       | <b>100</b> |

The movements on the pensions reserve may be summarised as follows:

The balance on the Pensions Reserve is included in the balance sheet and the movement for the year included in the Statement of Total Movement in Reserves.

|                                | £'000            |
|--------------------------------|------------------|
| Balance at 01.04.05            | (953,973)        |
| Appropriation from CRA         | 4,183            |
| Actuarial loss on LGPS and TPS | (1,058)          |
| <b>Balance at 31.03.06</b>     | <b>(950,848)</b> |

The following assumptions were made:

| Financial Assumptions                    | 31.03.2005 | 31.03.2006 |
|--|------------|------------|
|  | %          | %          |
| Rate of Inflation*                       | 2.90       | 2.90       |
| Rate of increase in Salaries*            | 4.65       | 4.65       |
| Rate of increase in Pensions             | 2.90       | 2.90       |
| Discount Rate*                           | 5.40       | 4.90       |
| <b>Expected Rate of Return on Assets</b> |            |            |
| Equities                                 | 7.50       | 7.00       |
| Government Bonds                         | 4.70       | 4.30       |
| Other Bonds                              | 5.40       | 4.90       |
| Property                                 | 6.50       | 6.00       |
| Cash/ Liquidity                          | 4.75       | 4.50       |

\* These percentages apply to both LGPS and TPS. Other values relate only to LGPS.

## Notes to the Consolidated Balance Sheet

For the financial year ending 31st March 2006, the following additional disclosures are required:

| <b>Movement In Deficit</b>      | <b>2004/05<br/>£'000</b> | <b>2005/06<br/>£'000</b> |
|---------------------------------|--------------------------|--------------------------|
| Deficit at Beginning of Year    | (590,340)                | (953,973)                |
| Current Service Cost            | (77,370)                 | (85,657)                 |
| Employer Contributions          | 68,275                   | 72,622                   |
| Past Service/Curtailment Cost   | (2,741)                  | 44,993                   |
| (Net Interest)/Return on Assets | (26,306)                 | (27,775)                 |
| Actuarial (Loss)/Gain           | (325,491)                | (1,058)                  |
| <b>Deficit at End of Year</b>   | <b>(953,973)</b>         | <b>(950,848)</b>         |

| <b>LGPS</b>   | <b>2002/03</b>   |          | <b>2003/04</b> |          | <b>2004/05</b>   |          | <b>2005/06</b> |          |
|---|------------------|----------|----------------|----------|------------------|----------|----------------|----------|
|   | <b>£'000</b>     | <b>%</b> | <b>£'000</b>   | <b>%</b> | <b>£'000</b>     | <b>%</b> | <b>£'000</b>   | <b>%</b> |
| <b>Statement of Actuarial Gains &amp; Losses</b>                                  |                  |          |                |          |                  |          |                |          |
| Difference between the expected and actual return on assets                       | (529,240)        | 41.6     | 179,198        | 11.6     | 68,617           | 4.0      | 319,438        | 14.8     |
| Difference between actuarial assumptions about liabilities and actual experience  | 0.00             | 0        | 0.00           | 0        | 68,346           | 2.6      | (66,619)       | 2.2      |
| Changes in the demographic and financial assumptions used to estimate liabilities | 0.00             | 0        | 0.00           | 0        | (457,872)        | (17.6)   | (248,751)      | (8.2)    |
| <b>Net Actuarial Gain/(Loss)</b>  | <b>(529,240)</b> |          | <b>179,198</b> |          | <b>(320,909)</b> |          | <b>4,068</b>   |          |

## Notes to the Consolidated Balance Sheet

| TPS<br>Statement of Actuarial Gains<br>& Losses                                   | 2003/04     |   | 2004/05        |       | 2005/06        |       |
|---|-------------|---|----------------|-------|----------------|-------|
|   | £'000       | % | £'000          | %     | £'000          | %     |
| Difference between the expected and actual return on assets                       | 0.00        | 0 | 0.00           | 0     | 0.00           | 0     |
| Difference between actuarial assumptions about liabilities and actual experience  | 0.00        | 0 | 1,509          | 2.3   | (2,076)        | (3.0) |
| Changes in the demographic and financial assumptions used to estimate liabilities | 0.00        | 0 | (6,091)        | (9.4) | (3,050)        | (4.4) |
| <b>Net Actuarial Gain/(Loss)</b>  | <b>0.00</b> |   | <b>(4,582)</b> |       | <b>(5,126)</b> |       |

Further information regarding the nature of the two pension schemes and providing actuarial valuation details can be found within the Statement of Accounting Policies and Note 3 to the Consolidated Revenue Account.

Changes to the Local Government Pension Scheme permit employees retiring on or after 6th April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed that 50% of employees retiring after that date will take advantage of this change to the scheme. Our actuaries have advised that this will reduce the value of the Council's pension liabilities by £47.457million. This has been included in Non-Distributed costs on the face of the Consolidated Revenue Account.

### 18. Deferred Liabilities

These consist of liabilities which by arrangement are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time. A summary of the main items included in deferred liabilities is shown below:

| 31.03.05     |  | 31.03.06     |
|--------------|--|--------------|
| £m           |  | £m           |
| 75.4         | Debt taken over from the former West Midlands County Council | 74.2         |
| 3.1          | Walsall Waste Disposal                                       | 3.1          |
| 38.7         | Schools PFI  | 38.1         |
| 0.4          | Other  | 0.4          |
| <b>117.6</b> | <b>Total Deferred Liabilities</b>                            | <b>115.8</b> |

\* These percentages apply to both LGPS and TPS. Other values relate only to LGPS.

# Notes to the Consolidated Balance Sheet

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## 19. Deferred Government Grants

This account holds the various government capital grants and contributions from private developers. These will be written off to revenue over the life of the relevant assets in accordance with the depreciation schedule. Grants funding assets which are not depreciated are written off to the Capital Financing Account. During the year grants totalling £54.3 million (2004/05 £63.8 million), used to finance the acquisition of fixed assets were taken to the account and £12.1 million (2004/05 £9.2m), equivalent to depreciation on assets financed by grants in previous years, was written off to revenue.

## 20. Provisions

|                   | 31.03.05<br>£m | Increase in Year<br>£m | Applied in Year<br>£m | 31.03.06<br>£m |
|-------------------|----------------|------------------------|-----------------------|----------------|
| NEC Ltd Loan Debt | 66.0           | 0.0                    | (43.7)                | 22.3           |
| Other             | 3.8            | 3.3                    | 0.0                   | 7.1            |
|                   | <b>69.8</b>    | <b>3.3</b>             | <b>(43.7)</b>         | <b>29.4</b>    |

### 20.1 NEC Ltd.

The City Council is guaranteeing repayment of the full amount on the principal of and interest accruing on the NEC loan stocks raised for the construction of the International Convention Centre, the National Indoor Arena and Hall 10 at the National Exhibition Centre. At 31st March 2006 the amount of the loan guaranteed was £200 million (2005: £215 million). Since the City Council has acquired the loan stocks in exchange for new City Council bonds maturing in 2030, the Council no longer requires any provision to repay the loan stock.

### 20.2 Bad Debt Provision

The provision for bad debts is shown separately in the balance sheet as a deduction from current debtors (see Note 13 above).

## 21. Fixed Asset Restatement Account

The system of capital accounting introduced in 1994-95 required the establishment of the Fixed Asset Restatement Reserve, (renamed Account by the 2004 SORP). The balance represents the difference between the valuation of assets under the previous system of capital accounting and subsequent revaluations, adjustments and disposals. The account will be written down each year by the net book value of assets as they are disposed of and debited or credited with the deficits or surpluses arising on future revaluations. Expenditure on fixed assets not resulting in a material change in asset values is also written off to this account.

