



# ACCOUNTS 2002/2003



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## FOREWORD

### INTRODUCTION

These accounts set out the financial results of Council activities for the year ended 31st March 2003. The City Council manages its affairs to ensure the economic, efficient and effective use of resources and to safeguard its assets. This is vital if the Council is to continue to play a leading role in the life of the City and provide high quality services for the benefit of all its citizens. This task is shared by all Members and Officers of the Council under the leadership of Cabinet and Chief Executive. The Strategic Director of Resources has a particular role in ensuring financial stewardship.

This statement of accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain which requires that the accounts present fairly the financial position of the City Council. Suitable accounting policies have been employed and applied consistently. Where necessary, prudent judgements and estimates were made which complied with the Code. The Council keeps proper and up to date accounting records and takes reasonable steps for the prevention and detection of fraud and other irregularities.

The purpose of this foreword is to provide the reader with:

- an understanding of the accounting statements
- a review of the authority's financial performance in 2002/2003
- an explanation of the authority's financial position
- an overview of the City Council's priorities for the future
- an overview of the City Council's corporate governance arrangements.

### THE ACCOUNTING STATEMENTS

The main statements within the accounts and their purposes are:

- **Consolidated Revenue Account** – this account gives details of the cost of services which the City Council provides and shows how the net cost (after departmental income and movements to and from reserves) has been financed from general government grant (Revenue Support Grant) and local taxpayers.
- **Housing Revenue Account** – this account reflects the statutory obligation to 'ring-fence' and show separately the financial transactions relating to the provision of Council housing.
- **Collection Fund** – is maintained separately, as a statutory requirement, to show the transactions of the Council as billing authority in relation to non-domestic rates and council tax. It illustrates the way in which the income has been distributed to precepting authorities.
- **Consolidated Balance Sheet** – summarises the financial position of the City Council including the Housing Revenue Account and the Collection Fund. It provides a statement of the assets and liabilities at the end of the financial year (31st March 2003).
- **Statement of Movements in Reserves** – summarises the movements in the City Council's revenue and capital reserves.
- **Cash Flow Statement** – summarises the total cash movements during the year for revenue and capital purposes.
- **Group Accounts** – these statements consolidate the City Council's accounts with those of NEC Ltd.

*A glossary is provided in section 13 to assist the reader.*



## A REVIEW OF THE CITY COUNCIL'S FINANCIAL PERFORMANCE IN 2002/2003

During 2002/2003 the Audit Commission rated all authorities in the country through a Comprehensive Performance Assessment. As part of this the City Council's Use of Resources was scored 3 out of a possible maximum of 4. This process was complemented by a peer review undertaken by the IDeA and the outcomes of these processes have helped to inform the City Council's performance improvement agenda which is fully set out in the Performance Plan.

### Revenue Expenditure

The City Council continued to face financial pressure during 2002/03. The original budget included a number of areas where savings had to be made and anticipated the use of £7.0m of balances. Strict financial management during the year has meant that the City Council has only had to use balances of £2.4m. The following table compares spending with the budget:

	Original Estimate 2002/03 £m	Actual Net 2002/03 £m	Variation £m
Net cost of City Council services	1,174.6	1,176.7	2.1
Funded by government grants and local taxpayers	(1,167.6)	(1,174.3)	(6.7)
To be met from balances	(7.0)	2.4	(4.6)

### General Fund Reserves and Balances

Balances at the end of 2002/03 stand at £17.1m. Of this £5.8m is a minimum working balance, £10.0m is available to the Portfolios and Committees to support future spending and £1.3m is committed to specific items in 2003/04. In addition the City Council's Revenue Budget for 2003/2004 assumes that £1.7m will be transferred to Balances.

### Housing Revenue Account (HRA)

The net deficit for 2002/03 was £0.4 million which will be added to the surplus of £7.1 million brought forward to make a carry forward surplus of £6.7 million.

### Capital Expenditure

Total expenditure on capital schemes in 2002/03 was £217.8m (2001/02 £197.3m), including spending on operational leasing and deferred charges. This compared to the latest capital budget, of £249.2 million. This budget includes operational leasing and deferred charges. Deferred charges arise when expenditure of a capital nature is incurred on assets not owned by the City and which cannot therefore be added to the City's Asset Register and Balance Sheet. Examples of such expenditure are grants made by Housing to owner-occupiers of private houses to carry out improvements to their own properties. For accounting purposes, this expenditure is transferred to service revenue accounts together with any grant income received to fund the expenditure. The City Council finances capital expenditure on a payments basis. However, the authority also needs to account for capital expenditure on an accruals basis, showing the amounts owing to contractors etc, for incorporation into the Council's asset register and balance sheet. The movement in accruals for 2002/03 was £3.4m. making total expenditure of £221.2m.



