

# Birmingham City Council - Statement of Accounts 2007/2008

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## Foreword

These accounts set out the financial results of Council activities for the year ended 31st March 2008.

The financial statements are split between the core financial statements and the supplementary financial statements within the accounts and their purposes are:

- **Statement of Accounting Policies** - the purpose of the statement of accounting policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

This statement provides accounting policies, which are consistent with the accounting concepts and relevant accounting standards. The approach taken ensures that the Council's accounts present fairly the financial position and transactions of the Council.

- **Income and Expenditure Account** - the Income and Expenditure Account brings together all of the functions of the authority and summarises all the resources that the authority has generated, consumed or set aside in providing services during the year. This statement is fundamental to the understanding of a local authority's activities, in that it reports the gross and net cost for the year of all the functions for which the authority is responsible and demonstrates how the costs have been financed. The Income and Expenditure Account is prepared in line with the CIPFA Statement of Recommended Practice (SORP). This means that there are some differences to the statutory provisions that specify the net expenditure of local authorities when setting local taxes. In order to give a full presentation of financial performance, the I&E account needs to be reconciled to relevant statutory provisions, and this is undertaken in the Statement of Movement on the General Fund Balance (SMGFB).

The net operating expenditure for 2007/08 amounted to £1,259.7 million (after departmental income and movements to and from reserves) and was financed by government revenue support grant of £90.1 million, redistributed non-domestic rates of £505 million and demands on the collection fund of £304.1 million. This left a deficit of £360.5 million mainly due to costs of pension liabilities and depreciation which are reversed through the SMGFB below.

- **Statement of Movement On The General Fund Balance (SMGFB)** - this statement reconciles the deficit on the Income and Expenditure Account to the overall movement in the Council's balances and shows the relationship between the Council's spending and the Council Tax levied.

The opening entry in this Statement is the outturn on the Income and Expenditure Account, which was a deficit of £360.5 million. The next line contains the total of all reconciling items to convert the I&E account figure into the sum required by statute and proper practice, and this amounts to net income of £359.8 million. The outcome is the decrease in the general fund balances for the year of £0.7 million.

The balance of the general fund reserve as at 31<sup>st</sup> March 2008 was £28 million.

## Foreword

- **Statement of Total Recognised Gains and Losses (STRGL)** - this statement shows all the realised and unrealised gains and losses that make up the movement in the Council's reserves and balances.

The statement reveals a decrease in net worth of £209.4 million and includes the deficit on the Income and Expenditure Account, the surplus on revaluation of fixed assets, actuarial losses recognised on the pension fund and the surplus on the Collection Fund.

- **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 2008).

The balance sheet total is £2,860.5 million and represents the net worth of the Council.

The Fixed Assets have a net book value of £6,211.8 million. £2,482.0 million of this sum is for the Council's housing stock, which is calculated on the basis of Existing Use Value for Social Housing (EUV-SH).

- **Cash Flow Statement** - summarises the total cash movements during the year for revenue and capital purposes.

The Cash Flow Statement shows the cash inflows and outflows arising from transactions with third parties for capital and revenue activities. The statement enables the full movements in cash to be identified. The overall outcome was a reduction in cash balances of £19.5 million.

- **Housing Revenue Account** - the Housing Revenue Account records the financial position of the Council's statutory obligation to account separately for the costs of its housing provision. The gross expenditure amounted to £182.3million. The surplus is £44.9 million. However, when the RA is adjusted through the statement of movement on the HRA balance to bring the HRA into line with the statutory practice for rent burden outcomes the net change of £44.5 million reduces the surplus for the year to be added to balances to £0.4 million

The total reserve on the Housing Revenue Account increased from £3.1 million to £3.5 million as at 31 March 2008.

- **Collection Fund** - is maintained separately, as a statutory requirement, to show the transactions of the Council as Billing Authority in relation to non-domestic rates and council tax. It illustrates the way in which the income has been distributed to the following Precepting Authorities:

- Birmingham City Council
- New Frankley in Birmingham Parish Council
- West Midlands Fire and Rescue Authority
- West Midlands Police Authority

The total net income from council taxpayers in 2007/08 amounted to £258.8 million.

## Foreword

In addition, the Collection Fund also collects income from non-domestic ratepayers in Birmingham, which is then passed to the Government after deducting collection costs.

The total net income from non-domestic ratepayers in 2007/08 amounted to £339.5 million.

The deficit for the year on the fund was £3.0 million, and the final balance a surplus of £1.8 million.

- **Group Accounts** - these statements consolidate the City Council's accounts with those of the National Exhibition Centre (NEC) Ltd, NEC Finance plc, NEC Developments plc, Birmingham Technology (Property) Ltd, and Service Birmingham Ltd.

### Changes in Accounting Policies

The main change in accounting policies relates to compliance with the requirements of Financial Reporting Standards 25 and 26. These require significant additional disclosures and, in certain cases, restatement of the carrying value of certain assets and liabilities, for example where a loan has been advanced at less than commercial rates of interest.

The Fixed Asset Restatement Account has been replaced by a Revaluation Reserve to which are credited all unrealised gains arising from the revaluation of fixed assets. Balances on the Fixed Asset Restatement Account and Capital Financing Account at 31<sup>st</sup> March 2007 were transferred on 1<sup>st</sup> April 2007 to a new account entitled the Capital Adjustment Account. This account will be debited with all those capital related items charged to the Income and Expenditure Account but which, in accordance with statute, may not be taken into account in determining the General Fund balance.

### A summary of the City Council's financial performance for the financial year 2007/2008

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 overleaf gives a summary of revenue and capital expenditure by portfolio and committee.

## Foreword

<b>Committee/Portfolio</b>	<b>Revenue Outturn £'000</b>	<b>Capital Outturn £'000</b>
Leader	58,817	137,241
Deputy Leader	29,825	137,220
Children, Young People & Families	262,476	51,707
Equalities & Human Resources	7,135	588
Housing	21,719	143,921
Leisure, Sport & Culture	45,386	20,334
Local Services & Community Safety	8,148	3,780
Regeneration	17,712	14,998
Adults & Communities	249,740	30,888
Transportation & Street Services	85,600	43,340
Council Business Management	9,088	96
Planning Committee	4,029	160
Licensing Committee	72	0
Public Protection Committee	12,608	376
Constituencies	99,868	0
<b>Total</b>	<b>912,223</b>	<b>584,649</b>
Sub-Total		
Capital Financing & Other Adjustments	(20,799)	
<b>Total</b>	<b>891,424</b>	<b>584,649</b>

### General Fund Reserves and Balances

Balances at the end of 2007/08 stand at £28.0m.

### Capital Expenditure

Total expenditure on capital schemes in 2007/08 was £584.7m (2006/07 £406.2m). This compared to the latest capital budget of £735.9 m. **The underspending is mainly due to delays in expenditure on a number of capital schemes. Details of this slippage are given in the Council's Capital Outturn report for 2007/2008. It should be noted that no Council resources were lost as a result of the slippage as the resources and planned expenditure will be "rolled forward" into future years.** Full details are given in Note Seventeen to the Core Financial Statements.

## **Foreword**

### **Other Matters**

#### **Borrowing**

The Council's authorised limit for external debt in 2007/08 was £2,320m. The maximum external debt during the year amounted to £1,965m.

Other resources available to fund capital expenditure include:

Capital receipts  
Section 106 balances  
Grants  
Revenue balances

#### **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 shortfall on the fund and this will be reviewed periodically by the West Midland Pension Fund Actuary and steps will be taken to address the shortfall. The City Council's share of the shortfall is £1,138.5million at 31 March 2008. While the figure is substantial it should be remembered that:

- It is not an immediate deficit that has to be met now. The sum is the current assessment taking a long term view of the future liabilities for existing pensioners and current employees who are accruing pension entitlement.
- It is not a problem unique to Birmingham City Council or indeed local authorities generally. There is a national problem for pension funds in both private and public sectors.
- The West Midland Pension Fund is regularly reviewed and additional contributions have already been initiated to address the problem over a period of years.

Details of the pension liability and assets can be found in Note 6 to the Core Financial Statements.

# Statement of Responsibilities

## 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 Corporate Director of Resources' Responsibilities

The City Council's chief financial officer is the Corporate Director of Resources. 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 judgments 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 2008 and its income and expenditure for the year ended 31st March 2008.

..... Paul Dransfield  
Corporate Director of Resources

I confirm that these accounts were approved by the Council Business Management Committee on 24th June 2008. Signed on behalf of Birmingham City Council:

..... Cllr Mike Whitby  
Leader of the Council and Chairman of Council Business Management Committee which approved the accounts.

# Annual Good Governance Statement

## Birmingham City Council

### Annual Good Governance Statement 2007/2008

#### **1. Scope of responsibility**

- 1.1 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.
- 1.2 In discharging this overall responsibility, Birmingham City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.3 Birmingham City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is available from CIPFA /SOLACE. This statement explains how Birmingham City Council has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2006 in relation to the publication of a statement on internal control.

#### **2. The purpose of the governance framework**

- 2.1 The governance framework comprises the systems and processes, culture and values for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Birmingham City Council 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.
- 2.3 The governance framework has been in place at Birmingham City Council for the year ended 31 March 2008 and up to the date of approval of the Statement of Accounts.

# Annual Good Governance Statement

## 3. The governance framework

The key elements of the systems and processes that comprise the authority's governance arrangements include the following arrangements:

3.1 The City Council, working with strategic partners and local communities has established a Council Plan setting out its objectives within the overall vision of "a global city with a local heart". This aims to ensure that all Birmingham residents:

- **Succeed economically** - benefiting from education, training, jobs and investment
- **Stay safe** - living in clean, green and safe communities
- **Be healthy** - enjoying long and healthy lives
- **Enjoy a high quality of life** - benefiting from good housing and renowned cultural and leisure opportunities
- **Make a contribution** - valuing one another and playing an active part in the community.

The Council Plan is extensively consulted upon with stakeholders from the business and third sector as well as community representatives. The document is available on the Council's website and copies are circulated to stakeholders and held in libraries and neighbourhood offices.

3.2 The City Council contributes to the delivery of the Community Strategy for Birmingham 'Taking Birmingham Forward' through the Council Plan. This is supported by a planning framework which includes twenty Policy Framework Plans and Directorate/Service Plans. The Council monitors and reports publicly on progress so residents can see how issues that matter to them are being tackled.

3.3 The Comprehensive Performance Assessment (CPA) framework currently assesses the Council as three-star and improving well. The Audit Commission's annual assessment of the Council identified that "the quality of some key services has improved and the Council is becoming better at responding to the expectations of local people."

3.4 The Performance Plan, in which achievement of the authority's objectives is monitored, accompanies the Council Plan. The Performance Plan explains how the Council will deliver the priorities and the commitments made in the Council Plan. It focuses on corporate priorities and reflects the Council's 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. Performance indicators are recorded and monitored on the new Voyager system.

3.5 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.



## Annual Good Governance Statement

- 3.12 The City Council has approached embedding of 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. The high level risk management methodology has been reviewed to provide more focus to Member and senior officer management of risk.
- 3.13 An Audit Committee provides independent assurance to the Council on risk management and control, and the effectiveness of the arrangements the Council has for these matters.
- 3.14 Birmingham City Council ensures compliance with established policies, procedures, laws and regulations - including risk management. All reports to Cabinet and Cabinet Members are required to include governance information relating to six areas: Council Policy, Member consultation, compliance with legislation, resourcing and policy compliance, equalities and fit with the Council's BEST programme (aimed at embedding the Council values of Belief, Excellence, Success and Trust). There is a comprehensive corporate induction programme in place and information regarding policies and procedures are held on the 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.
- 3.15 The Council's Whistle-blowing Policy was introduced in the late 1990s and is well publicised throughout the workforce. The Council also operates a corporate Complaints, Compliments and Comments (3Cs) policy and procedure which monitor's formal contact with members of the public. Complaints are actively tracked through the process and independently reviewed. The 3Cs information is regularly reported to Corporate Management Team and Members.
- 3.16 The Council has introduced regular training opportunities for Members. There is a dedicated area of the intranet for Member issues and a newsletter, *City Councillor*, is produced and circulated by the Chief Legal Officer, by e-mail. This gives detail of legislation, training opportunities and other issues of importance to Members. From 2008 all Councillors will receive a 'Personal Pack' to encourage consideration, planning and undertaking of development and learning to become an effective and efficient elected representative. All training is prioritised to assist councillors in planning workloads, etc. In addition all Councillors will automatically have access via their PCs to 'The Modern Councillor' [Learning Pool] offering a range of learning and development modules designed for easy and quick access at the convenience of the Councillor.
- 3.17 Birmingham City Council has developed a Partnership Toolkit setting out the governance and internal control arrangements that must be in place when the City Council enters into partnership working. A programme of review against these requirements has been started. A Third Sector Partnership Team was also launched in June 2007.

# Annual Good Governance Statement

## 4. Review of effectiveness

Birmingham City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment by the Assistant Director of Internal Audit and Risk Management's annual report, and also by comments made by the external auditors and other review agencies and inspectorates:

- 4.1 The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/Solace framework, "Delivering Good Governance in Local Government" and continues to learn from experiences and makes necessary changes to improve its local code of governance.
- 4.2 The Council has a well developed methodology for annual governance review which is reviewed and updated each year. This requires each Directorate and Service area to produce an Assurance Statement to the Chief Executive highlighting significant matters to be brought to his attention and setting out the processes of internal control compliance and review in the Directorate.
- 4.3 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 and inspection letter;
  - other work undertaken by independent inspection bodies.
- 4.4 The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Corporate Director of 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 (amendments) 2006. 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.
- 4.5 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 the Audit Committee 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.

## Annual Good Governance Statement

- 4.6 From the work undertaken by Birmingham Audit in 2007/08 the Assistant Director, Audit & Risk Management was able to give the following assurance: "From the work we have carried out during the year on the key areas of risk management, corporate governance and financial control I am able to provide 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.
- 4.7 The internal audit function is monitored and reviewed regularly by the Audit Committee. The Committee also reviews progress against issues raised in the Annual Good Governance Statement and in implementing recommendations made in significant, high risk audit reports.
- 4.8 The Council has established a Finance and Performance Overview and Scrutiny Sub-Committee which receives reports on key control issues including risk management, budgetary monitoring, efficiency and business transformation.
- 4.9 The Council Plan and performance is monitored on a quarterly basis by both the Executive and Overview and Scrutiny Committees. Directorate, Divisional and Service unit business plans contain a variety of performance indicators and targets that are regularly reviewed. The Corporate Management Team have established four Sub-Groups which focus on managing and developing different aspects of the Council's operations.
- 4.10 The Council's BEST programme is designed to focus each work team and individual on the values of Belief, Excellence, Success and Trust. Further developments to the programme were made during 2007/2008. Staff develop improvement goals which focus teams throughout the organisation on improving service delivery. Incentives are provided to teams through BEST awards. The Council has also developed the Chamberlain Awards programme which rewards excellence in service delivery and work.
- 4.11 The Council has established a number of mechanisms to review and develop its effectiveness. These include an Excellence Board, including external challenge focusing on specific improvement areas, an informal Member Productivity, Efficiency and Performance Group to provide in-depth analysis on behalf of the Executive, and governance arrangements around the Business Transformation Programme.
- 4.12 The Council's Standards Committee meets regularly and is updated on National and Local issues. Special Training Sessions were held in October and November 2007 for all Members on the Revised Code of Member Conduct. Arrangements have also been put in place for the operation of the Local Assessment regime - which became operative on 8<sup>th</sup> May 2008 - with the introduction of three Standards Sub-Committees. The Standards Committee composition has also been increased to comply with the new legislative requirements. The relevant Complaints Form and other supporting information on the new Local Assessment regime are already on the Council's website.

## Annual Good Governance Statement

- 4.13 Following the Council's CPA Corporate Assessment in November 2006 an improvement plan was drawn up and this is monitored by the Executive and Scrutiny. Similar Plans are established following all other external inspections and are monitored by Members or Senior Officers.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and officers and a plan to address weaknesses and ensure continuous improvement of the system is in place.