## Notes to the Consolidated Balance Sheet

The movements on the Fixed Asset Restatement account in 2005/06 are as follows:

|  | 2004/05<br>£m  | 2005/06<br>£m  |
|--|----------------|----------------|
| Opening Balance at 1 April                     | 1,672.4        | 2,361.9        |
| Revaluation and Restatement of Fixed Assets    | 882.8          | 589.2          |
| Exp. not resulting in a change in Asset Values | (120.0)        | (176.4)        |
| Disposal of Fixed Assets                       | (73.3)         | (178.9)        |
| <b>Closing Balance at 31 March</b>             | <b>2,361.9</b> | <b>2,595.8</b> |

## 22. Capital Financing Account

The Capital Financing Account, formerly the Capital Financing Reserve, contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

The movements on the Capital Financing Account are shown below:

|   | 2004/05<br>£m       | 2005/06<br>£m       |
|---|---------------------|---------------------|
| Opening Balance                         | 773.3               | 776.7               |
| Adjustment re Financing of Prior Year   | 6.4                 | 0.0                 |
| <b>Capital Receipts Reserved</b>        |                     |                     |
| Voluntary Set Aside                     | 0.0                 | 36.6                |
| <b>Financing of Capital Expenditure</b> |                     |                     |
| Use of Capital Receipts                 | 19.2                | 90.5                |
| Direct Revenue Financing                | 0.0                 | 5.1                 |
| Use of major Repairs Reserve            | 39.6                | 39.4                |
|   | <u>58.8</u>         | <u>135.0</u>        |
| Depreciation                            | (64.9)              | (71.8)              |
| Impairment of Fixed Assets              | (3.2)               | (1.3)               |
| Transfer from Major Repairs Reserve     | (39.6)              | (39.4)              |
| Write Down of Deferred Grant            | 9.2                 | 12.1                |
| Write Off of Grants not Funding Asset   | 29.1                | 73.1                |
| Deferred Charges - Expenditure          | (45.4)              | (58.4)              |
| Deferred Charges - Income               | 19.2                | 30.1                |
| Minimum Revenue Provision               | 33.5                | 35.2                |
| Other                                   | 0.3                 | (66.6)              |
|   | <u>(61.8)</u>       | <u>(86.4)</u>       |
|   | <u><b>776.7</b></u> | <u><b>861.3</b></u> |

## Notes to the Consolidated Balance Sheet

The main items included under other in 2005/06 are a write-down of NEC Finance Bonds of £14.9 million as described in Note 10 to the balance sheet and the write down of £12.3 million owed to the Council by the University of Central England. This debt was redeemed in full in January 2006 as described in Note 11.

### 23. Earmarked Reserves

A summary of the main items included in earmarked reserves is given below:

|   | 31.03.05<br>£m | Movement in year<br>£m | 31.03.06<br>£m |
|---|----------------|------------------------|----------------|
| Sums set aside to Finance Capital Expenditure | 10.8           | 47.0                   | 57.8           |
| Reserves for Budgets Delegated to Schools     | 40.5           | 4.5                    | 45.0           |
| Service Development Reserve                   | 2.4            | 5.0                    | 7.4            |
| Treasury Management Reserve                   | 5.3            | 0.2                    | 5.5            |
| Property Portfolio Strategy Reserve           | 2.8            | 0.0                    | 2.8            |
| General Maintenance Reserve                   | 2.0            | (2.0)                  | 0.0            |
| PFI Schools Reserve                           | 4.7            | (0.4)                  | 4.3            |
| Insurance Reserve                             | 5.6            | 1.2                    | 6.8            |
| Other   | 12.1           | 1.8                    | 13.9           |
|   | <b>86.2</b>    | <b>57.3</b>            | <b>143.5</b>   |
| Usable Capital Receipts                       | 78.4           | (63.6)                 | 14.8           |
| Capital Contributions Unapplied               | 18.7           | 4.3                    | 23.0           |
| Housing Major Repairs Reserve                 | 0.0            | 0.0                    | 0.0            |
|   | <b>183.3</b>   | <b>(2.0)</b>           | <b>181.3</b>   |

The reserve in respect of budgets delegated to schools is a net figure held by schools at 31st March 2006 and is an earmarked reserve which must in totality be available for schools' use. These balances include £5.5m (2004/05: £4.6m) relating to former Grant Maintained schools.

The net figure held by schools, before any temporary loans to the General Fund are taken into account, is made up of £57.7m underspent by schools and £6.5m overspent by schools.

Earmarked reserves are available to fund capital or revenue expenditure, following approval by the Cabinet. Expenditure is charged to the revenue or capital account when it is incurred and is financed by an appropriation from the reserve to the Consolidated Revenue Account. The balance on the Service Development Reserve includes a sum of £4.1 million which is earmarked for particular services but held centrally pending satisfactory progress against the Council's efficiency savings targets.

The Housing Major Repairs Reserve is a reserve to which is credited the Major Repairs Allowance which may be applied to the financing of housing repair work. £39.4 million was received during the year. All of this was applied to the funding of Housing capital expenditure leaving a nil balance.

# Notes to the Consolidated Balance Sheet

## 24. Balances on revenue accounts and the Collection Fund

For 2005/06 the City Council has budgeted to make a contribution of £1.0m to General Fund balances.

The Collection Fund is a statutory fund in which the Council records transactions for council tax and business rates.

|                         | 31.03.05<br>£m | Movement in year<br>£m | 31.03.06<br>£m |
|-------------------------|----------------|------------------------|----------------|
| General Fund            | 25.6           | 3.9                    | 29.5           |
| Housing Revenue Account | 16.9           | (3.5)                  | 13.4           |
| Collection Fund         | (0.6)          | 1.3                    | 0.7            |
|                         | <b>41.9</b>    | <b>1.7</b>             | <b>43.6</b>    |

## 25. Contingent Liabilities

These relate to pending legal or contractual claims not included in the accounts and guarantees given by the City Council for repayment of loans taken out by certain associated companies (see also Note 24). The City Council currently has the following contingent liabilities:

- i. The City Council is guaranteeing payment of the full amount on the principal of and interest accruing on the National Exhibition Centre (Developments) PLC loan stock raised in May 1997 for the construction of the four new halls at the National Exhibition Centre. The amount of the loan guaranteed is £73m (2005: £73m), due in 2027.
- ii. The City Council has agreed to guarantee up to a maximum of £13.5m of commercial loans made by Württembergische Hypothekenbank AG to Aston Science Park Limited. At 31 March 2006 the full amount of £13.5m (2005: £13.5m) had been drawn down against this facility. The loan facility is due for repayment over 17 years and repayments commenced in May 2004.
- iii. The City Council has an Accountable Body role for a range of grant funding regimes such as Single Regeneration Budget, New Deals for Communities, Birmingham Children's Fund and European Funding. This role can be project specific, where the Council accesses funding directly for itself or on behalf of another organisation, or programme related, where the Council is accountable for the delivery of or underwrites the performance of a specific programme. There is a potential liability to the Council arising from potential non-delivery of outputs, ineligible expenditure or disposal of assets. As at 31st March 2006 commitments under the Council's Accountable Body roles totalled £351.1m with projected future commitments arising in years to 2011/12 of £148.7m. To minimise the impact of these possible liabilities the City Council has introduced various controls and mechanisms such as legal agreements, charges on assets and detailed expenditure verification and monitoring procedures.
- iv. The City Council's final Housing Benefit claims for 2002/03 and 2003/04 are still being considered by the Department of Work and Pensions. There may be a clawback of subsidy from the City Council, above the level of £3.2 million provided for in the accounts, which would reduce the level of benefit income shown and also reduce the General Fund balance carried forward.

# Notes to the Consolidated Balance Sheet

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- v. In December 2003, the City Council received £7m ERDF grant funding towards a strategic land assembly project on the A38 Bristol Road South as part of a wider partnership development with the Regional Development Agency. This development opportunity is still progressing but has not matured as quickly as was originally anticipated. As a result the City Council may be deemed to be in breach of the funding conditions and be required to repay the grant.
- vi Under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003, employees are entitled to equal pay for work of equal value. The full extent of the Council's liabilities in this area is unknown. No provision has been made in the balance sheet for any potential liabilities.

## 26. Insurance

The City Council maintains an Insurance Reserve to assist in managing claims falling against negotiated policy excesses accepted by the City Council. The policy excesses, which change from time to time, are for the major risks (2005/06 policy year):

|                      |   |
|----------------------|---|
| Fire:                | £750,000 per claim                                  |
| Terrorism:           | £750,000 per claim                                  |
| Employers Liability: | £500,000 per claim                                  |
| Public Liability:    | £150,000 per claim                                  |
| Motor Vehicle:       | £ 50,000 per claim up to £920,000 in aggregate p.a. |

The balance on the reserve is £6.8m (2004/05: £5.6m) as shown in the table at Note 23.

Municipal Mutual Insurance Co Ltd (MMI) ceased writing new insurance business in 1992 and is currently using its available resources to meet outstanding claims. MMI may not fully know the full extent of its liability claims as it may take a number of years for them to arise.