## FINANCIAL SUMMARY 2002/2003

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 through the year and reported on a monthly basis to Cabinet. The end of year spending position was reported to Cabinet on 23rd June 2003 and this is summarised in the table below.

	Net Revenue Spending £'000	Capital Spending £'000
<b>Portfolios</b>		
Leaders	78,470	1,189
Deputy leaders	36,837	17,766
Education & Lifelong Learning	643,040	32,434
Equalities & Human Resources	4,183	1,122
Housing General Fund	27,742	23,674
Housing Revenue Account (note)	0	55,599
Leisure, Sport & Culture	82,000	13,543
Local Services & Community Safety	13,245	4,303
Regeneration	20,756	10,780
Social Services & Health	247,429	5,638
Transportation, Street Services & Sustainability	122,032	51,559
Council Business Management Committee	6,220	0
<b>Regulatory Committees</b>		
Development Control Committee	2,716	0
Licensing Committee	120	0
Public Protection	11,960	200
Interest and capital financing adjustments	-120,066	0
Net Expenditure	1,176,684	217,807

Notes:

1. the Housing Revenue Account is funded by Rents and Government Subsidy. Gross expenditure for 2002/2003 was £382.921m.
2. the net revenue expenditure shown above differs from the Amounts to be met from Government Grants and Local Taxation shown in the Consolidated Revenue Account on page 18 by £44,000 which is the precept amount for Frankley in Birmingham Parish Council.



## REVENUE SPENDING

The graphs below show the sources of revenue funding for the City Council for 2002/2003 and where the money was spent by major service area. This shows gross spending whereas the table on the previous page shows net expenditure funded by Revenue Support Grant, National Non-Domestic Rates and Council Tax.

Where the Money Came From		£m			%
Revenue Support Grant		614.8	Revenue Support Grant		26
Specific Government Grants		450.3	Specific Government Grants		19
Sales & Charges		280.0	Sales & Charges		11
Business Rates		300.1	Business Rates		12
Council Tax		259.5	Council Tax		11
Council House Rents		193.6	Council House Rents		8
Housing Subsidy		159.1	Housing Subsidy		7
Other*		146.7	Other		6
<b>Total</b>		<b>2,404.1</b>			<b>100</b>

Where the Money was Spent		£m			%
Education Services		844.3	Education Services		35
Housing		577.1	Housing		24
Social Services		363.7	Social Services		15
Cultural Environmental & Other Services		357.5	Cultural Environmental & Other Services		15
Highways and Transportation		150.1	Highways and Transportation		6
		111.5			5
<b>Total</b>		<b>2,404.1</b>			<b>100</b>

## CAPITAL SPENDING

The graphs below summarise the City Council's Capital Expenditure showing where the money was spent, by major service areas.

Where the Money Came From	2002/03			%
Source	£m			
Capital Grants	88.7	Capital Grants		40
Borrowing Approvals	88.1	Borrowing Approvals		40
Capital Receipts	20.4	Contributions		9
Contributions (inc. operational leasing)	20.4	Capital Receipts		9
Revenue	3.6	Revenue		2
<b>Total</b>	<b>221.2</b>			<b>100</b>

Where the Money was Spent	2002/03			%
Source	£m			
Housing	83.0	Housing		38
Other Services	51.0	Other Services		23
Transport	48.2	Transport		22
Education	33.8	Education		15
Social Services	5.2	Social Services		2
<b>Total</b>	<b>221.2</b>			<b>100</b>



## **PRIORITIES FOR THE FUTURE**

*The Cabinet and Corporate Plan 2003/2004 sets out the City Council's priorities which are :*

- To develop Birmingham as a city of flourishing neighbourhoods and
- To improve council services.

To help achieve these twin objectives the City Council will be introducing major changes to localise service delivery and decision-making and to offer local communities further involvement in the decisions affecting their neighbourhoods.