### 5. Significant governance issues

- 5.1 The Council is undertaking a major Business Transformation consisting of up to 9 inter-relating Programmes covering most areas of the Council's activities. Four of these are service related covering Adults Services, Housing Services, Children, Young People and Families Services and Environmental Services. The remaining five are city wide support activities. These are Corporate Services (finance and performance), Excellence in People Management, Working for the Future (Property), Customer First and Excellence in Information Management.
- 5.2 In partnership with Service Birmingham, the Council's joint venture ICT and business change partners, the Council is looking to review these areas and bring significant investment and process and organisational change to the service delivery and management of these areas.
- 5.3 The Council recognises the risks involved in undertaking such a wide-ranging and comprehensive efficiency review and investment programme and has put in place detailed governance arrangements involving Member and Senior Officer leads for each Programme. These are supported by Programme Boards and operational structures to lead on the design and implementation of the transformation solutions. These are resourced by secondment of Council staff and change teams from Service Birmingham. A detailed methodology has also been developed for Business Transformation and implementation of Business Transformation will continue to be closely and frequently monitored by the Executive and Scrutiny.
- 5.4 The Corporate Services Transformation Programme is the most advanced and new system implementation (Voyager) and organisation design have now been implemented. The Programme Team has worked closely with process owners and Birmingham Audit to address a number of immediate issues. An Optimisation and Adoption Review has been undertaken and the schedule of further work arising from this is being developed.
- 5.5 The transformation programme is a key part of the Council's improvement programme in response to the Comprehensive Performance Assessment (CPA). Adults and Children's Social Care and Housing Services have improved significantly over the last two years and the programmes are designed to bring further improvements to the services offered and assessments received.

## Annual Good Governance Statement

- 5.6 The CPA Corporate Assessment in 2006 also noted particularly the need to further develop working with partners and the Council's overall approach to diversity and equality. Equality and Diversity, for example, is a key element of the Council Plan particularly in "Making a Contribution". Ensuring compliance with equality legislation continues to be a priority for the Council.
- 5.7 The Birmingham Strategic Partnership was re-branded "Be Birmingham" during 2007/2008. This included a comprehensive 'stock-take' review of the support and governance arrangements, which have been approved, on the recommendation of the Chief Legal Officer, by Cabinet. Changes to the Council's Constitution to reflect the same were duly made by the Chief Legal Officer after the AGM approvals. The Council with Be Birmingham partners has entered into a Local Area Agreement with Central Government from April 2008. This covers five areas: Succeed Economically, Stay Safe in a Clean Green City, Be Healthy and Enjoy a High Quality of Life and Making a Contribution and involves over £90m of "pooled" funds.
- 5.8 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 level of risk involved and prepared plans to contain the risks and deliver the necessary improvements:
- 5.8.1 The Council has implemented the Single Status agreement which was made nationally between the National Joint Council (NJC) for Local Government and Signatory Trades Unions on 1 April 1997. The majority of City Council employees are now working to new contracts but there remain a number of appeals against the job evaluation process and a number of matters which are still subject to negotiation with Trades Unions.
- 5.8.2 In addition the Council has taken action to identify staff who may have grounds for a claim under the Equal Pay legislation and has agreed funding for, and a process by which, the City Council's obligations in relation to the equal pay challenge can be settled. Again the majority of payments in this respect have now been made but some matters remain outstanding.
- 5.8.3 The Council's arrangements for Devolution and Localisation of services to Constituencies were subject to an in-depth scrutiny which reported to Council in 2006. A detailed action plan arising from this was approved by Council in October 2006 and has been implemented. The Refreshed Vision, entitled Achieving Excellence with Communities, is now being implemented.
- 5.8.4 A transition plan for Connexions into the local authority was developed in 2006/2007. This identifies the process, timescales and milestones to be achieved for autumn 2008.
- 5.8.5 The Council continues to develop a PFI for Highways and is working closely with Central Government to ensure maximum benefit to the City through this arrangement.

## Annual Good Governance Statement

5.8.6 The Council continues to develop and implement an extensive 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.

5.9 We propose over the coming year to learn from the Audit Commission's follow-up audit of our National Pilot on Good Governance Action Plan of August 2007 which has been reported to the Standards and the Audit Committees, so as to ensure further positive steps are taken to further enhance the City's status as a well governed local authority. We are satisfied that these steps will address any need for improvements and we will monitor their implementation and operation as part of our next annual review.

Signed .....

Stephen Hughes  
Chief Executive  
(& Head of Paid Service)

Signed .....

Councillor Mike Whitby  
Leader of the Council

Signed .....

Paul Dransfield  
Corporate Director of Resources  
(& Section 151 Officer)

Signed.....

Mirza Ahmad  
Acting Corporate Director of  
Governance (& Monitoring Officer)

# Statement of Accounting Policies

## 1 General Principles

The Statement of Accounts summarises the Council's transactions for the financial year 2007-08 and show its position as at 31 March 2008.

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 2007. The code has been developed by CIPFA in accordance with Accounting Standards Board guidance and approved as a Statement of Recommended Practice (SORP). As such it constitutes Proper accounting practices within the meaning of the Accounts and Audit Regulations 2003. This SORP introduced a number of important changes to the main accounting statements. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

The Fixed Asset Restatement Account has been replaced by a Revaluation Reserve to which are credited all unrealised gains arising from the revaluation of fixed assets. These gains are included in the Statement of Total Recognised Gains and Losses but not in the Income and Expenditure Account. The reserve is debited with impairment losses up to the value of earlier revaluation gains and with depreciation on revalued amounts. The balance on the reserve is reconciled to the records of revaluations on individual assets. Unrealised gains and losses are written out of the reserve when an asset is disposed of. The opening balance on the Reserve at 1<sup>st</sup> April 2007 was zero. Balances on the Fixed Asset Restatement Account and Capital Financing Account at 31<sup>st</sup> March 2007 were transferred on 1<sup>st</sup> April 2007 to a new account entitled the Capital Adjustment Account. This account will be debited with all those items charged to the Income and Expenditure Account but which, in accordance with statute, may not be taken into account in determining the General Fund balance.

- (a) The Council also implemented the provisions of Financial Reporting Standards 25 and 26 during the year. These require the presentation of financial instruments, chiefly loans and investments, to be shown at fair value. They also require interest on loans with stepped rates of interest to be debited to the Income and Expenditure Account at a constant rate over the projected term of the loan using the Effective Interest Method. Any gains or losses arising from changes in value are to be written off to the Income and Expenditure Account. The Government has made regulations requiring these gains and losses to be reversed on the Statement of Movement in General Fund Balances so that there is no impact on the level of Council Tax.
- (b) Authorities sometimes make loans at less than commercial rates of interest, for example, car loans to employees or loans to community groups or voluntary bodies. The carrying value of such loans, where material, is reduced to reflect the reduced rate of interest. The write down is charged to the Income and Expenditure Account with a compensating credit from the Final Instruments Adjustment Account into the Statement of Movements in the General Fund Balance. (SMGFB) removing the impact on the I&E account.

The following policies have been adopted in compiling the accounts, where appropriate the estimating techniques will be given along with the policy adopted:

# Statement of Accounting Policies

## 2 Overheads and Support services

### 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).

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 2007. 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 (SEA). The Total Cost part of the code also covers the treatment of partnerships, trading accounts, Corporate and Democratic Core, Non Distributable costs and other overheads. The Income and Expenditure Account and note 1 on trading activities have been prepared in accordance with BVACOP. There is a significant change in the Service Expenditure Analysis for 2007-08 with the creation of a new category of Children's and Education Services SEA including Children's Social Care. The remaining part of the former Social Services SEA, the Adult Social Care services, will form the new Adult Social Care SEA. The prior year Income and Expenditure Account has been restated to reflect these changes.

The costs of overheads and support services are charged to the services that benefit from them in accordance with the BVACOP. The exceptions to this rule are as follows and are accounted for as separate lines on the Income and Expenditure account as Net Cost of Service:

- Corporate and Democratic Core which are the costs relating to the Council's status as a multi-functional democratic organisation, such as Corporate Management which includes such items as the costs of external audit, treasury management and Member services.
- Non Distributable Costs which include the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment costs related to properties that are no longer operational.

## 3 Accruals of income and expenditure

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.

Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or service

Significant supplies are recorded as expenditure when consumed, stocks being carried in the balance sheet for transport parts and fuel for example.

Works are charged as expenditure when completed; for capital work-in-progress is carried on the balance sheet.

## Statement of Accounting Policies

Interest payable on borrowing and receivable on investment is accounted for on the basis of effective interest rate for the relevant financial instrument rather than on cash flows fixed or determined by the contract.

Where income and expenditure have been recognised, but cash has not been received or paid a debtor or creditor is recorded in the balance sheet. Where it is doubtful that a debt will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Income and expenditure are 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-minimus 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.

### 4 Charges to Revenue for Fixed Assets

#### Asset Charges

Service revenue accounts, including the Housing Revenue Account, are debited with a depreciation charge on the assets employed in providing the services. These depreciation charges are not taken into account in determining the movement in the Council's balances and are included in the Reconciliation to the Movement in Balances as an adjusting item. This means that depreciation charges do not affect the level either of local taxation or of Council Housing rents.

- Depreciation attributable to the asset used by services
- Impairment losses where a clear consumption of economic benefit on tangible fixed assets has occurred and other losses where there are no accumulated gains in the Revaluation Reserve, which the loss can be written off against
- Amortisation of intangible fixed assets

The Council Tax is not required to bear the burden of these charges and the charges are effectively neutralised by the revenue provision in the Statement of Movement on General Fund Balance.

However, the Council Tax is required to meet the annual provision from revenue to contribute towards the reduction in the overall borrowing requirement (equal to at least 4% of the underlying amount measured by the capital financing requirement, excluding amounts attributable to the HRA, which is not subject to a minimum revenue provision). Birmingham has also made an additional voluntary contribution during 2007-08 as a prudent measure.

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 1<sup>st</sup> 2004 under the Local

## Statement of Accounting Policies

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). Formal restrictions on borrowing have been removed and replaced by provisions allowing the authority to borrow within "prudential" limits, effectively 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 Minimum Revenue Provision in the Housing Revenue Account has been removed. The Council has, however, elected to make a voluntary provision for HRA debt repayment of £2.2 million. These amounts are not charges to service revenue accounts which receive a depreciation charge as described in note (f) on Fixed Assets above. The difference between MRP and depreciation is appropriated to or from the Capital Adjustment Account (CAA) so that depreciation does not impact on the City Council's net revenue expenditure.

### 5 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 Adjustment Account. The expenditure for deferred charges does not impact on council tax due to a compensating reversal entry in the Statement of Movement on General Fund Balance.

### 6 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.

### 7 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 Children, Schools and Families. 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). However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme - no liability for future payments of benefits is recognised in the Balance Sheet and the (Childrens and education service) revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

## Statement of Accounting Policies

### 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 2007. Under FRS17 different assumptions are required for the discount rate used in the calculation of liabilities and the inclusion of retirement benefits. This results in a calculation of the value of the assets at 31.03.08 of £2,344.4 million which represented 68.75% of the value of liabilities. Liabilities are discounted to their value at current prices using a discount rate of 6.1%

Financial Reporting Standard 17 (FRS17) 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 in accordance with FRS17. 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. Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. In the statement of Movement on General Fund Balance entries are made to remove the notional FRS17 charges and replace them with the cash paid to the pension fund.

The net liability on the pension fund calculated in accordance with FRS17 has increased during the year from £804.5 million to £1,138.5 million and this change is due to seven components.

- current service cost - the increase in liabilities as result of years of service earned this year - allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
- past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the Income and Expenditure Account
- expected return on assets - the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return - credited to Net Operating Expenditure in the Income and Expenditure Account
- gains/losses on settlements and curtailments - the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual

## Statement of Accounting Policies

of benefits of employees - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs

- o actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Statement of Total Recognised Gains and Losses
- o contributions paid to the pension fund - cash paid as employer's contributions to the pension funds.

Discretionary Benefits were granted during the year to employees in respect of early retirement. This generated costs reported in non distributable costs of £27.8 million (costs due to changes in scheme benefits) and £0.5 million (costs due to early retirements).

Note 6 to the Core Financial Statements provide details of contributions made in respect of both pension schemes.

### 8 Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most borrowing this results in the amount presented in the Balance Sheet being the outstanding principal with the interest charges being taken to Income and Expenditure Account.

#### Interest Charges

Where loans are granted by the Council at less than commercial rates of interest the interest received is credited to the Income and Expenditure Account based on the rates applicable to commercial loans with an adjustment made to the carrying value of the loan on the Balance Sheet.

Interest on loans is charged to the Income and Expenditure Account based on the amount which is due and payable within the financial year. Where interest is charged in a stepped basis over the life of the loan, interest is debited on a constant basis using the Effective Interest Method.

The Council may repay loans ahead of maturity to take advantage of lower interest rates. Such premature redemption of borrowing may incur a premium payable to the lender. Prior to 2007-08 these premiums were taken to the balance sheet as a long term asset and written off to revenue over the term of the replacement loan. The SORP now requires premiums arising from loan redemptions deemed extinguishments to be written off immediately to the Income and Expenditure Account. For the purpose of calculating the movement in General Fund balances, the premium is amortised on the previous basis with the difference an adjusting item in the Statement of General Fund Balances. All premiums brought forward as at 1<sup>st</sup> April 2007 have been written off to the Statement of Movement on General Fund Balances with a compensating appropriation from the capital Financial Instruments Adjustment Account.

# Statement of Accounting Policies

## 9 Financial Assets

### Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. For most of the Loans that the Council has made the amount presented in the Balance Sheet is the outstanding principal receivable with the interest income being taken to Income and Expenditure Account. However, the Council has made a number of loans to voluntary organisations at less than market rates (soft Loans). While the Council recognises that where these are material, adjustment is required to show the amortised value at less than amortised costs, the significance of these loans is immaterial and therefore have been retained at the amortised cost.

Instruments entered into before 1 April 2006. The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed

### Available for sale assets

Birmingham City Council has interests in two major operators The NEC, and Birmingham Airport. In theory these interests represent assets available for sale.

Assets of this nature are maintained in the Balance Sheet at fair value. The fair value in respect of these is considered under the SORP to be subject to independent appraisal, because the holding is of equity shares with no quoted market price.

Birmingham City Council believes that an independent valuation would only confirm that the assets should be held at cost, and therefore the financial statement reflects the cost of the holding.

This policy is in compliance with the SORP which clearly states that where the fair value cannot be measured reliably, the instrument should be carried at cost (less any impairment).

## 10 Local Area Agreement Grant

The Council is a participant in a Local Area Agreement (LAA) - a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. The initial LAA began on 1st April 2006 and the partners have now signed a new agreement effective from 1st April 2008. Further details are given in Note 45.

## 11 Government Grants and Contributions (Revenue)

Government grants and third party contributions and donations are recognised as income at the date the authority satisfies the conditions of the grant, and there is a reasonable assurance that the monies will be received and the expenditure for which the grant relates has been incurred. Revenue grants are matched in service revenue accounts to the related service expenditure. Revenue Support Grants to cover general expenditure are recorded at the foot of the Income and Expenditure Account after Net Operating Expenditure.

## Statement of Accounting Policies

### 12 Grants and Contributions (capital)

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 relevant service line in the Income and Expenditure Account in line with depreciation of the asset. This is one of the reconciling items included in the Statement of Reconciliation to the Movement in General Fund Balances.

### 13 Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenues and Customs and all VAT paid is recoverable from it.

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

### 14 Fixed Assets

#### Intangible Fixed Assets

Expenditure on assets that does not have a physical substance but are controlled by the Council, such as software licences are capitalised and are assessed to bring benefit to the council of an estimated five years. The balance on intangible assets is therefore amortised to the relevant service revenue account over the five year economic life of the asset. The Council does not re-value these assets.

#### Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use on a continuing basis

#### 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. Infrastructure assets such as Highways and Community assets such as Parks, museum exhibits.
Non operational	Investment property, surplus assets held for disposal, assets under construction
Infrastructure	Highways
Community Assets	Parks, museum exhibits

#### b) Recognition of Fixed Assets

New assets are recognised in accordance with the provisions of Financial Reporting Standard 15.

## Statement of Accounting Policies

Expenditure of a repairs and maintenance nature is charged to revenue as it is incurred. All capital expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides for more than one financial year. Where it is considered by the authority's valuer that the increase in value is less than the amount of expenditure the difference is charged to the relevant service revenue account as impairment with the book value of the asset written down accordingly. There would be an adjustment in the Statement of Movement on General Fund Balances to ensure no revenue impact.

### c) Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use.

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 on the balance sheet at market value (MV). Assets under construction are recorded at cost.

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

Community assets are assets which are held for the community in perpetuity, 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 1<sup>st</sup> 1994. Expenditure incurred after that date was written off to the Fixed Asset Restatement Account. With effect from 2007-08 these will be written off through the service expenditure line in the Income and Expenditure account, but the impact will be neutralised by an entry in the Statement of Movement on General Fund Balance and the Capital Adjustment Account as a downward revaluation.

### d) Revaluation Cycle

When an asset is included in the balance sheet at Market Value (MV) or Existing Use Value (EUV), it is formally re-valued at intervals of not more than five years, and the revised amount included in the balance sheet. Where an asset value has increased, 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 the Revaluation Reserve. Where an asset value has decreased, 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 debited to the Revaluation Reserve until the asset reaches its depreciated historic, with subsequent reductions being charged to the I&E account. The revenue impact being neutralised through the SMGFB. 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. A desktop review is carried out in the years between quinquennial valuations.

## Statement of Accounting Policies

### e) Housing Stock Revaluation

The Beacon principle is used to value the Council's housing stock. The stock is valued on the basis of Existing Use Valuation (Social Housing). In accordance with the guidance, a sample of properties (BEACONS) are chosen to be representative of each type of property and valued as "beacons". The full valuation is then obtained by extrapolating these beacon values across the whole housing stock. These beacon values have been reviewed 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. In 2007-08 this valuation was updated using a desk top methodology.

### f) Disposals

Assets that are disposed of during the year generate an entry to the Income and Expenditure account equivalent to the carrying value of the asset as part of the process of recording the gain or loss on disposal and the removal from the balance sheet. Receipts for the sale of the asset are credited to the income and expenditure account and when match with the entry for carrying value result in the loss or gain on disposal. Only receipts in excess of £10,000 are recorded as capital receipts, and a proportion of receipts from the disposal of dwellings (75%) and housing land (50%) is payable to the government. The balance of the capital receipts are available in to meet capital expenditure or reduce the need to borrow. The receipts are appropriated to the Usable capital receipts reserve via the Statement of Movement on the General Fund Balance (SMGFB).

The written off value of the asset is not a charge on council tax as an adjustment is made from the SMGFB and the CAA.

### g) 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. The anticipated residual lives used to calculate depreciation are reviewed and updated in accordance with the Council's rolling programme of condition surveys.

**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:

<u>Type of expenditure</u>	<u>Depreciation period</u>
Expenditure incurred prior to 1/4/1994	25 years
Major schemes expenditure incurred after 1/4/1994	40 years

## Statement of Accounting Policies

Street furniture acquired after 1/4/1994	10 years
Other expenditure incurred after 1/4/1994	20 years

**Community Assets** - community assets are not depreciated. This is due to the fact that these assets are held at a nominal value of £1.

**Investment Properties** - the depreciation provisions of FRS 15 do not apply to investment properties. These assets are, therefore, not depreciated. Investment properties are non operational and are generally let on full repairing leases and this renders depreciation inappropriate.

### h) Impairment of Fixed Assets

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits - the loss is charged to the relevant service revenue account
- otherwise - written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account. In 2007/08, two assets were found to be impaired. The total impairment was £398,000.

### 15 Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the council under a contract are charged to revenue to reflect the value of services received in each financial year. The Council has entered into such contract for schools and public conveniences and the particular application of this policy is further explained in Note 14 to the Core statements.

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 Income and Expenditure Account and the liability to pay for the PFI property is written down by the principal element.

## Statement of Accounting Policies

PFI credits are received from the government and the excess of credits above current levels of expenditure are held in the earmarked reserves.

### 16 Investment in Companies and other entities

The council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the council's own single-entity accounts, the interests in companies and other entities are recorded as investments, ie at cost, less any provision for losses. Further details are given in note 44 to the accounts.

### 17 Stocks and Work in Progress

Stocks are included on 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.

### 18 Provisions

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account. The provisions are reviewed annually to assess whether any under or over provision requires adjustment to the provisions account.

### 19 Reserves

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

## Statement of Accounting Policies

Details of reserves held at 31st March 2008 are shown in the notes supporting the Balance Sheet.

The Revaluation Reserve represents a store of gains on revaluation of fixed assets not yet realised through sales. The Capital Adjustment Account represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets. It also includes amounts set aside for debt redemption (the Minimum Revenue Provision) in accordance with statute, and the reserved portion of capital receipts. The opening balance on this account as 1<sup>st</sup> April 2007 represented the final balances on the Fixed Asset Restatement Account and the Capital Financing Account. The balances on these reserves are not, for the most part, backed by cash and do not constitute resources available to finance capital expenditure.

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.

### 20 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 2007/08 but has recognised the value of allowances as an asset in accordance with accounting guidance issued by CIPFA.

### 21 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.

### 22 Group Accounts

The City Council has material interests in a number of subsidiary and associated companies. In accordance with FRS2 (Accounting for Subsidiary Undertakings) consolidated financial statements have been prepared as an annex to the main accounts. 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 and Birmingham Technology (Property) Ltd are regarded as associates and have 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 companies' profit and unrealised gains or losses.

With effect from the 1<sup>st</sup> April 2006, the City Council and Capita Business Services Ltd entered into a joint venture in the form of Service Birmingham Ltd. In order to comply with the disclosure requirements specified by FRS9, (Associates and Joint Ventures), Service Birmingham Ltd has been consolidated on a gross equity basis.

## Statement of Accounting Policies

### 23 Business Improvement District

In accordance with the provisions of the Business Improvement District Regulations 2004 a ballot of local businesses within three areas, namely Broad Street, the city centre's principal retail area and Erdington Town Centre, has resulted in the creation of three distinct Business Improvement Districts. Business ratepayers in these areas pay a levy in addition to the National Non-Domestic Rate to fund a range of specified additional services which are provided by specific companies set up for the purpose.

In line with SORP guidance the Council has determined that it acts as agent to the BID authorities and therefore neither the proceeds of the levy nor the payment to the BID Company are shown in the Council's accounts. This is a change in accounting policy from 2006/07, when figures were included within the Income and Expenditure Account in respect of the Broad Street BID.

# Core Financial Statements

## Income and Expenditure Account

2006/07		2007/08		
Net Expenditure		Gross Expenditure	Income	Net Expenditure
£'000		£'000	£'000	£'000
261,433	Adult Social Care	475,079	117,902	357,177
12,601	Central Services to the Public	110,218	92,216	18,002
276,607	Children's and Education Services	1,474,879	1,070,170	404,709
1,272	Court Services	1,781	288	1,493
214,098	Cultural, Environmental & Planning Services	462,844	202,887	259,957
77,501	Highways, Roads & Transport	130,768	39,181	91,587
4,406	Housing Services	691,884	664,133	27,751
15,385	Corporate & Democratic Core	15,918	328	15,590
16,681	Non Distributed Costs	42,136	0	42,136
<b>879,984</b>	<b>Net Cost of Services</b>	<b>3,405,507</b>	<b>2,187,105</b>	<b>1,218,402</b>
65	Parish Precept			72
(10,109)	Surplus on Trading Undertakings	Note 1		(14,008)
25,603	Levies	Note 13		24,293
31,704	Contribution of Housing Capital Receipts to Government Pool	Note 13		25,983
1,668	Premiums on Premature Debt Redemption	Note 24		40,656
113,792	External Interest Charges			305,108
153,549	Interest Cost - Pensions	Note 6		170,855
(138,239)	Expected Return on Pensions Assets	Note 6		(163,545)
(7,900)	(Gains)/Losses on the Disposal of Fixed Assets			(38,458)
(38,440)	Interest & Investment Income			(211,634)
<b>1,011,677</b>	<b>Net Operating Expenditure</b>			<b>1,357,724</b>
	<b>Sources of Finance</b>			
(321)	Bid Levy	Note 15		0
(95,784)	Revenue Support Grant*			(89,591)
(474,356)	Non Domestic Rates Redistribution**			(505,005)
(295,118)	Council Tax	Note 3		(304,132)
626	Council share of Collection Fund Deficit			0
<b>146,724</b>	<b>Deficit for Year</b>			<b>458,996</b>

\* Including PFI grant of £5.184 million

\*\* NNDR income includes an amount of £2.0 million received from central government under the Local Authority Business Growth Incentive Scheme. (LABGI)

## Statement of Movement on General Fund Balances

<b>BIRMINGHAM CITY COUNCIL</b>	<b>2006/07</b>	<b>2007/08</b>
<b>STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE</b>	<b>£'000</b>	<b>£'000</b>
(Surplus) / Deficit for the year on the Income & Expenditure Account	146,724	458,996
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(145,862)	(458,313)
<b>Decrease In General Fund Balance for the year</b>	<b>862</b>	<b>683</b>
General Fund Balance brought forward	(29,545)	(28,683)
<b>General Fund Balance carried forward</b>	<b>(28,683)</b>	<b>(28,000)</b>

<b>Note of Reconciling Items for the Statement of Movement on the General Fund Balance 2007/08</b>	<b>2006/07</b>	<b>2007/08</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts included in the Income and Expenditure Account but required by Statute to be excluded when determining the movement on the General Fund Balance for the year</b>		
Depreciation and impairment of fixed assets	(81,262)	(171,716)
Government Grants Deferred amortisation	14,112	16,745
Write downs of deferred charges to be financed from capital resources	(73,147)	(271,374)
Net charges made for retirement benefits in accordance with FRS 17	(38,604)	(41,539)
Net gain on sale of fixed assets	7,900	38,458
Other Government Grants	8,027	0
<b>Amounts not included in the Income and Expenditure Account but required by Statute to be included when determining the movement on the General Fund Balance for the year</b>		
Minimum revenue provision for capital financing	44,181	58,154
Voluntary Revenue Provision	1,141	2,185
Capital expenditure charged in-year to the General Fund Balance	9,094	397
Transfer from Usable Capital Receipts to meet payments to the Housing Pool	(31,704)	(25,983)
Appropriations re repayment of long term debtors	(194)	(166)
Appropriations re repayment of long term liabilities	1,992	2,181
Appropriations re restatement of financial instruments	0	(28,633)
Appropriations re write-off of debt redemption premiums	0	(37,889)
<b>Transfers to or from the General Fund that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>		
HRA Balances	(10,342)	408
Schools Balances	10,404	10,158
Other Earmarked Reserves	(7,460)	(9,699)
<b>Net additional amount required to be credited to the General Fund Balance for the year</b>	<b>(145,862)</b>	<b>(458,313)</b>

## Statement of Total Recognised Gains and Losses

	2006/07 £'000	2007/08 £'000
Deficit for the year on the Income & Expenditure Account	146,724	458,996
Surplus arising on revaluation of fixed assets	(220,455)	(334,285)
Actuarial (gains)/losses on pension fund assets and liabilities	(184,971)	292,443
(Surplus)/Deficit on Collection Fund Attributable to City Council	(3,680)	2,666
Other General Fund movements	(8,108)	(154)
<b>Total Recognised (Gains) and Losses for the Year</b>	<b>(270,490)</b>	<b>419,666</b>
<b>Balance Sheet Movement</b>	<b>(270,490)</b>	<b>419,666</b>



## Cash Flow Statement

2006/07 £m		£m	2007/08 £m
(99.2)	<b>Net Cash Flow From Revenue Activities (note 48)</b>		(178.0)
	<b>Returns on Investments and Servicing of Finance</b>		
	<i>Cash Outflows:</i>		
94.1	Interest Paid	113.7	
	<i>Cash Inflows:</i>		
(38.8)	Interest Received	(38.3)	
<b>55.3</b>			<b>75.4</b>
	<b>Capital Activities</b>		
	<i>Cash Outflows:</i>		
295.5	Purchase of Fixed Assets	285.9	
0.0	Purchase of Long Term Investments	76.6	
110.8	Other Capital Cash Payments	296.6	
<b>406.3</b>			<b>659.1</b>
	<i>Cash Inflows:</i>		
(92.2)	Sale of Fixed Assets	(70.2)	
(8.0)	Capital Contributions Received	(1.7)	
(132.9)	Capital Grants Received (note 52)	(139.2)	
<b>(233.1)</b>			<b>(211.1)</b>
<b>129.3</b>	<b>Net Cash Outflow/ (Inflow) before Financing Management of Liquid Resources</b>		<b>345.4</b>
39.1	Net Increase/ (Decrease) in Short Term Deposits	92.6	
	<b>Financing</b>		
	<i>Cash Outflows:</i>		
289.6	Repayments of Amounts Borrowed	187.6	
	<i>Cash Inflows:</i>		
(466.5)	New Loans Raised - Long Term	(616.7)	
<b>(137.8)</b>			<b>(336.5)</b>
<b>(8.5)</b>	<b>Net (Increase)/ Decrease in Cash (note 48)</b>		<b>8.9</b>

# Notes to the Core Financial Statements

## 1. Trading Services

Income and Expenditure on the Major Trading Activities, adjusted for FRS17 (see Note 6) is set out below:

2006/07		2007/08		
Profit/(Loss) £'000	Trading activity (see brief descriptions below)	Turnover £'000	Expenditure £'000	Profit/(Loss) £'000
(53)	Highways & Sewers	7,679	7,549	130
165	Property Services	4,641	4,427	214
243	Legal Services	10,607	10,028	579
1,487	Markets	8,004	6,542	1,462
(96)	Non-Schools Cleaning	3,517	3,546	(29)
176	Catering	2,115	1,817	298
(71)	Street Lighting	6,089	6,105	(16)
(491)	Vehicle Maintenance	3,677	4,220	(543)
(578)	Education Catering	29,119	29,294	(175)
(344)	Education Staff Agency	7,979	8,290	(311)
1,048	Trade Refuse	5,842	4,651	1,191
8,660	Urban Design	103,356	92,173	11,183
(101)	Grounds Maintenance	6,239	6,346	(107)
5	Education Cleaning	7,711	7,813	(102)
74	Design & Print	2,692	2,502	190
(18)	Meals Direct	2,317	2,322	(5)
271	Birmingham City Laboratories	2,281	1,972	309
(19)	Landscape Practice	1,337	1,382	(45)
(28)	Community Day Nurseries	1,534	1,542	(8)
(221)	Other Trading Activities	3,346	3,553	(207)
<b>10,109</b>		<b>220,082</b>	<b>206,074</b>	<b>14,008</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 provide 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 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.

# Notes to the Core Financial Statements

## **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 each year.

## **Non-Schools Cleaning**

Birmingham City Cleaning currently undertakes cleaning business worth approximately £3.5 million and covers some 322 locations employing a team of 336 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**

Street lighting is 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 Fleet & Waste Management Division operates a service from several workshops around the City, carrying out major repairs and servicing for vehicles and items of plant and equipment. This service covers the entire City fleet, including holding the Operators (O) licence for heavy vehicles across all departments. A taxi MOT service is also provided.

## **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 the service possesses 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 provides Clinical Waste Removal Services, Graffiti Removal, Septic Tank and Cesspit emptying, Containers and Skips, Prepaid Sacks, Hire of Equipment and Special Collection.

## **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.

# Notes to the Core Financial Statements

## **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, residential care homes, cemeteries and crematoria, playing fields, allotments and children's outdoor playgrounds.

## **Education Cleaning**

Education Cleaning provide cleaning services to all types of establishment, including primary and secondary schools, nursery schools, children's centres and Surestart units. It is this diversity of provision, on a daily basis, that helps 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 provides 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 Children, Young People and Families. The nurseries are open 52 weeks of the year and cater for children from 6 weeks old. DSD provide all the catering and cleaning services at these units.