The City Council had part of its fire insurance and a number of contingency covers with MMI. Claims totalling £0.44m are currently outstanding.

MMI has continued to settle the Council's claims in an orderly manner. However, to prevent the costs associated with an insolvent run off, the company has entered into a scheme of arrangement with its creditors. Should the scheme be implemented, the City Council and others will be called upon to reimburse the company with a proportion (up to 100%) of its claims settled since 1st October 1993. Claims settled since 1st October 1993 total £1.98m.

The City Council also acts on behalf of the West Midlands District Councils in administering insurance claims arising from the former West Midlands County Council. Should the scheme be implemented, the City Council will also be called upon to reimburse a proportion, along with the other West Midlands District Councils. Since 1st October 1993 claims settled total £0.8m.

# Notes to the Consolidated Balance Sheet

## 27. Trust Funds

The City Council administers a number of trust funds which have been established from donations and bequests made to it to meet a variety of objectives and purposes. The total monies held at 31st March 2006 were £12.3m (2005: £ 11.9m).

In addition, the City Council held £0.4m (2005: £0.4m) of Social Services Clients' Funds. The trust funds and clients' funds do not represent assets of the City Council and have not been included in the Consolidated Balance Sheet.

The major trust funds were:

|   | Balance<br>31.03.05<br>£'000 | Income<br>£'000 | Expenditure<br>£'000 | Balance<br>31.03.06<br>£'000 |
|---|------------------------------|-----------------|----------------------|------------------------------|
| Bodenham Trust -<br>For children with special educational needs                           | 523.0                        | 71.4            | 32.8                 | 561.6                        |
| <b>Centre for the Child -<br/>To promote the education of children &amp; their carers</b> | 179.0                        | 0               | 22.6                 | 156.4                        |
| <b>Charles Baker Trust -<br/>For the elderly and disabled</b>                             | 200.0                        | 12.5            | 5.9                  | 206.6                        |
| Clara Martineau Trust -<br>For children with special educational needs                    | 2,556.5                      | 548.8           | 85.7                 | 3,019.6                      |
| Cropwood Estate   | 234.8                        | 10.8            | 0                    | 245.6                        |
| Francis Lyn Betteridge Memorial Trust   | 101.3                        | 5.8             | 6.9                  | 100.2                        |
| <b>Girls Night Shelter for women and girls in need<br/>or distress</b>                    | 282.3                        | 6.4             | 0.0                  | 288.7                        |
| Holinsworth Fund -<br>To further the work of voluntary hospitals                          | 143.7                        | 28.0            | 3.6                  | 168.1                        |
| Museum & Art Gallery Development Trust -<br>Enhancement of city museums                   | 349.3                        | 6.5             | 242.0                | 113.8                        |
| <b>The Elford Trust -<br/>Healthy recreation for Birmingham citizens</b>                  | 1750.8                       | 59.6            | 67.2                 | 1743.2                       |
| <b>The Harriet Louisa Loxton Charity -<br/>For the aged and infirm</b>                    | 905.3                        | 34.7            | 16.3                 | 923.7                        |
| The Lord Mayor's Charity Appeal -<br>For charitable purposes                              | 181.5                        | 117.9           | 108.4                | 191.0                        |
| Highbury Trust<br>To use the bequest for the benefit of the citizens<br>of Birmingham.    | 4,000.0                      | 249.1           | 249.1                | 4,000.0                      |
| Other   | 491.0                        | 81.5            | 10.8                 | 561.7                        |
|   | <b>11,898.5</b>              | <b>1,233.0</b>  | <b>851.3</b>         | <b>12,280.2</b>              |

## Notes to the Consolidated Balance Sheet

The City Council is sole trustee of funds highlighted in bold. The opening balances on four funds have been restated following audits of their 2004/05 accounts. These are:

Clara Martineau Trust  
Francis Lyn Betteridge Trust  
Elford Trust  
Harriet Louisa Loxton Trust

Below is an analysis of the assets of the main funds:

|   | Restricted<br>Funds | Unrestricted<br>Funds | Total              |
|---|---------------------|-----------------------|--------------------|
|   | £'000               | £'000                 | 31,030.06<br>£'000 |
| Bodenham Trust -<br>For children with special educational needs                               | 561.6               | 0                     | 561.6              |
| <b>Centre for the Child -<br/>To Promote the education of Children &amp;<br/>Their Carers</b> | 0                   | 156.4                 | 156.4              |
| <b>Charles Baker Trust -<br/>For the elderly and disabled</b>                                 | 64.1                | 142.5                 | 206.6              |
| Clara Martineau Trust -<br>For children with special educational needs                        | 3,019.6             | 0                     | 3,019.6            |
| Cropwood Estate   | 226.0               | 19.6                  | 245.6              |
| Francis Lyn Betteridge Memorial Trust   | 92.2                | 8.0                   | 100.2              |
| <b>Girls Night Shelter for women and girls in need<br/>or distress</b>                        | 248.9               | 39.8                  | 288.7              |
| Holinsworth Fund -<br>To further the work of voluntary hospitals                              | 15.5                | 152.6                 | 168.1              |
| Museum & Art Gallery Development Trust -<br>Enhancement of city museums                       | 85.2                | 28.6                  | 113.8              |
| <b>The Elford Trust -<br/>Healthy Recreation for Birmingham Citizens</b>                      | 1,648.3             | 94.9                  | 1,743.2            |
| <b>The Harriet Louisa Loxton Charity -<br/>For the aged and infirm</b>                        | 892.7               | 31.0                  | 923.7              |
| The Lord Mayor's Charity Appeal -<br>For charitable purposes                                  | 165.5               | 25.5                  | 191.0              |
| Highbury Trust  | 0                   | 4,000.0               | 4,000.0            |
|   | <b>7,019.6</b>      | <b>4,698.9</b>        | <b>11,718.5</b>    |

# Notes to the Consolidated Balance Sheet

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## 28. Associated and Subsidiary Companies

The City Council maintains involvement with a number of associated and subsidiary companies. The assets and liabilities of these companies are not included in the City Council's accounts. Note 25 also lists major contingent liabilities in relation to some of the following companies.

The major investments are in the following companies.

### **The National Exhibition Centre Limited - Draft Company Accounts**

The City Council holds 5,000 £1 shares (50%) in the company, the purpose of which is to promote and operate the National Exhibition Centre, the International Convention Centre and the National Indoor Arena. At 31st March 2006, the City Council was guaranteeing loans of £200m (2005: £215m) to the company (see Notes 19 (i)).

After discontinued operations, the Company made a profit before and after tax of £819k during the year to 31st March 2006 (2005: loss of £305k). The Company's net liabilities at 31st March 2006 amounted to £32,322k (2005: £19,229k). The National Exhibition Centre Ltd is a regulated influenced company under the Local Authorities (Companies) Order 1995 (S.I. 849). This means that a number of finance and propriety controls apply in relation to NEC Ltd activities.

In Agreements dated 17th March 1986 and 17th December 1987, as amended by an agreement dated 4th April 1996. Birmingham City Council has agreed to ensure that finance will be available in such a way and of such amount, as will make certain that the company will remain solvent within the meaning of Section 123 of the Insolvency Act 1986 (that is that it will be able to meet its debts as they fall due), during such time as all or any part of the loan stock referred to in Note 19 of the financial statements, in issue at the date of the agreements, or any interest costs or expenses payable in respect thereof remain to be repaid or paid. During 2005/06, the City Council made reimbursements totalling £19.803m to the Company NEC Ltd, (2004/05, £20.313m).

There was no qualification to the audit opinion on the latest audited accounts of this company.

The loan debt guaranteed by the City Council was refinanced during 2005/06. Details of this are given in Note 20 and in the Explanatory Foreword. The accounts of the NEC Ltd. have been consolidated with those of the City Council in the group financial statements on page 71.

### **The National Exhibition Centre (Developments) Plc - Draft Company Accounts**

The Company was set up to provide an additional 30,000 square metres of exhibition space in four new halls. The new building has been financed by a loan stock issue of £73million to the company which is guaranteed by the City Council. The City Council was allotted 450 of 1,000 ordinary shares of £1 each and 50,000 of 100,000 preference shares of £1 each in the company. The City Council has loan notes totalling £1.2 million in the company and has agreed to make available additional loans of £3.1 million should the Company require further funds. The loss before and after tax for the year to 31st March 2006 amounted to £14,000 (2005: £14,000). The net liabilities at 31st March 2006 amounted to £1,156,000 (2005: £1,142,000).