The City Council's three-year financial plan outlines how policy will lead budget planning, and how spending pressures and investment in service improvement will be funded. Improvement often means making better use of existing resources, but will sometimes also require redirecting resources into different areas. The budget for 2003/04 included some significant shifts in resources to support the delivery of priority areas, such as:

- Developing intensive preventative services for children and families
- Reducing delays in transfers from hospital
- Improving waste collection and disposal
- Improving roads and footpaths

More detail on this year's budget can be found in the Budget Book 2003/04 ([www.birmingham.gov.uk](http://www.birmingham.gov.uk))

## **CORPORATE GOVERNANCE**

The Council approved and adopted a local code of corporate governance on 22nd July 2002. The code is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. A copy of the code is on our website at [www.birmingham.gov.uk](http://www.birmingham.gov.uk).

The Code recognises that 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. Members and senior officers are responsible for putting into place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal.

The Chief Executive has been given responsibility for overseeing the implementation and monitoring and reviewing the code.

As part of the work to develop and improve its Corporate Governance framework the Council during 2002/2003

- reviewed its risk management strategy
- further developed the constitution (a revised version was published early in 2003/4)
- made progress in embedding risk management into the Council, including regular reports to Cabinet.

The City Council will, over the coming year, continue to develop its corporate governance arrangements. In particular our priorities will include the changes in corporate governance as the localisation and devolution agenda evolves, officer assurance statements and the wider availability of corporate governance documents through the Intranet and Internet. We will also continue the process of embedding risk management into our service planning processes throughout the Council.



## 2. 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 Chief Financial Officer's Responsibilities**

The City Council's chief financial officer is the Strategic Director of Resources. She is responsible for the preparation of the City Council's Statement of Accounts. In preparing the statement, she has:

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

### **The Chief Financial Officer has also:**

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

### **Certification of Accounts**

I certify that the Statement of Accounts presents fairly the position of Birmingham City Council at 31st March 2003 and its income and expenditure for the year ended 31st March 2003.

Sarah Wood  
Strategic Director of Resources

I confirm that these accounts were approved by the Council Business Management Committee on 6th August 2003. Signed on behalf of Birmingham City Council:

Chair of meeting approving the accounts:

Cllr Albert Bore  
Leader of the Council.





### 3. STATEMENT OF INTERNAL FINANCIAL CONTROL

As part of the City Council's arrangements for Corporate Governance, the Strategic Director of Resources is responsible for ensuring that an effective system of internal financial control is maintained and operated. The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

Birmingham City Council's system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures, management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. In particular, the system includes:

- A clear process to determine and approve the City Council's budget and allocate responsibility for this between departmental managers within Portfolios and Committees.
- Monthly reports to Cabinet on revenue expenditure against budget
- Quarterly reports to Cabinet on capital expenditure against budget
- Regular budgetary reports to Portfolio holders and Committees
- A framework of Financial Regulations, Delegations and supporting Procedures setting out arrangements for the authorisation and administration of expenditure, income and other financial systems.

The system of internal financial control is subject to internal audit. The internal audit service is provided in-house by Birmingham Audit. Birmingham Audit operates in accordance with professional standards and the requirements of the CIPFA Code of Practice for Internal Audit in Local Government, and reports independently to the Strategic Director of Finance.

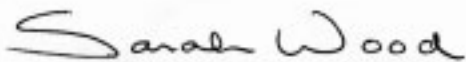
Birmingham Audit work to a strategic risk based audit plan and from the delivery of this plan the Head of Birmingham Audit provides an independent assurance on the adequacy and effectiveness of the systems of internal financial control. For 2002/03 this assurance was contained within a report on the division's activity during the year which was received by Cabinet on 16th June 2003. Based on the delivery of the audit plan, the Head of Birmingham Audit provided a reasonable assurance that the systems could be relied upon to prevent material error, fraud or misappropriation occurring without detection.

The Audit Commission act as the City Council's appointed external auditors and review the systems of internal financial control as well as undertaking final accounts opinion work. In a report to Members on 6th August about this routine work they noted some concerns about the creditors system, one area of budgetary control and the final accounts working papers.



The City Council introduced a new purchase order and payments system during 2002/2003 and centralised the administration of creditors. These changes are now well established and the areas raised are being addressed as part of the change management process. The budgetary control issue is being met by changing working practices and the final accounts working paper preparation will be reviewed for the 2003/2004 close-down.

In preparing this Statement of Accounts I have reviewed the effectiveness of the system of internal financial control set out in this statement. The review has been informed by the work of internal audit and reports issued by the Audit Commission. This review has not identified any significant weaknesses in the system of internal financial control.



Sarah Wood  
Strategic Director of Resources



## 4. ACCOUNTING POLICIES

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 2002. The code has been approved as a Statement of Recommended Practice (SORP). During the year the Council adopted Financial Reporting Standard 18 (Accounting Policies). This introduced the concepts of relevance, reliability comparability and understandability but did not entail any changes in the Council's accounting policies.