## **Others**

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

## **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 2007/08 was £47.5 million. 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 Adjustment Account via the

## Notes to the Core Financial Statements

Statement of Movement on General Fund Balances. This is explained further in the Note on Accounting Policies.

### 3. Council Tax

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

### 4. 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 2007/08 £8.7m was spent including £0.7m in respect of the National Exhibition Centre (2006/07 £0.6m).

2006/07 £m	2007/08 £m
1.7 Recruitment Advertising	1.1
1.2 Other Advertising	1.1
7.5 Promotions & Publicity	7.0
<b>10.4 Total</b>	<b>9.2</b>

### 5. 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 2007/08 was £0.07 million (2006/07 £0.1 million) against a limit of £3.8 million (2006/07 £3.8 million).

### 6. 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. A valuation was undertaken as at 31<sup>st</sup> March 2007, with the results implemented from 1<sup>st</sup> April 2008.

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 Children, Schools and Families. 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.

## Notes to the Core Financial Statements

- i. The City Council's employer's contribution for the year 2007/08 was £77.2m (£69.67m in 2006/07).
- ii. The cost of awarding discretionary additional benefits and their associated inflation proofing is borne separately by the City Council. Expenditure in 2007/08 was £5.44m (representing 0.98% of members' aggregated pensionable pay).
- iii. In the latest complete Actuarial Valuation as at 31<sup>st</sup> March 2007 82% of past service liabilities were funded. An employer's contribution rate was set for the City Council of 14.00% for the year from 1<sup>st</sup> April 2007 to 31<sup>st</sup> March 2008. From 1<sup>st</sup> 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.

For Teachers, the City Council paid an employer's contribution of £51million (14.1% of pensionable pay) in 2007/08 to the Teachers' Pension Scheme. The equivalent figure for 2006/07 was £45.6 million (13.5% of pensionable pay to 31<sup>st</sup> December 2006 and 14.1% of pensionable pay from 1<sup>st</sup> January 2007). The teachers' pension scheme is administered by Capita Teachers' Pensions and is not the direct responsibility of the City Council. In addition, £6.3m (£6.0 million in 2006/07) was paid to retired teachers in respect of added year's 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 2007/08.

<b>Operating Costs</b>	<b>2006/07</b>	<b>2007/08</b>
	<b>£'000</b>	<b>£'000</b>
Current Service Cost	103,029	95,445
Past Service Cost/(Gain)	854	28,329
Curtailment Cost	1,247	116
<b>Total Cost</b>	<b>105,130</b>	<b>123,890</b>
<b>Finance Costs</b>		
Expected Return on Assets	138,239	163,545
Interest on Pension Liabilities	(153,549)	(170,855)
<b>Net Gain (Cost)</b>	<b>(15,310)</b>	<b>(7,310)</b>

Current service cost is charged directly to services. Past service and curtailment costs are shown as Non Distributed Costs.

## Notes to the Core Financial Statements

### 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	31.03.2007	31.03.2008
	£m	£m
Market Value of Assets	2,342.3	2,344.4
Liabilities	(3,146.8)	(3,482.9)
<b>(Deficit)</b>	<b>(804.5)</b>	<b>(1,138.5)</b>

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

	Assets at 31.03.2007		Assets at 31.03.2008	
	£'000	%	£'000	%
Equities	1,674.7	71.5	1,530.9	65.3
Government Bonds	196.8	8.4	220.4	9.4
Other Bonds	91.3	3.9	86.7	3.7
Property	178.0	7.6	164.1	7.0
Cash/ Liquidity	25.8	1.1	96.1	4.1
Other	175.7	7.5	246.2	10.5
<b>Total</b>	<b>2,342.3</b>	<b>100</b>	<b>2,344.4</b>	<b>100</b>

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

The balance on the Pensions Reserve is included on the Balance Sheet and the movement for the year included in the Statement of Total Recognised Gains and Losses.

	£'000
Balance at 01.04.07	(804,481)
Appropriation to CRA	(41,539)
Actuarial Gain on LGPS and TPS	(292,443)
<b>Balance at 31.03.08</b>	<b>(1,138,463)</b>

The following assumptions were made:

Financial Assumptions	31.03.2007	31.03.2008
	%	%
Rate of Inflation*	3.10	3.60
Rate of increase in Salaries*	4.85	5.35
Rate of increase in Pensions	3.10	3.60

## Notes to the Core Financial Statements

Discount Rate*	5.40	6.10
<b>Expected Rate of Return on Assets</b>		
Equities	7.50	7.50
Government Bonds	4.70	4.60
Other Bonds	5.40	6.10
Property	6.50	6.50
Cash/ Liquidity	5.25	5.25
Other	7.50	7.50

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

For the financial year ending 31<sup>st</sup> March 2008, the following additional disclosures are required:

Movement In Deficit	2006/07	2007/08
	£'000	£'000
Deficit at Beginning of Year	(950,848)	(804,481)
Current Service Cost	(103,029)	(95,445)
Employer Contributions	81,836	89,661
Past Service/Curtailment Cost	(2,101)	(28,445)
(Net Interest)/Return on Assets	(15,310)	(7,310)
Actuarial (Loss)/Gain	184,971	(292,443)
<b>Deficit at End of Year</b>	<b>(804,481)</b>	<b>(1,138,463)</b>

LGPS Statement of Actuarial Gains & Losses	2003/04		2004/05		2005/06		2006/07		2007/08	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
Difference between the expected and actual return on assets	179,198	11.6	68,617	4.0	319,438	14.8	20,984	0.9	(249,089)	10.6
Difference between actuarial assumptions about liabilities and actual experience	0.00	0	68,346	2.6	(66,619)	2.2	0	0.0	119,504	3.5
Changes in the demographic and financial assumptions used to estimate liabilities	0.00	0	(457,872)	(17.6)	(248,751)	(8.2)	162,101	5.3	(154,232)	4.5
<b>Net Actuarial Gain/(Loss)</b>	<b>179,198</b>		<b>(320,909)</b>		<b>4,068</b>		<b>183,085</b>		<b>(283,817)</b>	

## Notes to the Core Financial Statements

TPS Statement of Actuarial Gains & Losses	2003/04		2004/05		2005/06		2006/07		2007/08	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
Difference between the expected and actual return on assets	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0.0
Difference between actuarial assumptions about liabilities and actual experience	0.00	0	1,509	2.3	(2,076)	(3.0)	0.00	0	0.00	0.0
Changes in the demographic and financial assumptions used to estimate liabilities	0.00	0	(6,091)	(9.4)	(3,050)	(4.4)	1,886	2.9	(8,626)	11.9
<b>Net Actuarial Gain/(Loss)</b>	0.00		(4,582)		(5,126)		<b>1,886</b>		<b>(8,626)</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.

Changes to the Local Government Pension Scheme permit employees retiring on or after 6<sup>th</sup> 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 Income and Expenditure Account.

## Notes to the Core Financial Statements

### 7. Officers Emoluments and Members Allowances

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

No. of Employees 2006/07		No. of Employees 2007/08
528	£50,000 - £59,999	669
184	£60,000 - £69,999	200
58	£70,000 - £79,999	90
29	£80,000 - £89,999	27
10	£90,000 - £99,999	15
6	£100,000 - £109,999	4
0	£110,000 - £119,999	3
3	£120,000 - £129,999	0
2	£130,000 - £139,999	4
2	£150,000 - £159,999	0
1	£160,000 - £169,999	0
0	£190,000 - £199,999	1
0	£200,000 - £209,999	1
823	Total	1,014

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 2007/08 totalled £2.9m (2006/07 £2.7m).

### 8. Related Party Transactions

The City Council received a number of general and specific grants from central government totalling £1,681 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 £39.3 million. Payments to other local authorities and health authorities, excluding precepts, totalled £9.4 million. Receipts from other local authorities totalled £16.8 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 Note 6 above. The City Council paid £116.7 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 note 44. The following transactions are considered material:

## Notes to the Core Financial Statements

<b>Payments</b>	<b>£m</b>
Birmingham & Solihull Connexions Services Ltd	1.7
Birmingham Asian Resource Centre	0.1
Birmingham Citizens Advice Bureau	0.1
Birmingham Conservation Trust	0.1
Birmingham Research & Development Ltd	0.1
Birmingham Wheels Ltd	0.1
Chinese Community Centre - Birmingham	0.1
Ex Cathedra Ltd	0.1
Local Leagues Ltd	0.1
Marketing Birmingham Partnership	0.2
Saint Pauls Community Development Trust	1.6
Service Birmingham	95.3
The Birmingham Repertory Theatre Ltd	1.0
The National Exhibition Centre Ltd	0.7
<b>Receipts</b>	<b>£m</b>
Birmingham & Solihull Connexions Services Ltd	0.7
Birmingham Technology (Property) Ltd	0.5
Marketing Birmingham Partnership	0.2
Optima Community Association	0.5
Service Birmingham	0.6
The National Exhibition Centre Ltd	0.3
Broad St. Partnership	0.2
Groundwork Birmingham	0.1

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 7 above.

### 9. 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 Core Financial Statements

Planning -

Building Regulations Outturn 2007/08

2006/07		2007/08		
Total £'000		Total Chargeable Activities £'000	Total Non-chargeable Activities £'000	Total £'000
3,209	Expenditure	2,596	1,560	4,156
(2,772)	Income	(2,608)	(635)	(3,243)
437	Net (Surplus)/Deficit	(12)	925	913
2	Appropriation(from)/to Reserve	12	0	12
439	Net(Surplus)/Deficit after Appropriation	0	925	925

## Notes to the Core Financial Statements

### 10. Pooled Funding

#### Integrated Community Equipment Service

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

Expenditure in 2007/08 was:

	Planned Spend £	Actual Spend £	Carry Forward £
<b>PCT'S Main Fund</b>			
Scheme:			
General Schemes	253,380	76,443	176,937
Telecare Development	49,120	49,120	0
Beds Co-Ordinator	47,852	48,043	(191)
<b>Carry Forward</b>	<b>350,352</b>	<b>173,606</b>	<b>176,746</b>
HOB PCT - Children's Equipment -	60,577	53,369	7,208
East and North Birmingham PCT Children's Equipment	101,071	80,000	21,071
South PCT Children's Equipment	28,351	30,000	(1,649)
Birmingham City Council	411,018	411,018	0
<b>Carry Forward</b>	<b>601,017</b>	<b>574,387</b>	<b>26,630</b>
<b>Memorandum Carry Forward:</b>			
East and North PCT 38.07%			67,287
South 34.30%			60,624
HOB 27.63%			48,835
			<b>176,746</b>

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

The Council established a partnership agreement with Birmingham North and East 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. Birmingham East and North PCT have 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; and
- Make more effective use of resources by the establishment and maintenance of a joint fund.

## Notes to the Core Financial Statements

	Cash Contributions	
	2006/07	2007/08
	£	£
Birmingham East and North PCT	1,161,953	1,122,662
Birmingham City Council	200,899	204,412
Balance Brought Forward	0	572,391
<b>Total Funding</b>	<b>1,362,852</b>	<b>1,899,465</b>
Expenditure	790,461	1,330,610
<b>Net Underspend Carried Forward</b>	<b>572,391</b>	<b>568,855</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

### 11. Auditors Remuneration

The Council's appointed auditors are the Audit Commission. Payments to the auditors in 2007/08 totalled £1.1 million (£1.1 million in 2006/07) of which £0.7million (£0.8million in 2006/07) 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 £0.4 million (£0.3 million in 2006/07) related to the audit of grant claims submitted to central government and the European Union.

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

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

2006/07		2007/08		
Net		Expenditure	Income	Net
£'000		£'000	£'000	£'000
(49)	Birmingham City Laboratories	113	(145)	(32)
(23)	Health & Safety Advice	0	0	0
0	Highways	1,257	(1,257)	0
(6)	Legal Services	0	(16)	(16)
120	Planning	0	0	0
(18)	Property Services	0	0	0
(50)	Urban Design	122	(192)	(70)
<b>(26)</b>	<b>Total</b>	<b>1,492</b>	<b>(1,610)</b>	<b>(118)</b>

## Notes to the Core Financial Statements

### 13. Levies

The following levies were paid by the Council in 2007/08:

Payments	£m 2006/07	£m 2007/08
Passenger Transport Authority	25.3	23.9
Environment Agency	0.3	0.4
Housing Capital Receipts Pooling Payment to the Department for Communities and Local Government	31.7	26.0
<b>Total</b>	<b>57.3</b>	<b>50.3</b>

### 14. 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.

#### Private Finance Initiative Commitments

##### i) Schools PFI

On 15<sup>th</sup> February 2000 and 31<sup>st</sup> March 2006 the City Council entered into Private Finance Initiative (PFI) contracts with Birmingham Schools Partnership Ltd (BSPL) and Transform Schools. The two contracts provide for 19 schools to be completely rebuilt and 3 schools to be partially rebuilt / partially refurbished, following which BSPL and Transform Schools will provide the premises-related services for a period of 30 years.

At 31<sup>st</sup> March 2008, 14 of the 22 schools had been fully completed. In accordance with FRS5 the balance sheet reflects the first 10 schools under the BSPL contract as the Council's assets, because the council bears the majority of the risks and rewards of ownership. This however is not the case with the schools rebuilt under the Transform Schools contract where assets are deemed to be off-balance sheet. The value of assets recognised on the Balance sheet is £82.9m net of depreciation of £8.2m. The deferred liability recognised in respect of this scheme, amounts to £36.8m.

Within the fees payable to both BSPL and Transform Schools 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 core term-time.

## Notes to the Core Financial Statements

The deferred liability for this scheme, shown in Note 33, represents the present value of basic availability payments. In 2007/08 the deferred liability was written down by £0.7 million. The remaining availability payments are charged to the Income and Expenditure Account as an approximation of interest. Further availability payments are charged to the Children, Young People and Families Service Revenue Account.

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

	Services £'000	Availability £'000	Total £'000
Within one Year	6,061	10,173	16,234
2009/10 to 2013/14	33,835	53,965	87,800
2014/15 to 2018/19	38,245	55,068	93,313
2019/20 to 2023/24	43,270	56,306	99,576
2024/25 to 2028/29	48,957	57,708	106,665
2029/30 to 2033/34	42,830	47,013	89,843
2034/35 to 2039/40	34,534	34,920	69,454
<b>Total</b>	<b>247,732</b>	<b>315,153</b>	<b>562,885</b>

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 the 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.

The City Council was awarded a PFI credit of £50.6 million for the BSPL contract and £57.038 million for the Transform Schools contract, which are forecast to generate grants of £241.1 million 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 22 locations. The contract is a Private Finance Initiative under the Capital Finance Regulations.

At 31<sup>st</sup> March 2008 there were 22 conveniences provided under the contract. 23 conveniences are expected to be operational from July 2008. There are no payments made under the contract for facilities that are not operational.

## Notes to the Core Financial Statements

The payments under the contract can vary according to availability, performance and inflation. The inflation rate is linked to the Retail Price Index and payments may vary in line with changes in the RPI over the period in question. Using 2.5% inflation and 100% assumed performance; the commitments under the contract are as follows:

	£'000
2007/08	477
2008/09 to 2012/13	2,687
2013/14 to 2017/18	3,041
2018/19 to 2022/23	3,440

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

### 15. Business Improvement District

At the end of 2007/08 the City had three Business Improvement Districts (BIDs) in operation, established in accordance with the Business Improvement District Regulations 2004. Under the scheme local businesses within distinct districts pay a levy, collected by the City Council and paid over to each BID Management Company, which is used to fund additional services and environmental improvements. Any non collection of levies is a charge to the BID Company and not to the City Council.

In line with SORP guidance the Council has determined that it acts as agent to the BID authorities and therefore neither the proceeds of the levy nor the payment to the BID Company are shown in the Council's accounts. This is a change in accounting policy from 2006/07, when figures were included within the Income and Expenditure Account in respect of the Broad Street BID.