There was no qualification to the audit opinion on the latest audited accounts of this company.

# Notes to the Consolidated Balance Sheet

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## Birmingham Technology Group

The Birmingham Technology Group of companies aims to promote, encourage and secure the development and management of a science park in Birmingham. The City Council appoints seven out of the thirteen members of Birmingham Technology Limited, which has loans outstanding from the City Council as at 30 June 2006 of £2.96m (2005: £2.96m). The City Council holds 1,250 £1 ordinary shares (25%) in Birmingham Technology (Property) Limited and is guaranteeing £12.5m of commercial loans by the company. The City Council also has 500 £1 ordinary shares (9%) and £800,000 of preference shares in Birmingham Technology (Venture Capital) Limited.

The Groups figures for the year ending June 2004 and 2005 are as follows:

| 2004<br>£m |  | 2005<br>£m |
|------------|--|------------|
| 0.3)       | Profit/(loss) on Ordinary Activities before taxation | 0.1        |
| (0.5)      | Profit/(loss) on Ordinary Activities after taxation  | 0.1        |
| <b>7.3</b> | <b>Net Assets</b>                                    | <b>7.4</b> |

There was no qualification to the audit opinions on the latest audited accounts of the above companies.

## Other Associated and Subsidiary Companies:

In addition to the City Council's major investments in the associated and subsidiary companies detailed above, the City Council maintains an involvement in a number of other associate and subsidiary companies set out below. Of the companies listed below, the City Council only holds a shareholding in Birmingham Research Park Ltd. The City Council holds 237,160 £1 ordinary shares (49%) in Birmingham Research Park Ltd.

Afro Caribbean Millennium Centre Ltd, Birmingham Academy Trading Ltd, Birmingham and Solihull Connexions Services Limited, Birmingham Business Support Centre Limited, Birmingham Carnival 2000 Limited, Birmingham Citizens Advice Bureau Service Ltd, Birmingham Conservation Trust, Birmingham Conservation Trust (Trading) Ltd, Birmingham Core Skills Development Partnership Limited, Birmingham Economic Development Partnership Limited, Birmingham Hippodrome Theatre Trust Ltd, Birmingham Research and Development Limited, Birmingham Research Park Limited, Birmingham Venture Capital Limited, Birmingham Wheels (Enterprises) Limited, Birmingham Wheels Limited, Groundwork Birmingham and Solihull Limited, Local Leagues Limited, Marketing Birmingham, Matchbox Enterprises Limited, Midlands Arts Centre, Millennium Point Trust, National Exhibition Centre Finance PLC, Optima Community Association, Rover Community Action Trust, Saint Pauls Community Development Trust, Symphony Hall (Enterprises) Limited, The Academy of Youth Limited, The Birmingham Centre for Manufacturing limited, The Birmingham Repertory Theatre.

Copies of all Company Accounts can be obtained from the Directorate of Resources  
**Telephone 0121 303 3938**

# Notes to the Consolidated Balance Sheet

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## 29. Other Company Interests

### Birmingham Airport Holdings Ltd (Bah) – Draft Company Accounts

The main ordinary shareholders of BAH are the seven West Midland Districts. The Seven Districts together own 49% of BAH's 324 million ordinary shares of 1p each (Birmingham City Council owns 18.7% i.e. 60,535,200 shares). The remaining ordinary shares are held by Macquarie Airports Group Limited (24.125%), Aer Rianta International cpt which is owned by Dublin Airport Authority plc (24.125%) and 2.75% by an Employee Share Trust.

The Shareholders' Agreement provides for the Districts 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 seven West Midland Districts together own all £15.4m of BAH's 6.31% preference shares (The City Council owns £5,866,800) which are cumulative and redeemable.

The seven West Midland Districts also own all £18.5m subordinated loan stock. The City Council owns £7,055,322 on which interest is payable at 8.72% fixed until March 2007 when the loan is either repaid or may be extended at the owner's option until 2012 at a variable interest rate.

The BAH Group accounts incorporate Birmingham International Airport Ltd, Euro-Hub (Birmingham) Ltd, Birmingham Airport Developments Ltd, First Castle Developments Ltd, and Birmingham Airport (Finance) PLC.

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.

The group performance is as follows:

|       | <b>Year to<br/>31.03.05<br/>as restated</b>        | <b>Year to<br/>31.03.06</b> |
|-------|--|-----------------------------|
| 29.5  | Net Profit before Tax                              | 29.3                        |
| 19.0  | Net Profit after Tax                               | 19.5                        |
| 183.6 | Net Assets including pension liability at 31 March | 254.5                       |
| 2.5   | City Council Dividend Income                       | 2.5                         |

## 30. Private Finance Initiative Commitments

### i) Schools PFI

On 15th February 2000 the City Council entered into a Private Finance Initiative (PFI) contract with Birmingham Schools Partnership Ltd (BSPL). The contract provides for 7 schools to be completely rebuilt and 3 schools to be partially rebuilt / partially refurbished, following which BSPL will provide the premises-related services for 30 years.

At 31st March 2003, all 10 schools had been completed. In accordance with FRS5 the balance sheet reflects these 10 schools as the Council's assets because the Council bears the majority of

# Notes to the Consolidated Balance Sheet

the risks and rewards of ownership. The value of assets recognised on the balance sheet is £52.6m net of depreciation of £1.2m. The deferred liability recognised in respect of this scheme, amounts to £38.1m.

Within the fees payable to BSPL there are separately identifiable charges for services e.g. cleaning, repair and maintenance etc., which are subject to payment deductions for sub-standard service delivery. The remainder of the fee is linked to the accommodation being available and fit for use, and stringent payment deductions apply if any part of the school is unavailable during term-time.

The deferred liability for this scheme, shown in Note 18, represents the present value of basic availability payments. In 2005/06 the deferred liability was written down by £0.6 million. The remaining availability payments are charged to AMRA as an approximation for interest. Further availability payments are charged to the Education Service Revenue Account.

The payments the Council will make under the contract are as follows:-

The forecast payments are calculated using an assumed annual rate of inflation of 2.5% for services and further availability and a constant level of charges for basic availability element of the unitary fee. Payments under the contract may, however, differ materially from the forecast, depending on actual inflation and/or penalty deductions applied in respect of under performance and non availability

|                    | Services<br>£'000 | Availability<br>£'000 | Total<br>£'000 |
|--------------------|-------------------|-----------------------|----------------|
| Within one Year    | 2,969             | 4,740                 | 7,709          |
| 2007/8 to 2008/9   | 6,317             | 9,665                 | 15,982         |
| 2009/10 to 2013/14 | 17,227            | 24,854                | 42,081         |
| 2014/15 to 2018/19 | 19,490            | 25,947                | 45,437         |
| 2019/20 to 2023/24 | 22,051            | 27,183                | 49,234         |
| 2024/25 to 2028/29 | 24,949            | 28,581                | 53,530         |
| 2029/30 to 2031/32 | 16,517            | 17,895                | 34,412         |
| <b>Total</b>       | <b>109,520</b>    | <b>138,865</b>        | <b>248,385</b> |

The City Council was awarded a PFI Credit of £50.6 million, which is forecast to generate grants of £114.5million over the same period.

## ii) Public Conveniences PFI

The City Council entered into a 20 year contract in December 2000 with J C Decaux to supply and maintain public conveniences in suburban areas, replacing the Council's existing provision. The new conveniences are judged not to be the Authority's assets and will not appear on the Council's balance sheet. The existing premises will be removed from the balance sheet when they are demolished.

The authority pays a performance related annual fee per convenience for 20 locations. The contract is a Private Finance Initiative under the Capital Finance Regulations.

At 31st March 2006 there were 20 conveniences provided under the contract. All 22 conveniences are expected to be operational in 2006/07. There are no payments made under the contract for facilities that are not operational.

# Notes to the Consolidated Balance Sheet

The payments under the contract can vary according to availability and performance and are also linked to the Retail Price Index. Using 2.5% inflation and 100% assumed performance, the commitments under the contract are as follows:

|                    | £'000 |
|--------------------|-------|
| 2006/07            | 483   |
| 2007/08 to 2011/12 | 2,607 |
| 2012/13 to 2016/17 | 2,950 |
| 2017/18 to 2021/22 | 3,337 |

The total capital cost of the public conveniences is in the region of £2.5 million.