The following policies have been adopted in compiling the accounts:

### FIXED ASSETS

#### a) Asset Categories

Fixed assets are categorised as follows:

Type	Examples
Operational	Council dwellings, other land and buildings, vehicles and equipment
Non operational	Investment property, surplus property
Infrastructure	Highways
Community Assets	Parks, museum exhibits

#### b) Recognition of Fixed Assets

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

#### c) Valuation Bases

Operational assets are included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use (Existing use value-EUV).

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

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

Community Assets are assets which are not used for service provision and, in many cases, may not be sold or otherwise disposed of. Additionally there may be restrictive covenants regarding their use. Examples include parks, historic buildings and museum exhibits. These assets were valued at a nominal £1 at April 1st 1994. Expenditure incurred after that date was added to the valuation. As this led to inconsistencies of valuation between assets, all assets on which expenditure had been incurred have been restated at a nominal value of £1.



**d) Revaluation Cycle**

When an asset is included in the balance sheet at Open Market Value (OMV) or Existing Use Value (EUV), it is formally revalued at intervals of not more than five years, and the revised amount included in the balance sheet. The difference between the value and the amount at which that asset was included in the balance sheet immediately prior to the latest valuation is credited or debited to a Fixed Asset Restatement Reserve. 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 2000/01 to meet the Government’s requirements for Housing Resource Accounting.

**e) Disposals**

Income from the disposal of fixed assets is credited to the Usable Capital Receipts Reserve, and accounted for on an accruals basis. The proportion reserved for the repayment of external loans is credited to a Capital Financing Reserve. Upon disposal, the net book value of the asset disposed of is written off against the Fixed Asset Restatement Reserve.

**f) Depreciation**

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

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

*Vehicles, plant, furniture, and equipment* – depreciation is applied on a straight-line basis over the useful life of the asset.

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

<b>Type of expenditure</b>	<b>Depreciation period</b>
Expenditure incurred prior to 1/4/1994	25 years
Major schemes expenditure incurred after 1/4/1994	40 years
Street furniture acquired after 1/4/1994	10 years
Other expenditure incurred after 1/4/1994	20 years
(1994 was the year when current capital accounting arrangement first became effective)	

*Community Assets* – community assets are not depreciated.

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

**g) Charges to Revenue**

Service revenue accounts, including the Housing Revenue Account, are debited with asset charges equivalent to depreciation plus a notional interest charge of 6% of the asset value. This percentage is determined by the Local Authority Accounting Panel of the Chartered Institute of Public Finance and Accountancy and subject to regular review. A corresponding credit is made to the Asset Management Revenue Account, which ensures that asset charges do not affect the amount to be met from government grants and local taxation.



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

In accordance with FRS 11 (Impairment of Fixed Assets), a review was carried out as at 31/03/2003 to identify any land and/or buildings whose current values had fallen below the carrying amount (the balance sheet value) for example, as result of obsolescence or physical damage. Assets so identified are considered to be impaired. The values of any assets found to be "impaired" were adjusted appropriately.

#### **i) Housing Stock Revaluation**

The entire housing portfolio was revalued in 2000/2001 to meet the Government's guidance on Housing Resource Accounting. The basis used was Existing Use Valuation (Social Housing). In accordance with the guidance, a sample of properties was chosen to be representative of each type of property and were valued as "beacons". The full valuation was obtained by extrapolating these beacon values across the whole housing stock. These beacon values will be reviewed to reflect movements in property market values: this took place in 2002/3 and will take place annually thereafter, again in line with the guidance. High rise flats and defective dwellings continued to be valued using a Discounted Cash Flow method, in the absence of appropriate market evidence.

### **PRIVATE FINANCE INITIATIVE (PFI)**

The City Council follows FRS5 (Reporting the Substance of Transactions). Where the balance of risks and rewards of ownership of the PFI property 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 to which they relate was provided. Availability payments are split between interest and principal elements. Over the term of the lease the interest is charged to the Consolidated Revenue Account and the liability to pay for the PFI property is written down by the principal element.

The particular application of this policy is further explained in Note 27 to the Consolidated Balance Sheet.