BID schemes operate for a period of five years and information in respect of the three schemes in operation at the end of 2007/08 can be seen below:

Broad Street BID, established in August 2005. The amount billed in 2007/08 was £328k.

Retail Birmingham BID, established in April 2007. The amount billed in 2007/08 was £526k.

Erdington Town Centre Partnership BID, established in July 2007. The amount billed in 2007/08 was £73k.

### 16. Dedicated Schools Grant

The Council's expenditure on schools is funded by a grant from the Department of Education and Skills (DES). This grant is known as the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget which is divided into a budget share for each school. Over-

## Notes to the Core Financial Statements

and underspends on the two elements are required to be accounted for separately. The Council is able to supplement the Schools Budget from its own resources but chose not to do this in 2007-08. In the previous year school expenditure was funded by Revenue Support Grant which was not accounted for as income to the Education service. This explains the large variance in Education net expenditure.

	Central Expenditure £'000	Individual School Budget £'000	Total £'000
Original Grant Allocation to Schools Budget for the current year in the Council's Budget	56,291	664,560	720,851
Adjustment to Finalised Grant Allocation	884		884
DSG Receivable for Year	<b>57,175</b>	<b>664,560</b>	<b>721,735</b>
Actual Expenditure for Year	57,723	654,923	712,646
(Over)Underspend for Year	(548)	9,637	9,089
Planned Top Up Funding from Council Resources	0	0	0
Use Of School Balances Brought Forward	0	0	0
(Over)Underspend from previous year	1,278	0	1,278
<b>(Over)Underspend carried forward to 2008-09</b>	<b>730</b>	<b>9,637</b>	<b>10,367</b>

## Notes to the Core Financial Statements

### 17. Capital Expenditure

The City Council's capital expenditure on an accruals basis, including amounts owing but not paid in 2007/08, analysed between types of asset, is summarised below. This also includes deferred charges.

Capital Expenditure Type of Asset	2006/07 £m	2007/08 £m	Capital Financing Source	2006/07 £m	2007/08 £m
Other Land & Buildings	99.5	103.1	Borrowing	52.9	52.8
Vehicles & Equipment	12.9	10.7	Prudential Borrowing	99.4	326.2
Investment Properties	3.4	0.1	Capital Receipts	74.0	56.1
Infrastructure	42.3	37.0	Grants & Contributions	169.9	148.7
Community Assets	18.3	9.1	Revenue	9.2	0.3
Council Dwellings	110.4	107.9	Operating Leasing	0.8	0.6
Intangible Assets	7.8	18.0			
<b>Total Capital Expenditure re Fixed Assets</b>	<b>294.6</b>	<b>285.9</b>			
Deferred Charges	110.8	298.2			
Operating Leasing	0.8	0.6			
<b>Total Capital Expenditure</b>	<b>406.2</b>	<b>584.7</b>	<b>Total</b>	<b>406.2</b>	<b>584.7</b>

### 18. Movements in Fixed Assets

Operational Assets	Council Dwellings & Garages £m	Other Land & Buildings £m	Vehicles Plant & Equipment £m	Infrastr ucture Assets £m	Intangible Assets £m	Total £m
Gross Book Value at 1 April 2007	2,544.5	2,529.3	59.1	754.1	7.8	5,894.8
Less Accumulated Depreciation at 1st April 2007	(199.2)	(118.5)	(37.6)	(320.1)	0.0	(675.4)
Net Book Value at 1st April 2007	2,345.3	2,410.8	21.5	434.0	7.8	5,219.4
Additions	0.0	67.5	10.7	28.2	18.0	124.4
Disposals	(30.1)	(0.7)	0.0	0.0	0.0	(30.8)
Revaluations	207.1	210.8	0.0	0.0	0.0	417.9
Restatements	0.0	10.7	0.0	0.0	0.0	10.7
Depreciation for year	(40.3)	(64.8)	(6.4)	(25.5)	(1.5)	(138.5)
Impairments	0.0	(64.0)	0.0	0.0	0.0	(64.0)
<b>Net Book Value At 31 March 2008</b>	<b>2,482.0</b>	<b>2,570.3</b>	<b>25.8</b>	<b>436.7</b>	<b>24.3</b>	<b>5,539.1</b>

The Council's intangible assets are all computer software licences.

## Notes to the Core Financial Statements

Non-Operational Assets	Surplus	Investment	Assets	Total
	Properties	Properties	Under Construction	
		£m	£m	£m
Gross Book Value at 1 April 2007	201.0	234.3	0.0	435.3
Less Accumulated Depreciation at 1 April 2007	0.0	0.0	0.0	0.0
<b>Net Book Value at 1<sup>st</sup> April 2007</b>	<b>201.0</b>	<b>234.3</b>	<b>0.0</b>	<b>435.3</b>
Additions	0.0	0.0	44.3	44.3
Disposals	0.0	(1.4)	0.0	(1.4)
Revaluations	9.4	14.5	0.0	23.9
Restatements	(11.3)	1.1	0.0	(10.2)
<b>Net Book Value At 31 March 2008</b>	<b>199.1</b>	<b>248.5</b>	<b>44.3</b>	<b>491.9</b>

### 19. 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, Resources Directorate, carried out the valuations, and a Valuation Certificate was issued in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The effective date of the current year's valuation is the 1st April 2007. 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 Office of the Deputy Prime Minister (ODPM) '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.

## Notes to the Core Financial Statements

The Valuer did not inspect all properties in undertaking this work. A desktop review of the beacon values was carried out as at 1<sup>st</sup> April 2007 by Peter Jones MRICS and his staff in accordance with the ODPM guidance. A further review will be undertaken for 1<sup>st</sup> April 2008.

### *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 1<sup>st</sup> 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.

### *Intangible assets:*

Intangible assets are shown at cost.

## 20. Land, Buildings and Other Assets

31.03.07	Property Assets (major categories)	31.03.08
66,870	Council Dwellings	65,807
6,500	Investment Interests	6,500
440	Schools & Nurseries	440
75	Other Education Establishments	75
138	Office & Administrative Premises	139
39	Social Services Properties	39
39	Libraries	39
12	Museums & Art Galleries	12
57	Swimming Pools, Leisure Centres & Sports Stadia	57
89	Public Halls & Community Centres	89
308	Parks	308
30	Depots	30
65	Public Car Parks	65
282	Hectares of Leisure Gardens & Smallholdings	282
3	Markets	3
2,475	Kilometres of Roads	2,502
13	Cemeteries and Crematoria	13
	<b>Council Dwellings comprise the following types of properties</b>	
65,768	Freehold/Long Leasehold	64,705
1,102	Short Leasehold	1,102

## Notes to the Core Financial Statements

### 21. Commitments under Capital Contracts

The City Council has to plan its capital spending in advance of work proceeding. Thus, at 31 March 2008 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 £m	2008/09 £m	2009/10 £m	2010/11 £m
<b>Adults &amp; Communities</b>				
College Road Special Care Centre	1.2	1.2		
Sheldon Heath Special Care Centre	1.9	1.9		
<b>CYP&amp;F</b>				
Colebourne/ beaufort Co-location	5.6	5.1	0.5	
Coppice /Langley Co-location	7.1	3.9	3.2	
<b>Economic Development</b>				
Northfield Environmental Improvements	1.6	0.6	1.0	
Joint Venture AWM (Venture East)	4.8	0.7	0.6	3.5
<b>Local Services</b>				
MAC/SAMPAD	10.3	10.3		
Aston Hall & Park	6.6	6.5	0.1	
Strategic Sports Centre	2.9	2.8	0.1	
Wyndley Leisure Centre	2.7	2.6	0.1	
<b>Transport</b>				
Selly Oak New Road	1.2	1.2		
<b>Total</b>	<b>45.9</b>	<b>36.8</b>	<b>5.6</b>	<b>3.5</b>

### 22. Leasing

During 2007/08, the City Council paid £0.1m (2006/07 £0.1m) in finance lease rentals and £3.2m (2006/07 £4.9m) in operating lease rentals.

As at 31st March 2008, the City Council has a commitment to meet the following rental charges on both finance and operating leases:

	Finance Leases £m	Operating Leases £m
2008/09	0.1	2.5
2009-2010	0.1	0.8
2010-2013	0.1	0.1
<b>Total</b>	<b>0.3</b>	<b>3.4</b>

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

## Notes to the Core Financial Statements

### 23. Segmental Analysis of Net Assets

The Council had net assets of £2,834.9 million as at 31<sup>st</sup> March 2008 of which £1,909.9 million related to the General Fund and £925 million to the Housing Revenue Account.

### 24. Premature Debt Repayment Premiums

At 1<sup>st</sup> April 2007 net premiums of £33.2 million relating to the premature redemption of debt were brought forward. All of the transactions to which they related were deemed to be extinguishments and the balance was, therefore, written off to the Statement of Movement on General Fund Balances and the Statement of Movement on Housing Revenue Balances. A compensating appropriation was made from the Financial Instruments Adjustment Account. During the year additional premiums of £7.4 million were incurred and these were treated in the same way.

### 25. Investments

31.03.07 £m		31.03.08 £m
	<b>Long Term Investments</b>	
*227.9	Unlisted Investments intended to be held for the medium or long term at cost or valuation*	411.5
	<b>Short Term Investments</b>	
153.0	Temporary Money Market Deposits and Section 106 Monies	245.6
<b>380.9</b>	<b>Total Investments</b>	<b>657.1</b>

\*This figure includes an investment of £200.1 million in NEC Finance plc

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 41). 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 Core Financial Statements

### 26. Long Term Debtors

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

31.03.07		31.03.08
£m		£m
0.8	Mortgages:- Former Council House Tenants	0.6
3.0	Birmingham Technology Group	3.0
1.5	Employee Loans	1.3
1.1	N.E.C. Developments Plc	1.0
0.4	Learning & Skills Council	0.4
16.4	Millennium Point	16.2
1.0	Think Tank	0.8
7.0	Deferred Capital Receipts	7.8
0.2	Other Long Term Debtors	0.3
<b>31.4</b>	<b>Total Long Term Debtors</b>	<b>31.4</b>

### 27. Stocks and Stores

An analysis of stocks and stores is shown:

31.03.07		31.03.08
£'000		£'000
869	National Exhibition Centre	913
817	Local Services	1,184
331	Libraries & Museums	250
571	Transportation	232
407	Other	382
148	Work in Progress	0
<b>3,143</b>	<b>Total</b>	<b>2,961</b>

### 28. Landfill Allowances

The figure for landfill allowances is based on total allowances brought forward from 2006-07 of 224,574 tonnes and allowances received in 2007-08 of 167,641 tonnes. These allowances have been valued at £5.00 per tonne. Allowances brought forward from earlier years were vintage allowances were valued at £17.98 in the 2006-07 accounts. The reduction in value represents an impairment which has been charged to the Income and Expenditure Account.

## Notes to the Core Financial Statements

### 29. Debtors

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

31.03.07 £m	31.03.08 £m
Sums due from:	
70.6 Council Tax Payers	70.4
25.7 Business Rate Payers	38.5
20.3 Residential & Commercial Rents	24.9
92.8 Government Departments	51.1
131.2 Others	140.9
<b>340.6</b>	<b>325.8</b>
(57.7) Provision for Bad Debts	(61.1)
<b>282.9 Total Debtors</b>	<b>264.7</b>

### 30. Cash

Of the total cash held by the City Council, £32.4 million was held by schools operating their own bank accounts under schemes of delegated financial management.

### 31. Financial Instruments

#### Categories of Financial Instruments

The following categories of financial instruments are included in the Balance Sheet:

	Long Term		Current	
	31.03.07 £m	31.03.08 £m	31.03.07 £m	31.03.08 £m
<b>Financial Liabilities at Amortised Cost:</b>				
Public Work Loans Board	(1,059.6)	(1,565.5)		
Listed Bonds	(255.3)	(255.3)		
Other Market Loans	(111.5)	(50.6)	(174.8)	(118.4)
Former County Council Debt	(71.5)	(70.0)	(1.4)	(1.5)
Other Financial Liabilities	(2.9)	(2.8)	(0.1)	(0.1)
<b>Total Financial Liabilities</b>	<b>(1,500.8)</b>	<b>(1,944.2)</b>	<b>(176.3)</b>	<b>(120.0)</b>
<b>Loans and Receivables:</b>				
Money Market Funds			19.7	116.0
Other Market Investments		76.5	119.0	108.7
NEC (Finance) plc Bonds	200.1	200.1		
Other Loans and Receivables	18.0	17.6	24.4	28.3
<b>Total Loans and Receivables</b>	<b>218.1</b>	<b>294.2</b>	<b>163.1</b>	<b>253.0</b>
<b>Available For Sale</b>				
Unquoted Equity Investments at Costs	26.8	26.8		
<b>Total Financial Assets</b>	<b>244.9</b>	<b>321.0</b>	<b>163.1</b>	<b>253.0</b>

## Notes to the Core Financial Statements

### Income, expenditure, gains and losses on financial instruments

The amounts recognised in the Income and Expenditure Account, General Fund and STRGL in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets		
	Measured at Amortised Cost	Loans and Receivables	Available for Sale Assets	Total
	£m	£m	£m	£m
Interest Income / Expense	(105.7)	11.7		11.7
Losses on derecognition	(40.7)			
Losses on Restatement	(0.5)			
<b>Net Amounts for the Year</b>	<b>(146.9)</b>	<b>11.7</b>		<b>11.7</b>
Adjustment in the Statement of Movement on the Housing Revenue Account Balance	8.9			
Adjustment in the Statement of Movement on the General Fund Balance	28.9			
<b>Net Amounts Affecting Balances</b>	<b>(109.1)</b>	<b>11.7</b>		<b>11.7</b>

The comparative figures at 31.3.2007 were as follows:

	Financial Liabilities	Financial Assets		
	Measured at Amortised Cost	Loans and Receivables	Available for Sale Assets	Total
	£m	£m	£m	£m
Interest Income / Expense	(104.2)	9.2		9.2
Losses on derecognition				
Losses on Restatement				
<b>Net Amounts for the Year</b>	<b>(104.2)</b>	<b>9.2</b>		<b>9.2</b>
Adjustment in the Statement of Movement on the Housing Revenue Account Balance				
Adjustment in the Statement of Movement on the General Fund Balance				
<b>Net Amounts Affecting Balances</b>	<b>(104.2)</b>	<b>9.2</b>		<b>9.2</b>

## Notes to the Core Financial Statements

### Fair value of financial instruments

	31.03.07 £m	31.03.08 £m
Financial Liabilities at Amortised Cost:		
Public Work Loans Board	(1,277.3)	(1,890.8)
Listed Bonds	(355.9)	(356.4)
Other Market Loans	(301.0)	(196.3)
Former County Council Debt	(72.9)	(71.5)
Other Financial Liabilities	(3.0)	(2.9)
<b>Total Financial Liabilities</b>	<b>(2,010.1)</b>	<b>(2,517.9)</b>
Loans and Receivables:		
Money Market Funds	19.7	116.0
Other Market Investments (ie Treas.)	119.0	185.3
NEC (Finance) plc Bonds	300.3	307.9
Other Loans and Receivables	54.7	58.2
Total Loans and Receivables	493.7	667.4
Available For Sale		
Unquoted Equity Investments at Costs	26.8	26.8
<b>Total Financial Assets</b>	<b>520.5</b>	<b>694.2</b>

### Nature and extent of risks arising from financial instruments and how the authority manages those risks

The City Council's activities expose it to a variety of risks relating to its financial instruments, including:

Credit risk - the possibility that other parties might fail to pay amounts due to the Council;

Liquidity risk - the possibility that the Council may not have funds available to meet its payment commitments;

Market risk - the possibility of financial loss due to changes in interest rates and market prices.

These risks are managed by a central treasury management team in accordance with policies and approvals set by the City Council in its annual Budget Report, Treasury Management Strategy and Treasury Management Practices in particular. The City Council complies with 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 and establish a treasury risk management framework.