## 31. Possible Introduction of the Euro

The Government's policy is that it will consider the UK's formal entry into the European Single Currency (Euro) only when certain economic criteria have been met and a referendum has been held and voted in favour of entry. A referendum may be held at some time in the future. The Government expects Local Authorities to play a significant part in the changeover and is in the process of requesting Local Authorities to prepare contingency plans.

Birmingham City Council has a Euro Co-ordinator, the Director of Corporate Finance and Asset Management, and is developing a contingency plan. The Authority has arranged for payments to be received in Euros although, at this time, the exchange rate risk remains with the payer. Arrangements are in place to make payments in Euros should the specific case arise. The costs of contingency planning, which are not expected to be significant, will be met from existing resources. These costs are currently being evaluated as part of the process of scoping work required to integrate a new currency.

## 32. Post Balance Sheet Events

The accounts were approved for issue by the Director of Corporate Finance and Asset Management on 27th June 2006. The following event occurred between the balance sheet date and this date that may affect users' understanding of the accounting statements and therefore requires disclosure:

About 480 City Council staff have, with effect from 1st April 2006, been seconded to Service Birmingham, a joint venture company jointly owned by the City Council and Capita plc, who have an exclusive right to provide ICT services and assets (other than new applications) to the Council for the next ten years, for a price of £474.3m (agreed by Cabinet on 13th March and 26th June 2006).

Service Birmingham will also help the Council to deliver its Business Transformation programme (although, in this case, there is no exclusivity in terms of delivering this element), which will improve the quality and efficiency of the services the Council provides. Over ten years, this is expected to deliver £1.4bn of cashable and non-cashable benefits (including £0.3bn of additional capital receipts).

On 26th June, Cabinet agreed the first four phases of this work, which over three years is expected to involve gross savings of £128.3m, capital expenditure of £161.3m and project costs of £56.8m. This work will generate net savings of £21.8m (after financing costs etc), which are available to support the three year financial plan.

## Statement of Total Movement in Reserves

|  | 2004/05 |                | 2005/06 |                |
|--|---------|----------------|---------|----------------|
|  | £m      | £m             | £m      | £m             |
| Surplus/ (Deficit) for Year  |         |                |         |                |
| General Fund   | 3.5     |                | 3.9     |                |
| Housing Revenue Account  | 5.8     |                | (3.5)   |                |
| Movements on Earmarked Revenue Reserves  | 12.9    |                | 57.3    |                |
| Appropriation from Pensions Reserve  | 43.5    |                | (4.2)   |                |
| Actuarial Gains & Losses on Pensions   | (325.5) |                | 1.1     |                |
| <b>Total Increase/ (Decrease) in Revenue Resources</b>                               |         | <b>(259.8)</b> |         | <b>54.6</b>    |
| Increase/ (Decrease) in Useable Capital Receipts                                     | 28.2    |                | (63.6)  |                |
| Increase/ (Decrease) in Unapplied Capital Contributions                              | (4.3)   |                | 4.3     |                |
| <b>Total Increase/ (Decrease) in Realisable Capital Resources</b>                    |         | <b>23.9</b>    |         | <b>(59.3)</b>  |
| Gains/ (Losses) on Revaluations of Fixed Assets                                      | 882.8   |                | 379.7   |                |
| Impairment Losses on Fixed Assets  | (3.2)   |                | (1.3)   |                |
| <b>Total Increase/ (Decrease) in Unrealisable Value of Fixed Assets</b>              |         | <b>879.6</b>   |         | <b>378.4</b>   |
| <b>Value of Assets Sold, Disposed of Decommissioned</b>                              |         | <b>(73.3)</b>  |         | <b>(146.6)</b> |
| Revenue Resources Set Aside  | (50.4)  |                | 47.5    |                |
| Movement on Government Grants Deferred   | 54.6    |                | 42.2    |                |
| Movement on Major Repairs Reserve  | (16.1)  |                | 0.0     |                |
| <b>Total Increase/ (Decrease) in Amounts Set Aside To Finance Capital Investment</b> |         | <b>(11.9)</b>  |         | <b>89.7</b>    |
| <b>Increase/ (Decrease) on the Pensions Reserve</b>                                  |         | <b>(363.6)</b> |         | <b>3.1</b>     |
| <b>Total Recognised Gains/ (Losses)</b>  |         | <b>194.9</b>   |         | <b>319.9</b>   |

Note 1. Of the total recognised gains £197.5 relate to the Housing Revenue Account offset by losses of £122.5 million on the General Fund.

Note 2. Full details of the movement on the pensions liability can be found in Note 17 to the Consolidated Balance Sheet. Actuarial gains and Losses on pensions over previous years amounted to.

| <u>Year</u> | <u>Gain/(Loss)</u> |
|-------------|--------------------|
|             | £m                 |
| 2004/05     | (325.5)            |
| 2003/04     | 179.9              |
| 2002/03     | (529.2)            |

# Cash Flow Statement

| 2004/05<br>£m    |   | 2005/06<br>£m | £m               |
|------------------|---|---------------|------------------|
|                  | <b>Revenue Activities</b>   |               |                  |
|                  | <i>Cash Outflows:</i>   |               |                  |
| 1,174.0          | Cash Paid to and on behalf of Employees   | 1,210.8       |                  |
| 1,067.3          | Other Operating Cash Payments   | 1,241.5       |                  |
| 40.5             | Housing Capital Receipts Pooling Payments   | 37.0          |                  |
| 290.9            | National Non- Domestic Rate Payments to National Pool                             | 303.5         |                  |
| 162.9            | Housing Benefit Paid out  | 150.4         |                  |
| 33.2             | Precepts Paid   | 35.5          |                  |
| <b>2,768.8</b>   |   |               | <b>2,978.7</b>   |
|                  | <i>Cash Inflows:</i>  |               |                  |
| (91.6)           | Rents (after Rebates)   | (107.0)       |                  |
| (232.5)          | Council Tax Income  | (244.0)       |                  |
| (276.5)          | National Non-Domestic Rate Receipts from National Pool                            | (330.6)       |                  |
| (282.4)          | Non-Domestic Rate Receipts  | (305.1)       |                  |
| (809.2)          | Revenue Support Grant   | (834.9)       |                  |
| (234.7)          | DWP Support Grant (note 4)  | (239.3)       |                  |
| (450.2)          | Other Government Grants (note 4)  | (555.4)       |                  |
| (318.3)          | Cash Received for Goods and Services  | (312.8)       |                  |
| (231.2)          | Other Operating Cash Receipts   | (218.3)       |                  |
| <b>(2,926.6)</b> |   |               | <b>(3,147.4)</b> |
| <b>(157.8)</b>   | <b>Revenue Activities Net Cash Flow (note 1)</b>                                  |               | <b>(168.7)</b>   |
|                  | <b>Returns on Investments and Servicing of Finance</b>                            |               |                  |
|                  | <i>Cash Outflows:</i>   |               |                  |
| 88.9             | Interest Paid   | 87.1          |                  |
|                  | <i>Cash Inflows:</i>  |               |                  |
| (9.8)            | Interest Received   | (37.2)        |                  |
| <b>79.1</b>      |   |               | <b>49.9</b>      |
|                  | <b>Capital Activities</b>   |               |                  |
|                  | <i>Cash Outflows:</i>   |               |                  |
| 231.5            | Purchase of Fixed Assets  | 335.1         |                  |
| 9.1              | Purchase of Long Term Investments   | 0.0           |                  |
| 47.0             | Other Capital Cash Payments   | 58.8          |                  |
| <b>287.6</b>     |   |               | <b>393.9</b>     |
|                  | <i>Cash Inflows:</i>  |               |                  |
| (101.5)          | Sale of Fixed Assets  | (101.8)       |                  |
| 11.0             | Capital Contributions Received  | (4.3)         |                  |
| (101.7)          | Capital Grants Received (note 4)  | (113.6)       |                  |
| <b>(192.2)</b>   |   |               | <b>(219.7)</b>   |
| <b>16.7</b>      | <b>Net Cash Outflow/ (Inflow) before Financing Management of Liquid Resources</b> |               | <b>55.4</b>      |
| (3.9)            | Net Increase/ (Decrease) in Short Term Deposits                                   | 71.4          |                  |
|                  | <b>Financing</b>  |               |                  |
|                  | <i>Cash Outflows:</i>   |               |                  |
| 17.3             | Repayments of Amounts Borrowed  | 60.0          |                  |
|                  | <i>Cash Inflows:</i>  |               |                  |
| (52.8)           | New Loans Raised - Long Term  | (195.0)       |                  |
|                  |   |               | (63.6)           |
| <b>(22.7)</b>    | <b>Net (Increase)/ Decrease in Cash (note 2)</b>                                  |               | <b>(8.2)</b>     |