### **INCOME AND EXPENDITURE**

#### **a) Accruals**

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

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

#### **b) 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).



## GOVERNMENT GRANTS

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

## INVESTMENTS

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

## LEASES

### a) Finance leases

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

### b) Operating leases

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

## PENSION SCHEMES

The City Council participates in two pension schemes, one for teachers and one for all other employees. Both schemes provide members with defined benefits relating 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 benefits scheme administered by Capita Teachers' Pensions on behalf of the Department for Education and Skills. The employers' rate is set nationally by that department. For further information on this scheme visit the website at [www.teacherspensions.co.uk](http://www.teacherspensions.co.uk)

### 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 2001. At this time the fund's assets were valued at 95.5% of the value of the liabilities.



Financial Reporting Standard 17 requires the recognition of the council's share of the fund's assets and liabilities in its accounts, as well as requiring recognition in the Council's revenue account of the full costs of providing for future retirement benefits. This standard will be implemented in full by the Council with effect from the 2003-04 financial year. Government regulations require a Pensions Reserve to be set up in 2003-04 from which appropriations will be made so that the additional costs of providing for retirement benefits in accordance with FRS17 do not impact on levels of local taxation.

Disclosure note 3 to the Consolidated Revenue Account provides details of contributions made in respect of both pension schemes, as well as the additional disclosures required to be made in 2002-03 in respect of the Local Government Pension Scheme.

### **PROVISIONS**

Provisions are made for any known quantifiable liabilities arising from past events in accordance with Financial Reporting Standard 12. Provisions are created by debiting the relevant service revenue accounts. When expenditure is incurred to which the provision relates, it is charged direct to the provision. Provision is made for doubtful debts, and known uncollectable debts are written off. This provision is not included in the provisions figure on the balance sheet but is offset against the debtors figure.

### **RESERVES**

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

Details of reserves held at 31st March 2003 are shown in the notes supporting the Balance Sheet and the Statement of Total Movements in Reserves.

### **STOCK AND LONG TERM CONTRACTS**

Stocks are included in the balance sheet at either historic or replacement cost. 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.

### **VALUE ADDED TAX**

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

### **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.



### **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.

### **REDEMPTION OF DEBT**

The City Council is required to set aside from revenue each year, a minimum amount for the redemption of debt. The Revenue Account is charged with the minimum revenue provision (MRP) which represents 4% of outstanding loans on General Fund assets and 2% on Housing Revenue Account assets. These amounts are not charges to service revenue accounts which receive an asset charge consisting of notional interest and depreciation as described in notes (f) and (g) on Fixed assets above. The difference between MRP and depreciation is appropriated to or from the CFR so that depreciation does not impact on the City council's net revenue expenditure.

### **INTEREST CHARGES**

Interest on loans is charged to the asset management revenue account based on the amount which is due and payable within the financial year.

### **GROUP ACCOUNTS**

The City Council has material interests in a number of subsidiary and associated companies. In accordance with FRS 2 (Accounting for Subsidiary Undertakings) consolidated financial statements have been prepared as an annex to the main accounts.

### **BEST VALUE ACCOUNTING CODE OF PRACTICE (BVACOP)**

In 2000 the Chartered Institute of Public Finance and Accountancy published their Best Value Accounting Code of Practice (BVACOP). Substantial revisions to this Code were published in March 2001 and March 2002. BVACOP sets out "proper practice" with regard to consistent financial reporting below the level shown in this statement of accounts. The Code covers a definition of Total Cost and a revised Service Expenditure Analysis. The Total Cost part of the code also covers the treatment of partnerships, trading accounts, Corporate and Democratic Core and other overheads. The Consolidated Revenue Account and note 1 on trading activities have been prepared in accordance with BVACOP.

### **CONTINGENT LIABILITIES**

Material contingent liabilities are not recognised in the accounts but are disclosed in notes to the financial statements.

### **REPURCHASE OF BORROWING**

Premiums or discounts arising from the premature redemption of loan debt are taken to the balance sheet and written off to the revenue account on a straight line basis over the outstanding term of the loan redeemed.