#### Credit risk:

The City Council makes investments for treasury management reasons when the Council has temporarily surplus cash due to positive cashflow or borrowing activity. These investments are subject to credit rating and diversification safeguards. Investments in financial institutions must have a Fitch credit rating no lower than F1, combined with individual and support rating requirements

## Notes to the Core Financial Statements

for different sizes of investment. None of these investments were impaired or in arrears of payments due to the City Council at 31 March 2008.

The City Council also makes a variety of investments in support of its service objectives. These investments are not subject to the above credit quality requirements, but are individually appraised and approved in relation to their support for service outcomes as well as their financial consequences and risks. None of these investments were impaired or in arrears of payments due to the City Council at 31 March 2008.

### Liquidity risk:

The City Council has ready access to loans from the Public Works Loans Board in accordance with the PWLB circulars currently in force, and there is no significant risk that it will be unable to raise finance to meet its commitments.

### Market risk:

The City Council is exposed to significant risk in relation to interest rate movements on its borrowing and investments. These risks are managed in accordance with the City Council's Treasury Management Strategy, including the setting and monitoring of risk limits on the level of variable rate instruments and on the amount of borrowing maturing in future years.

### Sensitivity to 1% increase in interest rates at 31 March 2008:

	£m
Increase in Interest Payable (1)	(1.2)
Increase in Interest Receivable (1)	1.4
Increase in Government Grant Receivable	1.1
Impact on Income and Expenditure Account	1.3
Impact on Recharges to the Housing Revenue Account	(0.9)
Impact on General Fund	1.1
Increase in Fair Value of Financial Liabilities (2)	276.5
Increase in Fair Value of Loans and Receivables (2)	(18.9)
Increase in Value of Available for Sale Investments	

### Methods and assumptions used in preparing the sensitivity analysis:

The sensitivity assumes an increase in interest rates of 1% at all variable and fixed rate periods.

Note <sup>(1)</sup>: applied to short term and variable rate instruments

Note <sup>(2)</sup>: this has no impact on the STRGL

## Notes to the Core Financial Statements

### Maturity analysis of financial liabilities:

	Loans and Receivables		Financial Liabilities	
	31.03.07 £m	31.03.08 £m	31.03.07 £m	31.03.08 £m
Less than One Year	163.1	253.0	(176.3)	(120.0)
Between One and Two Years	0.5	1.6	(72.5)	(32.2)
Between Two and Five Years	2.7	78.3	(38.8)	(22.0)
Between Five and Ten Years	202.7	202.7	(141.7)	(174.8)
Between Ten and Twenty Years	7.6	8.1	(356.1)	(292.5)
Between Twenty and Forty Years	4.6	3.5	(458.5)	(798.8)
Over Forty Years			(433.2)	(623.9)

### Equity Price risk:

The City Council's holdings of shares are summarised in note 44 these are all unquoted shares held primarily to support service objectives rather than as financial investments. The financial value of these shares will vary according to general market conditions and the particular circumstances of the share issuers. Active prices for these investments are not available.

### Foreign exchange risk:

The City Council has no material direct foreign currency exposures in its financial instruments.

## 32. Creditors

An analysis of creditors is shown below:

31.03.07 £m	31.03.08 £m
72.5	84.7
33.0	63.7
25.3	31.2
65.8	61.9
18.7	63.1
33.2	31.8
174.6	141.7
<b>423.1</b>	<b>478.1</b>
<b>Total Creditors</b>	

- i. The figure of £63.1 million relating to Amounts Owed to and on behalf of Employees includes accrued pension contributions payable to the LGPS and TPS scheme administrators amounting to £6.6 million and £8.1 million respectively.

## Notes to the Core Financial Statements

### 33. 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:

31.03.07 £m		31.03.08 £m
72.9	Debt taken over from the former West Midlands County Council	71.5
3.0	Walsall Waste Disposal	2.9
37.5	Schools PFI	36.8
0.3	Other	0.3
<b>113.7</b>	<b>Total Deferred Liabilities</b>	<b>111.5</b>

### 34. Government Grants Deferred

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. During the year grants totalling £83.1 million (2006/07 £81.5 million) used to finance the acquisition of fixed assets were taken to the account and £16.7 million (2006/07 £14.1m), equivalent to depreciation on assets financed by grants in previous years, was written off to revenue.

### 35. Provisions

	31.03.07 £m	Increase in Year £m	Applied in Year £m	31.03.08 £m
NEC Ltd Loan Debt	32.2	0.0	0.0	32.2
Other	12.3	5.3	(1.9)	15.7
	<b>44.5</b>	<b>5.3</b>	<b>(1.9)</b>	<b>47.9</b>

#### 35.1 NEC Ltd.

In addition to the provision detailed in the table above, which relates to the £73m loan stock referred to in Note 41 i, the City Council is also 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 31<sup>st</sup> March 2008 the amount of the loan guaranteed was £200 million (2007: £200 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.

#### 35.2 Bad Debt Provision

The provision for bad debts is shown separately in the balance sheet as a deduction from current debtors. (See Note 29 above).

## Notes to the Core Financial Statements

### 36. 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. This account has been replaced by a UK GAAP compliant Revaluation Reserve under the terms of the 2007 SORP. The balance on the account at 31<sup>st</sup> March 2007 was transferred to the Capital Adjustment Account.

### 37. Capital Adjustment Account

This new account contains the balances previously held on the Capital Financing Account and Fixed Asset restatement Account. The movements in year relate to 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 Adjustment Account are shown below:

	2007/08	
	£m	£m
Opening Balance		3,672.7
<b>Financing of Capital Expenditure</b>		
Use of Capital Receipts		56.1
Use of Major Repairs Reserve		40.3
Direct Revenue Financing		0.4
		<u>3,769.5</u>
Depreciation		(98.5)
Impairment of Fixed Assets		(72.8)
Transfer from Major Repairs Reserve		(40.3)
Write Down of Deferred Grant		16.7
Deferred Charges - Expenditure		(298.2)
Deferred Charges - Income		26.9
Minimum Revenue Provision		47.5
Disposal of Fixed Assets		(32.2)
Other Movements		4.6
		<u>3,323.2</u>

### 38. Revaluation Reserve

This new reserve contains the contra entries from the revaluation of the Council's fixed assets. It is also debited with amounts of impairment to the extent that these are matched by revaluation gains in earlier years. As the opening balance at 1<sup>st</sup> April 2008 was nil all movements relate to revaluations. These are summarised in the table overleaf.

## Notes to the Core Financial Statements

	2007/08	
	£m	£m
Opening Balance		0
<b>Revaluations of Fixed Assets</b>		334.3
Closing Balance		334.3

### 39. Earmarked Reserves

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

	31.03.07	Movement in year	31.03.08
	£m	£m	£m
Sums set aside to Finance Capital Expenditure	34.4	(16.9)	17.5
Reserves for Budgets Delegated to Schools	55.4	10.1	65.5
Service Development Reserve	5.1	(0.6)	4.5
Treasury Management Reserve	11.3	2.6	13.9
Car Parking VAT Reserve	10.1	1.3	11.4
PFI Schools Reserve	6.3	2.4	8.7
Insurance Reserve	11.8	5.4	17.2
Other	10.8	(5.4)	5.4
	<b>145.2</b>	<b>(1.1)</b>	<b>144.1</b>
Usable Capital Receipts	12.3	(10.1)	2.2
Capital Contributions Unapplied	31.0	(1.3)	29.7
Housing Major Repairs Reserve	0.0	0.0	0.0
	<b>188.5</b>	<b>(12.5)</b>	<b>176.0</b>

The reserve in respect of budgets delegated to schools is a net figure held by schools at 31st March 2008 and is an earmarked reserve which must in totality be available for schools' use.

The net figure held by schools, before any temporary loans to the General Fund are taken into account, is made up of £71.8m underspent by schools and £6.3m 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 £4.5 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. £40.3 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 Core Financial Statements

### 40. Balances on Revenue Accounts and the Collection Fund

	31.03.07 £m	Movement in year £m	31.03.08 £m
General Fund	28.7	(0.7)	28.0
Housing Revenue Account	3.1	0.4	3.5
Collection Fund	4.8	(3.0)	1.8
	<b>36.6</b>	<b>(3.3)</b>	<b>33.3</b>

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

The amount of the Collection Fund balance owing to preceptors is shown under Current Liabilities.

### 41. 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. 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 (2007: £73m), due in 2027.
- ii. The City Council has agreed to guarantee up to a maximum of £9.6m of commercial loans made by Württembergische Hypothekenbank AG to Aston Science Park Limited. The loans are 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 Deal 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. 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 2005/06 and 2006/07 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 provided for in the accounts, which would reduce the level of benefit income shown and also reduce the General Fund balance carried forward.
- v. 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. In 2007/08 the Council paid £115.0m to employees as a consequence of this. Further payments are planned in

## Notes to the Core Financial Statements

2008/09 but the extent of these cannot be quantified at present. No provision has been made in the balance sheet for the 2007/08 or any future potential liabilities.

- vi. The City Council may have a Pension liability relating to employees who transferred under a TUPE arrangement to a contractor who has lost a subsequent re-tendering of the contract by the Council. In such circumstances the deferred liabilities of employees who left the Pension Fund during the time of the contract may revert to the Council, and if this is the case these would be recovered through future Employer's contribution rates.

### 42. Insurance

The City Council maintains an Insurance Reserve to assist in managing claims falling against negotiated policy excesses. The policy excesses, which change from time to time, are for the major risks (2007/08 policy year):

Fire & terrorism:	£2m	per claim
Employers Liability:	£500,000	per claim
Public Liability:	£150,000	per claim
Motor Vehicle:	£ 50,000	per claim up to £1m in aggregate p.a.

The balance on the reserve is £17.23m (2006/07: £11.85m) as shown in the table at Note 39.

Municipal Mutual Insurance Co Ltd (MMI), through which the City Council had part of its fire insurance and a number of contingency covers, 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, however the company has continued to settle claims in an orderly manner.

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 1<sup>st</sup> October 1993. Claims settled since 1<sup>st</sup> October 1993 total £2.42m.

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 1<sup>st</sup> October 1993 claims settled total £0.8m.

### 43. 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 2008, based upon the figures within the table below, were £12.5m (2007: £12.6m). In addition, the City Council held £2.0m (2007: £1.8m) 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 are detailed below, with those highlighted in bold indicating where the City Council acts as sole trustee:

## Notes to the Core Financial Statements

	Opening Balance £'000	Income £'000	Expenditure £'000	Closing Balance £'000
Bodenham Trust - For children with special educational needs	568.1	22.0	4.4	585.7
<b>Centre for the Child - To promote the education of children &amp; their carers</b>	139.5	27.7	17.0	150.2
<b>Charles Baker Trust - For the elderly and disabled</b>	216.8	11.9	3.3	225.4
Clara Martineau Trust - For children with special educational needs	3,171.1	139.5	295.3	3,015.3
Cropwood Estate - management of the estate	256.4	13.5	0.0	269.9
Francis Lyn Betteridge Memorial Trust- for the relief of needy children	117.1	5.7	0.0	122.8
<b>Girls Night Shelter for women and girls in need or distress</b>	307.4	17.2	0.7	323.9
Holinsworth Fund - To further the work of voluntary hospitals	179.6	7.2	31.1	155.7
Museum & Art Gallery Development Trust - Enhancement of city museums	143.7	57.5	0.0	201.3
<b>The Elford Trust - Healthy recreation for Birmingham citizens</b>	2,262.4	317.1	278.5	2,301.0
<b>The Harriet Louisa Loxton Charity - For the aged and infirm</b>	1,468.2	56.4	108.7	1,415.9
The Lord Mayor's Charity Appeal - For charitable purposes	199.5	110.4	79.2	230.7
Highbury Trust To use the bequest for the benefit of the citizens of Birmingham.	4,000.0	246.1	246.1	4,000.0
Other	608.3	67.4	83.7	592.0
	<b>13,638.1</b>	<b>1099.6</b>	<b>1148.0</b>	<b>13,589.8</b>

All figures are based upon the latest audited accounts of the respective trust funds, and may have changed from previous information given.

## Notes to the Core Financial Statements

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

	Restricted Funds Closing Balance £'000	Unrestricted Funds Closing Balance £'000	Total Closing Balance £'000
Bodenham Trust - For children with special educational needs	19.0	566.8	585.8
<b>Centre for the Child - To Promote the education of Children &amp; Their Carers</b>	150.2	0.0	150.2
<b>Charles Baker Trust - For the elderly and disabled</b>	64.0	161.4	225.4
Clara Martineau Trust - For children with special educational needs	141.8	2,873.5	3,015.3
Cropwood Estate	226.0	43.9	269.9
Francis Lyn Betteridge Memorial Trust	0.0	122.8	122.8
<b>Girls Night Shelter for women and girls in need or distress</b>	248.9	75.0	323.9
Holinsworth Fund - To further the work of voluntary hospitals	137.6	18.1	155.7
Museum & Art Gallery Development Trust - Enhancement of city museums	166.7	34.6	201.3
<b>The Elford Trust - Healthy Recreation for Birmingham Citizens</b>	2,036.4	264.6	2,301.0
<b>The Harriet Louisa Loxton Charity - For the aged and infirm</b>	1,284.6	131.3	1,415.9
The Lord Mayor's Charity Appeal - For charitable purposes	23.4	207.3	230.7
Highbury Trust	0	3,999.9	3,999.9
	<b>4,498.6</b>	<b>8,499.2</b>	<b>12,997.8</b>

## Notes to the Core Financial Statements

### 44.1 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 41 also lists major contingent liabilities in relation to some of these 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 31<sup>st</sup> March 2008, the City Council was guaranteeing loans of £200m (2007: £200m) to the company.

The Company made a profit before and after tax of £2,070k during the year to 31<sup>st</sup> March 2008 (2007: profit of £2,853k). The Company's net liabilities at 31<sup>st</sup> March 2008 amounted to £29,808k (2007: £27,130k). The National Exhibition Centre Limited 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 17<sup>th</sup> March 1986 and 17<sup>th</sup> December 1987, as amended by an agreement dated 4<sup>th</sup> 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 35.1 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 2007/08, the City Council made reimbursements totalling £19,106k to the Company NEC Ltd, (2006/07, £18,444k).

There was no qualification to the audit opinion on the latest audited accounts of this company. The accounts of NEC Ltd. have been consolidated with those of the City Council in the group financial statements.

#### **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 £1million 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 31<sup>st</sup> March 2008 amounted to £14,000 (2007: £14,000). The net liabilities at 31<sup>st</sup> March 2008 amounted to £1,284,000 (2007: £1,170,000).

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

# Notes to the Core Financial Statements

## 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 (2006: £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 2006 and 2007 are as follows:

2006		2007
£m		£m
0.4	Profit/(loss) on Ordinary Activities before taxation	0.2
0.6	Profit/(loss) on Ordinary Activities after taxation	0.4
<b>8.1</b>	<b>Net Assets</b>	<b>7.7</b>

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

## Service Birmingham Ltd - Company Accounts

The company was incorporated on the 22<sup>nd</sup> December 2005 and operates as a joint venture between Capita Business Services Limited, who hold 650 Ordinary-B shares (68%), and Birmingham City Council who hold 300 Ordinary-A shares (32%). The company was formed to facilitate the strategic partnership between the two entities and operates within the ICT and Advisory Services division of the Capita Group Plc.

Trading commenced on the 1<sup>st</sup> April 2006, with the principal activity being the provision of ICT and business transformation outsourcing services to the City Council. The profit after tax for the year ended 31<sup>st</sup> December 2007 amounted to £5.2 million (9 months to Dec 2006: £2 million) and the net assets at 31<sup>st</sup> December 2007 amounted to £7.2 million (2006: £2 million).