# Cash Flow Statement

**Note 1. Reconciliation of deficit on revenue accounts and the Collection Fund to revenue activities net cash flow.**

|  | 2004/05<br>£m | 2005/06<br>£m |
|--|---------------|---------------|
| Surplus on Revenue Account                   | 3.5           | 3.9           |
| Surplus/(Deficit) on Housing Revenue Account | 5.8           | (3.5)         |
| Surplus/(Deficit) on Collection Fund         | 0.3           | 1.3           |
|  | <b>9.6</b>    | <b>1.7</b>    |
| Add Back:                                    |               |               |
| Appropriations to Reserves                   | 13.8          | 57.3          |
| Provisions Set Aside                         | 9.3           | (25.9)        |
|  | <b>32.7</b>   | <b>33.1</b>   |
| Items Included Under Another Classification: |               |               |
| Interest Paid                                | 85.5          | 87.1          |
| Interest Received                            | (9.8)         | (37.1)        |
| Capital Financing Costs                      | 33.9          | 35.1          |
| PFI Grant                                    | (5.5)         | (4.6)         |
| Other Adjustments                            | 0.0           | 0.0           |
| Adjust for Non-Cash Items                    | 10.9          | 12.2          |
| Items on an Accrual Basis:                   |               |               |
| Movement in Stock                            | 0.3           | (0.3)         |
| Movement in Debtors                          | 17.9          | (28.3)        |
| Movement in Creditors                        | (8.1)         | 71.5          |
|  | <b>157.8</b>  | <b>168.7</b>  |

**Note 2. Reconciliation of net cash flow to movements in net debt**

|                          | Long Term<br>Loans<br>£'000 | Loans<br>Maturing<br>In 12 months<br>£'000 | Long<br>Term<br>Creditors<br>£'000 | Other<br>Investments<br>£'000 | Cash<br>Overdrawn<br>/ (In Hand)<br>£'000 | Net<br>Debt<br>£'000 |
|--------------------------|-----------------------------|--|------------------------------------|-------------------------------|---|----------------------|
| 31.03.05                 | 891,926                     | 238,629                                    | 117,607                            | (42,473)                      | 8,415                                     | 1,214,104            |
| 31.03.06                 | 1,331,824                   | 52,151                                     | 115,751                            | (113,913)                     | 167                                       | 1,385,980            |
| Movement in Year         | (439,898)                   | 186,478                                    | 1,856                              | 71,440                        | 8,248                                     | (171,876)            |
| Made up of Movements in: |                             |  |                                    |                               |   |                      |
|                          |                             |  |                                    |                               | Cash                                      | 8,248                |
|                          |                             |  |                                    |                               | Borrowing                                 | (253,420)            |
|                          |                             |  |                                    |                               | Investments                               | 71,440               |
|                          |                             |  |                                    |                               | Repayments of Deferred Liabilities        | 1,856                |
|                          |                             |  |                                    |                               |   | <b>(171,876)</b>     |

# Cash Flow Statement

## Note 3. Analysis of changes in net debt

|                          | 01.04.05<br>£'000 | Cash Flow<br>£'000 | 31.03.06<br>£'000 |
|--------------------------|-------------------|--------------------|-------------------|
| Cash Overdrawn/(In Hand) | 8,415             | (8,248)            | 167               |
| Due Within One Year      | 238,629           | (186,478)          | 52,151            |
| Due After One Year       | 891,926           | 439,898            | 1,331,824         |
| Investments              | (42,473)          | (71,440)           | (113,913)         |
| Deferred Liabilities     | 117,607           | (1,856)            | 115,751           |
|                          | <b>1,214,104</b>  | <b>171,876</b>     | <b>1,385,980</b>  |

## Note 4. Government Grants

The categories of government grants shown in the Cash Flow Statement are

|                                      | 2004/05<br>£m | 2005/06<br>£m |
|--------------------------------------|---------------|---------------|
| <b>Revenue</b>                       |               |               |
| Housing Subsidy                      | 149.8         | 20.6          |
| NRF                                  | 22.0          | 21.0          |
| Rent Allowances                      | 146.3         | 149.6         |
| Council Tax Benefit                  | 78.2          | 80.1          |
| European Social Fund                 | 2.7           | 1.6           |
| European Regional Development Budget | 0.9           | 1.2           |
| Single Regeneration Budget           | 3.3           | 3.6           |
| Education Grants                     | 125.5         | 222.8         |
| PFI Grant                            | 5.7           | 4.6           |
| Other                                | 150.5         | 289.6         |
|                                      | <b>684.9</b>  | <b>794.7</b>  |
| <b>Capital</b>                       |               |               |
| ERDF                                 | 0.8           | 6.7           |
| SRB                                  | 6.3           | 7.6           |
| PRG                                  | 7.7           | 0.0           |
| Magistrates Courts                   | 5.6           | 0.0           |
| Education Capital Grants             | 7.8           | 17.3          |
| Other                                | 73.5          | 82.0          |
|                                      | <b>101.7</b>  | <b>113.6</b>  |

# Group Financial Statements

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## Group Accounts

The City Council has a 50% interest in the companies making up the National Exhibition Centre Ltd. Group. In addition, the Council acts as guarantor of the company's borrowing and underwrites its operating losses. For this reason the Council has decided to account for these companies as subsidiaries in preparing consolidated financial statements. The company made a £0.82 million profit in the year ended 31st March 2006, (2005:Nil). The group balance sheet has been produced by consolidating the assets and liabilities of the City Council with those of the NEC Ltd. Group on a line by line basis. The major effect of this is an increase in long term borrowing from £2,695 million (2005: £2,259 million) to £2,929 million (2005: £ 2,519 million) and in fixed assets from £5,242 million (2005: £4,846 million) to £5,655 million (2005: £5,095 million). Additionally the Council holds a 45% stake in NEC (Developments) Ltd. The group revenue account shows the Council's share of the Company's loss in 2005/06 while the group balance sheet includes the Council's share of the Company's accumulated deficit consolidated on a net equity basis.

Further details on the Council's relationship to NEC Ltd. And other companies may be found in Note 28 to the Council's balance sheet.

The accounts of the NEC Ltd. Group have been prepared in accordance with International Financial Reporting Standards, International Financial Reporting Council interpretations of these standards, and the provisions of company law. The accounts of the City Council have been prepared in accordance with the Statement of Recommended Practice for local Authorities (SORP) produced by the Chartered Institute of Public Finance and Accountancy and endorsed by the Accounting Standards Board. There are a number of differences of accounting treatment between the Council and the NEC Ltd. Group. A number of adjustments were therefore made to the accounts of both the City Council and the NEC Ltd. Group to align accounting policies prior to consolidation.

The Council's consolidated revenue account was amended to reflect commercial accounting practice, in particular by the removal of notional interest charges for the use of fixed assets. This adjustment reduced the net cost of services by £182.6 million. The fixed assets of the NEC Ltd. Group were restated at current valuations in accordance with Local Authority accounting practice. The valuation in the Group balance sheet is £744 million rather than the valuation of £199 million in the NEC Ltd Group balance sheet which was prepared on a depreciated historical cost basis.

There have been a number of changes to the SORP requirements for preparation of group accounts, particularly the requirement to prepare the group revenue account on a line by line consolidation basis and to align accounting policies. The NEC Ltd. Group prepared their accounts in accordance with IFRS for the first time in 2005/06. These changes have entailed a restatement of the prior year comparatives.

The Council has also identified Birmingham Technology (Property) Ltd, Creative Advantage West Midlands, Birmingham Business Support Ltd and Venture capital Ltd as subsidiaries, but has not consolidated these on grounds of materiality.

The presentation of the group accounts has departed from the exact layout suggested by the SORP in order to make the accounts easier to read; and the detail of lines in the group accounts containing consolidated entries are disclosed as notes to the relevant statement.