## 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.

**Advantage Creative West Midlands Ltd, Afro-Caribbean Millennium Centre Ltd, Aston Science Park Ltd, Attwood Green Estate Services 1, Attwood Green Estate Service 2, Audiences Central, Birmingham Association of Neighbourhood Forums, Birmingham Trades Union Council Centre For The Unemployed Ltd, Birmingham Academy Trading Ltd, Birmingham and Solihull Connexions Services Limited, Birmingham Asian Resource Centre, Birmingham Business Support Centre Limited, Birmingham Carnival 2000 Limited, Birmingham Citizens Advice Bureau Service Ltd, Birmingham Conservation Trust, Birmingham Conservation Trust (Trading) Ltd, Birmingham Contemporary Music Group, Birmingham Disability Resource Centre, Birmingham Economic Development Partnership Limited, Birmingham Hippodrome Theatre Trust Ltd, Birmingham**

## Notes to the Core Financial Statements

Opera Company, Birmingham Rathbone Society, Birmingham Research and Development Limited, Birmingham Research Park Limited, Birmingham Royal Ballet, Birmingham Settlement Ltd, Birmingham Venture Capital Limited, Birmingham Wheels Limited, Bridge Street Management Ltd, Broad Street Partnership Ltd, Castle Vale Neighbourhood Partnership Board, Chinese Community Centre - Birmingham, City of Birmingham Symphony Orchestra, Creative Advantage West Midlands Ltd, Dance XChange, East Birmingham and North Solihull Regeneration Zone Ltd, Euro-hub (Birmingham) Ltd, Ex-Cathedra Ltd, First Castle Developments Ltd, Greenspring Training Ltd, Ikon Gallery Ltd, Kings Norton 3 Estates Community Development Trust, Ladywood Furniture Project Ltd, Local Leagues Limited, Marketing Birmingham, Matchbox Enterprises Limited, Midlands Arts Centre, Midlands Industrial Association Ltd, Millennium Point Property Ltd, Millennium Point Trust, Optima Community Association, Performances (Birmingham) Ltd, Performances Birmingham (Enterprises) Ltd, Rover Community Action Trust, Saint Basils, South Black Country and West Birmingham Regeneration Zone, South West Birmingham Community Association, Saint Pauls Community Development Trust, Stockfield Community Association, Stockfield Community Association (Subsidiary) Ltd, Surestart Chinnbrook Project Ltd, The Academy of Youth Limited, The Birmingham Centre for Manufacturing Limited, The Birmingham Repertory Theatre, The Birmingham to Worcestershire Investment Vehicle The Drum/ Newtown Cultural Project Thinktank Trust Veolia Environmental Services Birmingham Ltd West Midlands Arts Trust West Midlands Enterprise Ltd Witton Lodge Community Association (Subsidiary) Ltd Witton Lodge Community Association Ltd.

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

### 44.2 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). 48.25% ordinary shares are held by Airport Group Investments Ltd which is owned by the Ontario Teachers Pension Plan and Victorian Funds Management Corporation and the remaining 2.75% shares are held by an Employee Share Trust. The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated 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 BAH Group accounts incorporate Birmingham International Airport Ltd, Euro-Hub (Birmingham) Ltd, Birmingham Airport Developments Ltd, First Castle Developments Ltd, Birmingham Airport (Finance) PLC and BHX Fire and Rescue Limited

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.

## Notes to the Core Financial Statements

The group performance is as follows:

Year to 31.03.07		Year to 31.03.08
£m		£m
17.1	Net Profit before Tax	19.7
12.1	Net Profit after Tax	22.9
254.4	Net Assets including pension liability at 31 March	263.1
2.4	City Council Dividend Income	2.5

### 45. Local Area Agreement

The Council is a participant in a Local Area Agreement (LAA) - a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. The initial LAA began on 1st April 2006 and the partners have now signed a new agreement from 1st April 2008.

The new LAA is an agreement between central government and Birmingham - its people, communities and partners in the public, private, community, voluntary and faith sectors. It represents a three-year programme to transform the city and to deliver the first steps of Birmingham 2026, the new sustainable community strategy. The total grant received in 2007/2008 was £56.3m of which £5.7m was passed to the Health PCTs. The remainder of grant, funded Council services or grants made through partnership working, as agreed through the Be Birmingham (Local Strategic Partnership) Board.

The LAA consists of two parts. Firstly, the Outcomes Framework sets out what the agreement is striving to achieve including key outcomes, milestones, and targets against resources available. The second part is the Delivery Framework, which sets out how the partners are going to achieve these outcomes. This is based upon delivery plans and the use of a clear five-step framework within a new robust structure and governance arrangement for Be Birmingham (the Local Strategic Partnership).

The LAA partners are:

Advantage West Midlands, BANF, Birmingham City Council, BEP, bRAP, BVSC, Centro, Chamber of Commerce, Connexions, Council of Faiths, Culture West Midlands, Faith Leaders Group, Higher Education Sector, Jobcentre Plus, Learning & Skills Council, Birmingham Primary Care Trusts, West Midlands Fire Service and West Midlands Police.

Birmingham City Council acts as the accountable body for the LAA. This means that the Council is responsible for managing the distribution of grant paid by the Government Office of the West Midlands (GOWM) to the partners involved, but the council does not determine which bodies are due payments - this is determined either by GOWM or the partnership. In this context, the Council acts as an agent to the partnership and has therefore not recognised the full amount of LAA Grant in its financial statements, but only that part to be spent by the Council in providing services.

## Notes to the Core Financial Statements

As accountable body, the Council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners. Systems in place for distributing grant that are designed to limit the possibility that this will happen. It has not been necessary to recognise any contingent liabilities for possible repayments and no provision have been made for any such eventuality.

### 46. 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 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.

### 47. Post Balance Sheet Events

The following event has occurred since the balance sheet date of 31<sup>st</sup> March which could affect users' understanding of the financial statements and is therefore disclosed.

On June 30<sup>th</sup> 2008 the Council approved a refinancing package for the Birmingham Technology (Property) Company. Under the terms of the agreement the Council will advance a loan of £17.745 million at 5% interest per annum to the Company. This money will be used to repay the Company's loans to Wurttembergische Hypothekenbank disclosed in Note 41 ii on Contingent Liabilities and the £2.96 million loan from the Council disclosed in Note 26 on Long Term Debtors. The Council will buy out the remaining shareholders in the company which will become a wholly owned subsidiary. From 2008-09 the Company together with its subsidiary Aston Science Park Limited will be consolidated on a line by line basis in the Council's Group Financial Statements.

## Notes to the Core Financial Statements

### 48. Reconciliation of deficit on Income and Expenditure Account and the Collection Fund to revenue activities net cash flow.

	2006/07 £m	2007/08 £m
(Surplus)/Deficit on Income & Expenditure Account	146.7	459.0
(Surplus)/Deficit on Collection Fund	(4.2)	3.0
	<b>142.5</b>	<b>462.0</b>
Provisions set aside	(11.7)	(14.3)
	<b>130.8</b>	<b>447.7</b>
Items Included Under Another Classification:		
Interest Paid	(94.1)	(113.7)
Interest Received	38.8	38.3
Capital Financing Costs	(45.2)	(47.8)
PFI Grant	4.6	5.2
Adjust for Non-Cash Items	(141.6)	(434.1)
Items on an Accrual Basis:		
Movement in Stock	(0.2)	(0.2)
Movement in Debtors	38.1	(18.3)
Movement in Creditors	(30.4)	(55.1)
	<b>(99.2)</b>	<b>(178.0)</b>

### 49. Reconciliation of net cash flow to movements in net debt

#### RECONCILIATION OF MOVEMENT IN NET DEBT TO NET CASH FLOW

	Long Term Loans £'000	Loans maturing in 12 months £'000	Other LT Creditors £'000	Investments £'000	Cash OD/ (In Hand) £'000	Net Debt £'000
31.03.2007	1,387,320	173,461	113,753	(153,024)	(8,386)	1,513,124
31.03.2008	1,871,432	118,416	111,467	(245,637)	527	1,856,205
Movement in Year	(484,112)	55,045	2,286	92,613	(8,913)	(343,081)
Made Up of: Movements in:						
	Cash					(8,913)
	Borrowing					(429,067)
	Investments					92,613
	Repayment of Deferred Liabilities					<u>2,286</u>
						<u>(343,081)</u>

## Notes to the Core Financial Statements

### 50. Analysis of changes in net debt

#### ANALYSIS OF CHANGES IN NET DEBT

	31.03.2007	Cash Flow	31.03.2008
	£'000	£'000	£'000
Cash Overdrawn/ (In Hand)	(8,386)	8,913	527
Due within One Year	173,461	(55,045)	118,416
Due after One Year	1,387,320	484,112	1,871,432
Investments	(153,024)	(92,613)	(245,637)
Deferred Liabilities	<u>113,753</u>	<u>(2,286)</u>	<u>111,467</u>
	1,513,124	343,081	1,856,205

### 51. Analysis of changes in cash and cash equivalents during the year

	2008	2007	Change
	£'000	£'000	In Year
			£'000
Temporary Investments & Short			
Term Deposits	245,637	153,024	92,613
Cash	69,040	66,178	2,862
Bank overdraft	(69,567)	(57,792)	(11,775)
<b>Increase/(Decrease) in year</b>	<u><b>245,110</b></u>	<u><b>161,410</b></u>	<u><b>83,700</b></u>

## Notes to the Core Financial Statements

### 52. Other Government Grants

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

	2006/07	2007/08
	£m	£m
<b>Revenue</b>		
Housing Subsidy	8.5	1.5
NRF	27.5	20.4
Rent Allowances	167.5	150.1
Council Tax Benefit	82.7	84.9
European Social Fund	2.9	0.0
European Regional Development Budget	1.2	0.0
Single Regeneration Budget	3.5	9.1
Education Grants	918.2	943.0
PFI Grant	4.6	5.2
Other	287.0	192.6
	<b>1,503.6</b>	<b>1,406.8</b>
<b>Capital</b>		
ERDF	2.2	0.0
SRB	0.0	6.5
PRG	7.7	0.0
Education Capital Grants	42.4	29.7
Other	80.6	103.0
	<b>132.9</b>	<b>139.2</b>

Supplementary

Financial

Statements

## HRA Income and Expenditure Account

Actual 2006/07 £'000	Actual 2006/07 £'000		Actual 2007/08 £'000	Actual 2007/08 £'000
		<b>Income</b>		
(188,625)		Dwellings Rents ( <i>Gross</i> )	(199,066)	
(4,835)		Non Dwellings Rents	(5,178)	
(21,306)		Charges for Services & Facilities	(21,552)	
0		Contributions towards Expenditure	0	
(7,590)		Housing Revenue Account Subsidy Receivable	(1,350)	
0		Sums Directed by the Secretary of State that are Income in accordance with UK GAAP	0	
	<b>(222,356)</b>	<b>Total Income</b>		<b>(227,146)</b>
		<b>Expenditure</b>		
74,542		Repairs and Maintenance	73,553	
60,666		Supervision & Management	56,695	
6,350		Rent, Rates, Taxes and Other Charges	6,062	
0		Negative Housing Revenue Account Subsidy transferable to the General Fund under transitional arrangements	0	
38,810		Depreciation and Impairment Charge	40,108	
154		Debt Management Costs	166	
5,297		Provision for Bad or Doubtful Debts	5,675	
0		Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	0	
	<b>185,819</b>	<b>Total Expenditure</b>		<b>182,259</b>
		<b>Sub-Total</b>		
	<b>(36,537)</b>	<b>Net Cost of HRA Services as included in the whole Authority Income and Expenditure Account</b>		<b>(44,887)</b>
	38,847	Interest Payable and Similar Charges		39,287
	1,260	Amortisation of Premiums and Discounts		2,441
	(1,159)	Interest and Investment Income		(221)
	428	Pension Interest Cost and Expected Return on Pension Assets		15
	<b>2,839</b>	<b>(Surplus) or Deficit for the Year on HRA</b>		<b>(3,365)</b>

## Statement of Movement on the Housing Revenue Account Balance

Actual 2006/07 £'000	Statement of Movement on the Housing Revenue Account Balance	Actual 2007/08 £'000
2,839	Surplus or Deficit for the year on the HRA Income and Expenditure	(3,365)
(1,592)	Appropriation to/from Pension Reserves	2,657
9,095	Capital Expenditure funded by Housing Revenue Account	300
(13,406)	Housing Revenue Account Balance Brought Forward	(3,063)
<b>(3,064)</b>	<b>Housing Revenue Account Balance Carried Forward</b>	<b>(3,471)</b>

## Collection Fund

2006/07 £'000		Note	2007/08	
			£'000	£'000
	<b>Income</b>			
	Council Tax:			
255,979	Income	12	258,757	
	Transfers from General Fund:			
83,078	Council Tax Benefit		83,273	
0	Decrease in provision for bad debts	15	1,909	
<b>339,057</b>				<b>343,939</b>
	Business Ratepayers:	13		
329,111	Income collectable		339,479	
	Community Charge:			
1	Income collected resulting in a reduction to provision for bad debts		1	
<b>329,112</b>				<b>339,480</b>
	Contribution towards previous year's Deficit:	14		
626	Birmingham City Council		0	
33	West Midlands Fire and Rescue Authority		0	
66	West Midlands Police Authority		0	
<b>725</b>				<b>0</b>
<b>668,894</b>				<b>683,419</b>
	<b>Expenditure</b>			
	Demands on the Collection Fund:	14		
295,053	Birmingham City Council		304,060	
65	Frankley in Birmingham Parish		72	
12,335	West Midlands Fire and Rescue Authority		12,835	
25,009	West Midlands Police Authority		26,425	
<b>332,462</b>				<b>343,392</b>
	Council Tax:			
2,739	Increase in Provision for Bad Debts	15	0	
416	Debts written off		3,550	
	Business Rates:			
327,141	Payment to National Pool		337,512	
1,970	Cost of Collection Allowance		1,968	
<b>332,266</b>				<b>343,030</b>
<b>(675)</b>	<b>(Surplus)/ Deficit Brought Forward</b>			<b>(4,841)</b>
<b>664,053</b>				<b>681,581</b>
<b>(4,841)</b>	<b>(Surplus)/ Deficit Carried Forward</b>			<b>(1,838)</b>

## Group Accounts

### Group Income and Expenditure Account

2006/07 £'000		2007/08	
		£'000	£'000
261,433	Adult Social Care	357,177	
12,601	Central Services to the Public	18,002	
276,607	Children's and Education Services	404,709	
1,272	Court Services	1,493	
185,945	Cultural, Environmental & Planning Services	234,367	
77,501	Highways, Roads & Transport	91,587	
4,406	Housing Services	27,751	
15,385	Corporate & Democratic Core	15,590	
16,681	Non Distributed Costs	42,136	
<b>851,831</b>	<b>Group Cost of Services</b>		<b>1,192,812</b>
(20,766)	Share of (Income) of Joint Ventures	(50,604)	
19,844	Share of Expenditure of Joint Ventures	47,991	
(922)	Share of (Surplus)/Deficit of Joint Ventures		(2,613)
(2,534)	Share of (Surplus)/Deficit of Associates		(2,300)
<b>848,375</b>	<b>Cost of Services</b>		<b>1,187,899</b>
65	Parish Precept		72
(10,109)	(Surpluses)/Deficits on Trading Undertakings		(14,008)
25,603	Levies		24,293
31,704	Contribution of Housing Capital Receipts to Government Pool		25,983
1,668	Premiums on Premature Debt Redemption		40,656
138,726	External Interest Charges		329,983
159,371	Interest Cost - Pensions		177,034
(143,291)	Expected Return on Pension Assets		(170,257)
(7,900)	(Gains) / Losses on Disposal of Fixed Assets		(38,458)
(39,051)	Interest & Investment Income		(212,178)
0	Corporation Tax Payable by Subsidiary		3
0	Share of Interest Payable by Joint Ventures		0
279	Share of Tax Payable by Joint Ventures		809
2,704	Share of Interest Payable by Associates		2,685
0	Share of Tax Payable by Associates		(48)
0	Profit on Discontinued Operations		(696)
1,426	Minority Interest Share of Surplus/(Deficit) of Subsidiaries		1,039
<b>1,009,570</b>	<b>Net Operating (Income)/Expenditure</b>		<b>1,354,811</b>
<b>(864,953)</b>	<b>Income From Taxpayers/Government Grants</b>		<b>(898,728)</b>
<b>144,617</b>	<b>(Surplus) / Deficit for Year</b>		<b>456,083</b>

## Group Accounts

### Reconciliation of the Single Entity Deficit for the Year to the Group Deficit

	2006/07 £'000	2007/08 £'000
(Surplus)/Deficit on the Income & Expenditure Account for the year	146,724	458,996
Adjustments for Transaction with other Group Entities	0	0
Deficit on the Group Income & Expenditure Account Attributable to the Council	146,724	458,996
(Surplus)/Deficit Attributable to:		
Joint Ventures	(643)	(1,803)
Associates	(38)	(71)
Subsidiaries	(1,426)	(1,039)
<b>Deficit on the Group Income and Expenditure Account</b>	<b>144,617</b>	<b>456,083</b>

### Statement of Group Total Recognised Gains and Losses

	2006/07 £'000	2007/08 £'000
(Surplus)/Deficit on Income & Expenditure Account for the year	144,617	456,083
(Surplus)/Deficit arising on revaluation of fixed assets	(221,093)	(334,142)
Actuarial (Gains)/ Losses on pension fund assets and liabilities	(187,310)	297,197
(Surplus) on Collection Fund Attributable to City Council	(3,680)	2,666
Other General Fund movements	(9,528)	(1,818)
<b>Total Recognised (Gains) and Losses for the Year</b>	<b>(276,994)</b>	<b>419,986</b>
<b>Balance Sheet Movement</b>	<b>(276,994)</b>	<b>419,986</b>

## Group Accounts

### Group Balance Sheet

31.03.07 £'000		31.03.08	
		£'000	£'000
6,400,518	Fixed Assets		6,777,701
70,161	Long Term Debtors		31,385
	Long Term Investments:		
	Investment in Joint Ventures:		
7,242	Share of Gross Assets	15,259	
(6,600)	Share of Gross Liabilities	(12,145)	
642		3,114	
229,226	Other Investments	412,866	
229,868	Total Long Term Investments		415,981
<b>6,700,547</b>	<b>Total Long Term Assets</b>		<b>7,225,067</b>
531,216	Current Assets		600,100
(707,181)	Current Liabilities		(713,794)
<b>6,524,582</b>	<b>Total Assets Less Current Liabilities</b>		<b>7,111,373</b>
(2,934,523)	Long Term Liabilities		(3,941,300)
<b>3,590,059</b>	<b>Total Assets Less Liabilities</b>		<b>3,170,073</b>
3,306,498	Reserves		2,889,714
17,123	General Fund Balances		17,577
7,353	Other Balances		5,095
259,085	Minority Interests		257,687
<b>3,590,059</b>			<b>3,170,073</b>

## Group Accounts

### Group Cash Flow Statement

2006/07 £'m		2007/08 £'m	2007/08 £'m
(133.7)	<b><u>Net Cash (Inflow)/Outflow From Revenue Activities</u></b> (note 18)		(190.8)
	<b><u>Returns On Investments &amp; Servicing Of Finance</u></b>		
	<b>Cash Outflows:</b>		
119.0	Interest Paid	138.5	
	<b>Cash Inflows:</b>		
(39.3)	Interest Received	(38.9)	
<b>79.7</b>			<b>99.6</b>
(54.0)	<b><u>Capital Expenditure &amp; Financial Investment</u></b>		(91.2)
	<b>Cash Outflows:</b>		
295.9	Purchase of Fixed Assets	287.1	
0.5	Purchase of Long Term Investments	76.6	
111.3	Other Capital Cash Payments	297.1	
	<b>Cash Inflows:</b>		
(92.2)	Sale of Fixed Assets	(71.5)	
(8.0)	Capital Contributions Received	(1.7)	
(132.9)	Capital Grants Received	(139.2)	
<b>174.6</b>			<b>448.4</b>
<b>120.6</b>	<b>Net Cash (Inflow)/Outflow Before Financing</b>		<b>357.2</b>
	<b><u>Management Of Liquid Resources</u></b>		
	<b>Cash (Inflows)/Outflows</b>		
39.1	Net Increase/(Decrease) in Short Term Deposits		92.6
	<b><u>Financing</u></b>		
	<b>Cash Outflows:</b>		
289.6	Repayments Of Amounts Borrowed	187.6	
	<b>Cash Inflows:</b>		
(466.5)	New Loans Raised - Long Term	(616.7)	
<b>(176.9)</b>			<b>(429.1)</b>
<b>(17.2)</b>	<b>Net (Increase)/Decrease In Cash</b>		<b>20.7</b>

## Notes to the Supplementary Financial Statements

### 1. Housing Stock

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

	1 Bed	2 Bed	3 or More Bed	Total
Flats	16,019	11,674	4,694	32,387
Housing & Bungalows	3,797	8,758	20,865	33,420
<b>Housing Stock at 31.03.2008</b>	<b>19,816</b>	<b>20,432</b>	<b>33,559</b>	<b>65,807</b>

The changes in the property numbers is analysed below:

	2006/07	2007/08
Stock at 1 <sup>st</sup> April	68,247	66,870
Sales	(787)	(515)
Demolitions/Transfers	(590)	(548)
<b>Stock at 31<sup>st</sup> March</b>	<b>66,870</b>	<b>65,807</b>

The housing stock, land and other property within the HRA are valued in line with the DCLG Guidance on Stock Valuation for Resource Accounting, published in July 2005. 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:

	1 April 2007 £m	31 March 2008 £m
Council Dwellings	2,345	2,482
Other Land and Buildings	32	32
<b>Total Operational Assets</b>	<b>2,377</b>	<b>2,514</b>
Non Operational Assets	98	98
<b>Total</b>	<b>2,475</b>	<b>2,612</b>

## Notes to the Supplementary Financial Statements

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 to third parties such as shops.

### 2. Value of dwellings on vacant possession

- (a) The vacant possession value of dwellings within the authority's HRA (valued in accordance with the Guidance) as at 1 April 2007 is £4,912m.
- (b) The difference between the above figure and the £2,482m 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.

### 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 2007/08.

### 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 2007/08 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

	2006/07 £'000	2007/08 £'000
<b>Opening balance on the Major Repairs reserve on 1 April</b>	0	0
The Amount transferred to the Major Repairs Reserve during the year	38,810	40,274
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	(38,810)	(40,274)
<b>The balance on the Major Repairs Reserve on 31 March</b>	<b>0</b>	<b>0</b>

## Notes to the Supplementary Financial Statements

### 6. Housing Revenue Account Subsidy

This Subsidy includes two components namely, Housing Revenue Account Subsidy and the Major Repairs Allowance. The HRA Subsidy element is calculated using stock numbers, allowances for management/maintenance, capital financing costs and notional rental income. The MRA is based on property numbers and is paid (explained in Note 5) through the 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 2007/08 is:

	2006/07 £'000	2007/08 £'000
HRA Element	(31,220)	(38,924)
Major Repairs Allowance	38,810	40,274
<b>Total</b>	<b>7,590</b>	<b>1,350</b>

### 7. Capital Expenditure on HRA Assets

The total expenditure for HRA assets in 2007/08 was £107.9m. This was funded from the following sources:

	2006/07 £'000	2007/08 £'000
Supported Borrowing (Regional Housing Executive)	10,703	10,703
Prudential Borrowing	12,439	26,121
Useable Capital Receipts (Right to Buy/Land)	28,447	22,207
Major Repairs Reserve	38,810	40,274
Revenue Contributions	9,094	300
Other Resources	10,874	8,265
<b>Total</b>	<b>110,367</b>	<b>107,870</b>

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £38.6m (land £7.9m, houses £30.7m). The values for 2006/07 was £79.5m (land £32.3m and houses £47.2m). The government has introduced a capital receipts pooling framework and of these amounts £26.0 million was paid to Central Government (2006-07 £31.7 million).

## Notes to the Supplementary Financial Statements

### 8. Depreciation Charges

The total charge for depreciation for the land, houses and other property within the authority's HRA is £40,274m (£38.810m in 2006/07). 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.

	2006/07 £'000	2007/08 £'000
Dwellings	38,810	40,274
Other Land, Buildings and garages	0	0
<b>Operational Total</b>	<b>38,810</b>	<b>40,274</b>
Non Operational	0	0
<b>Total Depreciation</b>	<b>38,810</b>	<b>40,274</b>

### 9. Contribution from Pension Reserve

The Income and Expenditure Account includes pension costs calculated in accordance with FRS17 as described in detail in Note Six to the Core Financial Statements. To ensure that these costs do not affect the level of HRA balances and council house rents, an appropriation is made from the pensions reserve so that the movement in balances only reflects the actual employer's pension contribution.

### 10. Rent Arrears

Rent arrears from current tenants at 31 March 2008 totalled £12.9m (31 March 2007: £13.2m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £11.5m at 31 March 2008 (31 March 2007: £8.7m).

A provision for bad debts has been made to meet possible future write offs of rent and other services/leaseholder/benefit overpayments. The provision was £18.9m at 31 March 2008 (31 March 2007 £16.9m) and has been calculated based on value/aged analysis in accordance with government guidelines.

	2006/07 £'000	2007/08 £'000
Current Tenants	13,219	12,934
Housing Benefit Overpayment	5,630	6,836
Other Debt (Services/Leaseholders)	3,151	4,700
<b>Total</b>	<b>22,000</b>	<b>24,470</b>
<b>Provision for Debts</b>	<b>16,875</b>	<b>18,818</b>

## Notes to the Supplementary Financial Statements

### 11. Revenue Contribution to Capital

A revenue contribution to capital expenditure was made amounting to £0.3 million (£9.1m in 2006/07).

This is identified in Note 7.

### 12. Contribution from Council Taxpayers

The council's tax base at January 2007 (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	361	5/9	200
A	127,001	6/9	84,668
B	104,510	7/9	81,285
C	63,035	8/9	56,031
D	30,052	1	30,052
E	17,661	11/9	21,586
F	7,595	13/9	10,970
G	5,173	15/9	8,621
H	684	18/9	1,368
<b>Total</b>	<b>356,072</b>		<b>294,781</b>
Less: adjustment for collection rate			(5,896)
			<b>288,885</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. These discounts and exemptions are reimbursed by Central Government.

## Notes to the Supplementary Financial Statements

The figures for the New Frankley in Birmingham Parish are:

Band	No. of Properties	Ratio	Band D Equivalent Dwellings
AR	1	5/9	1
A	1,274	6/9	850
B	1,433	7/9	1,114
C	95	8/9	85
D	55	1	55
E	1	11/9	1
F	0	13/9	0
G	0	15/9	0
H	1	18/9	1
<b>Total</b>	<b>2,860</b>		<b>2,107</b>
Less: adjustment for collection rate			(42)
			<b>2,065</b>

### 13. 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 (44.4p for 2007/08 : 43.3p for 2006/07). The total non-domestic rateable value at 31 March 2008 was £942.0m (£948.0m at 31 March 2007). 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 2007/08 are analysed as follows:

2006/07 £'000		2007/08 £'000
456,361	a) Contribution to the NNDR pool: Non-Domestic Rates	471,213
(6,084)	Less: Transitional Relief Adjustments	(2,106)
(123,136)	Less: Allowances and Adjustments	(131,595)
<b>327,141</b>	<b>Net Contribution to NNDR pool</b>	<b>337,512</b>
320,315	Amount actually paid during the year	345,187
6,826	Payment to/ (refund due from) pool	(7,675)
<b>327,141</b>		<b>337,512</b>
	b) Redistribution from the NNDR pool:	
472,555	Net income to City Council	502,957

## Notes to the Supplementary Financial Statements

### 14. 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.

### 15. 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 2007/08, there was a net write on of £0.6m in respect of NNDR, which was a direct result of amounts previously written off being subsequently recovered, (£4.5m write off for 2006/07). £3.6m (£0.4m for 2006/07) was written off in respect of unpaid Council Tax. These write-offs represented 0.19% (1.37%) of NNDR due as at 1<sup>st</sup> April 2007 including amounts brought forward from earlier years and 0.93% (0.11%) of the amount of Council Tax due as at 1<sup>st</sup> April 2007 including amounts brought forward from earlier years.

### 16. Note to the 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 post tax profit of £2.07 million in the year ended 31<sup>st</sup> March 2008, (2007: £2.85m). 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 £3,711 million (2007: £2,668 million) to £3,941 million (2007: £ 2,896 million) and in fixed assets from £6,031 million (2007: £5,557 million) to £6,778 million (2007: £6,302 million). Additionally, the Council holds a 45% stake in NEC (Developments) Ltd, a 31.58% stake in Service Birmingham Ltd (a joint venture between the City Council and Capita Business Services Ltd) and a 25% stake in Birmingham Technology (Property) Ltd (BTP Ltd). BTP Ltd is a subsidiary of Birmingham Technology Ltd (BTL) and the City Council is currently negotiating changes to the structure and ownership of BTL. Please refer to Note 47 (Post Balance Sheet Events) in the Notes to Core Financial Statements. The group income and expenditure account shows the Council's share of the combined surplus in 2007/08 while the Group Balance Sheet includes the Council's share of the combined accumulated net assets. NEC (Developments) Ltd and BTP Ltd have been consolidated as associates and accounted for on an equity basis while Service Birmingham Ltd has been consolidated as a joint venture and accounted for on a gross equity basis.

The Council has also identified Birmingham Business Support Centre as a subsidiary and both Birmingham Venture Capital Ltd and Creative Advantage West Midlands as associates, but has chosen not to consolidate on the grounds of materiality.

## Notes to the Supplementary Financial Statements

Further details on the Council's relationship to the companies identified above may be found in Note 44 to the Core Financial Statements.

The accounts of the NEC Ltd Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, 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 Land and Building fixed assets of the NEC Ltd Group were restated at March 2007 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.

The accounting year-ends for Service Birmingham Ltd (December) and BTP Ltd (June) are different to the City Council and in accordance with FRS 2 limited interim financial statements have been provided for use in preparing the consolidated financial statements.

### **17. Note to the Group Balance Sheet**

At 31 March 2008 the amount owed by the Council to the NEC Group totalled £1.9 million (2007: £0.48 million) and amount owed by the NEC Group to the Council totalled £7.4 million (2007: £14.7 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 £7.4 million and a loan balance of £14,000.

## Notes to the Supplementary Financial Statements

### 18. Note to the Group Cash Flow Statement

Reconciliation of Group Income and Expenditure Account (Surplus)/Deficit to Revenue Activities Net Cash Flow.

2006/07 £'m		2007/08 £'m
	<b><u>Surplus/Deficit:</u></b>	
143.8	Deficit on Revenue Account	456.1
(4.2)	Surplus On Collection Fund	(1.6)
<b>139.6</b>		<b>454.5</b>
	<b><u>Add Back:</u></b>	
(11.8)	Provisions Set Aside	(14.4)
<b>127.8</b>		<b>440.1</b>
	<b><u>Items Included Under Other Classification:</u></b>	
(119.0)	Interest Paid	(138.5)
39.4	Interest Received	38.8
(45.2)	Capital Financing Costs	(47.8)
4.6	PFI Grant	5.2
(141.7)	Non Cash Item Adjustments	(433.3)
<b>(261.9)</b>		<b>(575.6)</b>
	<b><u>Items On Accruals Basis</u></b>	
(0.2)	Movement In Stock	(0.2)
37.5	Movement In Debtors	(25.6)
(36.9)	Movement In Creditors	(29.5)
<b>0.4</b>		<b>(55.3)</b>
<b>(133.7)</b>	<b>Cash (Inflow)/Outflow From Revenue Activities</b>	<b>(190.8)</b>

# Glossary

## **Accruals**

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

## **Balances**

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

## **Beacon Properties**

In valuing the Housing Stock the Council's properties are grouped into similar types and a sample from each type, known as beacon properties, are valued with the results being multiplied up to give a total value for each type.

## **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.

# Glossary

## **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.

## **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.

## **Existing Use Value (EUV)**

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

## **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.

# Glossary

## **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.

## **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.

## **Market Value**

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

## **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.

## Glossary

### **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.

### **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

## **Glossary**

### **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.

# Independent Auditors Report