# Group Financial Statements

## Group Revenue Account

| 2004/05<br>£'000   |  | 2005/06<br>£'000   |
|--------------------|--|--------------------|
| 12,284             | Central Services To The Public                 | 15,102             |
| 4,987              | Court and Probation Service                    | 1,217              |
| 168,506            | Cultural, Environmental & Planning Services    | 147,276            |
| 685,725            | Education Services                             | 746,445            |
| 87,427             | Highways, Roads & Transport                    | 83,227             |
| (11,795)           | Housing Services                               | 50,276             |
| 323,956            | Social Services                                | 356,344            |
| (5,923)            | Corporate & Democratic Core                    | 14,807             |
| 22,967             | Non Distributed Costs                          | (22,581)           |
| (2,691)            | Share of (Surplus)/Deficit of Associates       | (2,498)            |
| <b>1,285,443</b>   | <b>Cost of Services</b>                        | <b>1,389,615</b>   |
| 32                 | Parish Precept                                 | 58                 |
| (9,779)            | (Surpluses)/Deficits on Trading Undertakings   | (11,210)           |
| 70,359             | Levies   | 57,905             |
| 257,928            | Interest Payable                               | 283,047            |
| (123,214)          | Interest Receivable                            | (154,635)          |
| 0                  | Share of Tax on Loss of Associates             | 0                  |
|                    | Profit on Discontinued Operations              | (1,738)            |
| <b>1,480,769</b>   | <b>Net Operating (Income)/Expenditure</b>      | <b>1,563,042</b>   |
| <b>(1,365,755)</b> | <b>Income From Taxpayers/Government Grants</b> | <b>(1,457,182)</b> |
| <b>(120,981)</b>   | <b>Appropriations</b>                          |                    |
|                    | Appropriations to Specific Reserves            | (107,106)          |
| 5,967              | Appropriation to P&L / General Balances        | 1,246              |
| <b>0</b>           |  | <b>0</b>           |

# Group Financial Statements

## Group Balance Sheet

| <b>31.03.05</b>  |  | <b>31.03.06</b>  |
|------------------|--|------------------|
| <b>£'000</b>     |  | <b>£'000</b>     |
| 5,095,390        | Fixed Assets                                 | 5,655,541        |
| 46,452           | Long Term Debtors                            | 39,110           |
| 83,071           | Long Term Investments                        | 226,328          |
| <b>5,224,913</b> | <b>Total Long Term Assets</b>                | <b>5,920,979</b> |
| 298,812          | Current Assets                               | 435,170          |
| (595,194)        | Current Liabilities                          | (515,724)        |
| <b>4,928,531</b> | <b>Total Assets Less Current Liabilities</b> | <b>5,840,425</b> |
| (2,537,945)      | Long Term Liabilities                        | (2,928,783)      |
| (11)             | Minority Interests                           | 16,156           |
| <b>2,390,575</b> | <b>Total Assets Less Liabilities</b>         | <b>2,927,798</b> |
| 2,367,945        | Reserves                                     | 2,900,852        |
| 6340             | General Fund Balances                        | 12,865           |
| 16,290           | Other Balances                               | 14,081           |
| <b>2,390,575</b> |  | <b>2,927,798</b> |

## Note to the Group Balance Sheet

The Group balance sheet was prepared by consolidating the assets and liabilities of the City Council and of the NEC Ltd. Group on a line by line basis.

At 31 March 2006 the amount owed by the Council to the NEC Group totalled £2.1 million (2005: £1.4 million) and amount owed by the NEC Group to the Council totalled £7.1 million (2005: £2.2 million).

The amounts owed by the Council to the NEC Group comprise trading balances only. The amounts owed by the NEC Group to the Council consist of trading balances of £7.0 million and a loan balance of £14,000.

# Group Financial Statements

## Group Cash Flow Statement

| 2004/05<br>£'m |   | 2005/06<br>£'m | 2005/06<br>£'m |
|----------------|---|----------------|----------------|
| (184.5)        | <b><u>Net Cash (Inflow)/Outflow From Revenue Activities</u></b> |                | (195.8)        |
|                | <b><u>Dividends from joint ventures &amp; associates</u></b>    |                |                |
|                | <b>Cash Inflows:</b>  |                |                |
| 0              | Dividends received  | 0              |                |
|                | <b><u>Returns On Investments &amp; Servicing Of Finance</u></b> |                |                |
|                | <b>Cash Outflows:</b>   |                |                |
| 115.2          | Interest Paid   | 112.3          |                |
|                | <b>Cash Inflows:</b>  |                |                |
| (10.6)         | Interest Received   | (37.7)         |                |
| 0              | Taxation  | 0              |                |
| <b>104.6</b>   |   |                | <b>74.6</b>    |
| (79.9)         | <b><u>Capital Expenditure &amp; Financial Investment</u></b>    |                | (121.2)        |
|                | <b>Cash Outflows:</b>   |                |                |
| 231.5          | Purchase of Fixed Assets  | 335.5          |                |
| 9.1            | Purchase of Long Term Investments                               | 0.6            |                |
| 47.0           | Other Capital Cash Payments                                     | 59.2           |                |
|                | <b>Cash Inflows:</b>  |                |                |
| (101.5)        | Sale of Fixed Assets  | (118.9)        |                |
| (11.5)         | Capital Contributions Received                                  | (4.3)          |                |
| (101.7)        | Capital Grants Received   | (113.6)        |                |
| 0              | Equity dividends paid   | 0              |                |
| <b>72.9</b>    |   |                | <b>158.5</b>   |
| (7.0)          | <b>Net Cash (Inflow)/Outflow Before Financing</b>               |                | <b>37.3</b>    |
|                | <b><u>Management Of Liquid Resources</u></b>                    |                |                |
|                | <b>Cash (Inflows)/Outflows</b>                                  |                |                |
| (5.4)          | Net Increase/(Decrease) in Short Term Deposits                  |                | 71.4           |
|                | <b><u>Financing</u></b>   |                |                |
|                | <b>Cash Outflows:</b>   |                |                |
| 17.3           | Repayments Of Amounts Borrowed                                  | 74.9           |                |
|                | <b>Cash Inflows:</b>  |                |                |
| (52.8)         | New Loans Raised - Long Term                                    | (195.0)        |                |
| <b>(35.5)</b>  |   |                | <b>(120.1)</b> |
| <b>(47.9)</b>  | <b>Net (Increase)/Decrease In Cash</b>                          |                | <b>(11.4)</b>  |

# Group Financial Statements

## Note to the Group Cash Flow Statement

### Reconciliation of Revenue Account (Surplus)/Deficit To Revenue Activities Net Cash Flow

| 2004/05<br>£'m |  | 2005/06<br>£'m |
|----------------|--|----------------|
|                | <b><u>Surplus/Deficit:</u></b>                           |                |
| (26.4)         | Surplus on Revenue Account                               | (3.0)          |
| (5.8)          | Deficit on Housing Revenue Account                       | 3.5            |
| (0.3)          | Surplus On Collection Fund                               | (1.3)          |
| <b>(32.5)</b>  |  | <b>(0.8)</b>   |
|                | <b><u>Add Back:</u></b>                                  |                |
| (13.8)         | Appropriations to Reserves                               | (57.3)         |
| (2.5)          | FRS 17 Adjustment (2004/2005)                            | 0              |
| (9.3)          | Provisions Set Aside                                     | 25.9           |
| <b>(25.6)</b>  |  | <b>(31.4)</b>  |
|                | <b><u>Items Included Under Other Classification:</u></b> |                |
| (85.5)         | Interest Paid  | (112.3)        |
| 9.8            | Interest Received  | 37.6           |
| (33.9)         | Capital Financing Costs                                  | (35.1)         |
| 5.5            | PFI Grant  | 4.6            |
| (10.9)         | Non Cash Item Adjustments                                | (12.2)         |
| <b>(115.0)</b> |  | <b>(117.4)</b> |
|                | <b><u>Items On Accruals Basis</u></b>                    |                |
| (0.4)          | Movement In Stock  | 0.3            |
| (24.4)         | Movement In Debtors                                      | 27.5           |
| 13.4           | Movement In Creditors                                    | (74.0)         |
| <b>(11.4)</b>  |  | <b>(46.2)</b>  |
| <b>(184.5)</b> | <b>Cash (Inflow)/Outflow From Revenue Activities</b>     | <b>(195.8)</b> |

# Group Financial Statements

## Group Statement of Total Movement in Reserves

|   | 2004/05 |                | 2005/06 |                |
|---|---------|----------------|---------|----------------|
|   | £m      | £m             | £m      | £m             |
| Surplus/ (Deficit) for Year   |         |                |         |                |
| General Fund/P & L Account  | 3.5     |                | 21.9    |                |
| Housing Revenue Account   | 5.8     |                | (3.5)   |                |
| Movements on Earmarked Revenue Reserves                                 | 12.9    |                | 57.3    |                |
| Appropriation from Pensions Reserve                                     | 43.5    |                | (4.2)   |                |
| Actuarial Gains & Losses on Pensions                                    | (325.5) |                | (13.0)  |                |
| <b>Total Increase/ (Decrease) in Revenue Resources</b>                  |         | <b>(259.8)</b> |         | <b>58.5</b>    |
| Increase/ (Decrease) in Useable Capital Receipts                        | 28.2    |                | (63.6)  |                |
| Increase/ (Decrease) in Unapplied Capital Contributions                 | (4.3)   |                | 4.3     |                |
| <b>Total Increase/ (Decrease) in Realisable Capital Resources</b>       |         | <b>23.9</b>    |         | <b>(59.3)</b>  |
| Gains/ (Losses) on Revaluations of Fixed Assets                         | 882.8   |                | 593.1   |                |
| Impairment Losses on Fixed Assets                                       | (3.2)   |                | (1.3)   |                |
| <b>Total Increase/ (Decrease) in Unrealisable Value of Fixed Assets</b> |         | <b>879.6</b>   |         | <b>591.8</b>   |
| <b>Value of Assets Sold, Disposed of Decommissioned</b>                 |         | <b>(73.3)</b>  |         | <b>(146.6)</b> |
| Revenue Resources Set Aside   | (50.4)  |                | 47.5    |                |
| Movement on Government Grants Deferred                                  | 54.6    |                | 42.2    |                |
| Movement on Major Repairs Reserve                                       | (16.1)  |                | 0.0     |                |
| <b>Total Increase/ (Decrease) in Amounts Set Aside</b>                  |         | <b>(11.9)</b>  |         | <b>89.7</b>    |
| <b>To Finance Capital Investment</b>                                    |         | <b>(363.6)</b> |         | <b>3.1</b>     |
| <b>Total Recognised Gains/ (Losses)</b>                                 |         | <b>194.9</b>   |         | <b>537.2</b>   |

# Glossary

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## **Accruals**

Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

## **Asset Management Revenue Account (AMRA)**

An account maintained to record the costs of the Authority's Fixed Assets. It is credited with rentals charged to individual services for the use of those assets.

## **Balances**

The total level of funds an authority has accumulated over the years, available to support revenue expenditure within the year.

## **Capital Charge**

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

## **Capital Expenditure**

Expenditure on the acquisition of a fixed asset, or expenditure which adds to, and not merely maintains, the value of an existing fixed asset.

## **Capital Financing Account**

An account maintained to hold the transactions relating to the financing of capital expenditure.

## **Capital Financing Requirement**

An amount calculated as Long Term Assets less the balances on Capital Financing Account and Fixed Asset Restatement Account, and Deferred Grant Account. The Council is required to make a provision of 4% of this amount from revenue resources to meet its debt repayment obligations. This is known as the Minimum Revenue Provision (qv).

## **Capital Receipt**

Money received from the disposal of land and other assets, and from the repayment of grants and loans made by the City Council.

## **Collection Fund**

A fund administered by the City Council recording receipts from Council Tax and payments to the General Fund and other public authorities. It also records receipts of non-domestic rates collected on behalf of Central Government.

## **Community Assets**

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

## **Consistency**

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

## **Creditors**

An amount owed by the City Council for work done, goods received or services rendered, but for which payment has not been made at the end of the year.

# Glossary

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## **Deferred Charges**

Expenditure which may properly be incurred, but which does not result in an asset owned by the City Council. Examples of deferred charges are expenditure on items such as improvement grants.

## **Depreciation**

The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset.

## **Debtors**

Sums of money owed to the City Council but not received at the end of the year.

## **Earmarked Reserve**

A sum set aside for a specific purpose.

## **Emoluments**

Payments received in cash and benefits for employment.

## **Fees and Charges**

Income arising from the provision of services, e.g. the use of leisure facilities.

## **Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

## **Fixed Assets**

Tangible assets that yield benefits to the City Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

## **Fixed Asset Restatement Account (FARA)**

The account which reflects the amount by which the value of the City Council's assets have been revised following revaluation or disposal.

## **FRS**

Financial Reporting Standard.

## **General Fund**

The total services of the City Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by Council Tax, Government Grants and NNDR.

## **Government Grants**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority, in return for past or future compliance with certain conditions relating to the activities of the City Council.

## **Government Grants Deferred Account**

Grants and other external contributions towards capital expenditure are written off to the revenue account as the assets to which they relate are depreciated. The balance on this account represents grants not yet written off.

# Glossary

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## **Housing Revenue Account (HRA)**

A separate account detailing the expenditure and income arising from the provision of council housing.

## **HRA Subsidy**

Grant paid by Central Government to support the provision of rented housing.

## **Impairment**

A diminution in value of a fixed asset resulting from, inter alia, obsolescence or physical damage. To comply with accounting standards the City Council undertakes annual reviews of its assets to identify any assets which have been impaired.

## **Infrastructure Assets**

These are inalienable assets, expenditure on which is recoverable only by continued use of the asset created. Examples of such assets are highways and footpaths.

## **Investments**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the City Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

## **Investment Properties**

Interest in land and/or buildings:

- i. in respect of which construction work and development have been completed;
- ii. is held for its investment potential, any rental income being negotiated at arms length.

## **Liabilities**

Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

## **Materiality**

An item is material if its omission, non-disclosure or mis-statement in financial statements could be expected to lead to a distortion of the view given by the financial statements.

## **Minimum Revenue Provision (MRP)**

A minimum amount, set by law, which the City Council must charge to the revenue account, for debt redemption or for the discharge of other credit liabilities.

## **National Non-Domestic Rates (NNDR)**

Rates which are levied on business properties. The City Council collects these rates and pays them into a national pool, which is then re-distributed on the basis of population.

## **Net Book Value**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

# Glossary

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## **Operating Leases**

Leases other than a finance lease.

## **Post Balance Sheet Events**

Those events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the statement of accounts is signed by the responsible financial officer.

## **Precept**

The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the City Council on their behalf.

## **Prior Year Adjustments**

Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

## **Private Finance Initiative (PFI)**

A Government initiative which enables authorities to carry out capital projects through partnership with the private sector.

## **Provisions**

Contributions to provisions are amounts charged to the revenue account during the year for costs with uncertain timing where a reliable estimate of the cost involved can be made.

## **Prudence**

This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.

## **Related Party**

There is a detailed definition of related parties in FRS8. For the City Council's purposes, related parties are deemed to include:

- i. the elected Members of the City Council and their partners;
- ii. the Chief Officers of the City Council;
- iii. the companies in which the City Council has an interest.

## **Revenue Expenditure**

Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

## **Revenue Support Grant (RSG)**

A grant from Central Government towards the cost of providing services.

## **SSAP**

Statement of Standard Accounting Practice.

# Auditors' Report to Birmingham City Council

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## Opinion on the financial statements

I have audited the financial statements of Birmingham City Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Birmingham City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and considered whether it is consistent with the audited financial statements. This other information comprises only the Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

# Auditors' Report to Birmingham City Council

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## Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

### Authority's Responsibilities

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

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in August 2005, in all significant respects, Birmingham City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

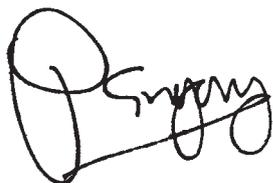
# Auditors' Report to Birmingham City Council

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I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.



John Gregory  
District Auditor

Audit Commission  
2nd Floor  
1 Friarsgate  
1011 Stratford Road  
Solihull  
West Midlands  
B90 4EB

18 October 2006

# Auditors' Report to Birmingham City Council

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## Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 20 December 2005. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.



John Gregory  
District Auditor

Audit Commission  
2nd Floor  
1 Friarsgate  
1011 Stratford Road  
Solihull  
West Midlands  
B90 4EB

18 October 2006

If you have any comments on these accounts  
or would like any further information, please contact:

**Peter Bateman, Corporate Accountant,  
Birmingham City Council, The Council House,  
Birmingham B11BB. Tel: 0121 464 8441.  
email: [peter\\_bateman@birmingham.gov.uk](mailto:peter_bateman@birmingham.gov.uk)**