## 5. CONSOLIDATED REVENUE ACCOUNT

Year Ending 31st March 2003

2001-02 Net Expenditure £'000		Expenditure £'000	2002-03 Income £'000	Net Expenditure £'000
14,928	Central Services to the Public	98,788	-83,297	15,491
3,992	Court & Probation Services	24,020	-19,347	4,673
186,488	Cultural, Environmental & Planning Services	357,469	-166,168	191,301
628,566	Education Services	844,304	-198,038	646,266
99,873	*Highways, Roads & Transport	111,471	-18,653	92,818
73,509	Housing Services	576,977	-505,224	71,753
244,712	Social Services	363,663	-116,530	247,133
16,779	Corporate & Democratic Core	17,326	-101	17,225
11,733	Unapportionable Central Overheads	10,090	0	10,090
1,280,580	Cost of Services	2,404,108	-1,107,358	1,296,750
28	Parish Precept			44
-760	Surpluses/Deficits on Trading Undertakings			-210
16,423	*Levies			16,000
-97,427	Surplus on Asset Management Revenue Account			-108,180
<u>-8,025</u>	Interest and investment income			<u>-9,527</u>
1,190,819	Net Operating Expenditure			1,194,877
	Appropriations			
2,300	Contributions to/(from) HRA Balances			-383
3,504	Contributions to/(from) Earmarked Reserves			-1,624
-5,116	- Schools Balances			18,694
-38,662	- Other Reserves			-34,880
<u>1,152,845</u>	Appropriation to/(from) Capital Financing Reserve			<u>1,176,684</u>
	Amounts to be met from Governmental Grants and Local Taxation			
	Sources of Finance			
-626,859	Revenue Support Grant (inclusive of PFI grant - see note below**)			-614,771
-275,393	Non domestic rates redistribution			-300,121
-248,154	Council Tax			-259,388
<u>0</u>	Transfer in respect of Collection Fund surpluses			<u>-60</u>
<u>2,439</u>	(Surplus) Deficit for Year			<u>2,344</u>
-21,859	General Balance Brought Forward			-19,420
<u>2,439</u>	(Surplus)/Deficit for Year			<u>2,344</u>
<u>-19,420</u>	General Balance Carried Forward			<u>-17,076</u>

\* Transport Levies were included as Highways Roads and Transport for 2001-02

\*\* RSG includes payments of PFI grant amounting £6.023 million in 2001-02 and £6.756 million in 2002-03

## 6. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### EXPLANATORY NOTES

#### 1. Trading Services

Income and Expenditure on the Major Trading Activities is set out below:

2001-2002 Profit (Loss) £'000		Turnover £'000	2002-2003 Expenditure £'000	Profit (Loss) £'000
-180	Highways and Sewers	9,506	9,588	-82
854	Property Services	60,509	60,569	-60
201	Legal Services	6,714	6,609	105
-352	Markets	5,794	5,578	216
21	Non-Schools Cleaning	3,168	3,199	-31
26	Catering	1,712	1,686	26
-106	Street Lighting	6,067	6,226	-159
190	Transport Consultancy	2,253	2,171	82
27	Vehicle Maintenance	4,488	4,473	15
-393	Education Catering	24,552	25,304	-752
302	Education Staff Agency	9,890	9,434	456
615	Trade Refuse	5,246	4,967	279
346	Urban Design	15,879	15,327	552
68	Grounds Maintenance	5,171	5,072	99
-71	Education Cleaning	6,991	6,987	4
-788	Other Trading Activities	8,114	8,654	-540
760		176,054	175,844	210

#### 2. Minimum Revenue Provision

The Local Government and Housing Act 1989 requires the City Council to charge to the revenue account a provision for the redemption of debt calculated as follows:

2001-02 £m		2002-03 £m
21.2	Non-housing amount - 4% of credit ceiling	22.3
13.5	Housing amount - 2% of credit ceiling	13.1
34.7	Minimum Revenue Provision	35.4

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

### 3. Transactions in the Asset Management Revenue Account

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

**The transactions on the Asset Management Revenue Account in 2002-03 are summarised below:**

2001-02 £m			2002-03 £m	
		<b>Income</b>		
	(291.3)	Capital charges	(301.4)	
	(0.2)	Government grants - magistrates court	(0.2)	
	(3.1)	Deferred Grant write down	(4.7)	
(294.6)				(306.3)
		<b>Expenditure</b>		
	90.8	Provision for depreciation	95.3	
	0.7	Discounts on premature repayment of debt	1.0	
	105.7	External interest charges	101.8	
<u>197.2</u>				<u>198.1</u>
(97.4)		Balance to Consolidated Revenue Account		(108.2)

### 4. Income relating to prior years

Central Services income includes £2.7m in respect of prior years, of which £2.4m relates to the prior year effect of NNDR revaluations (£0.1m on schools and £2.3m on other properties).

### 5. Council Tax

Further details of this source of income are covered in the Collection Fund Statement and notes in Section 8.

## DISCLOSURE NOTES

### 1. Publicity Expenditure

The Council is required by Section 5(1) of the Local Government Act 1986 to provide details of its spending on Publicity. During 2002/2003 £9.9m was spent including £0.7m in respect of the National Exhibition Centre (2001/2002 £0.4m).

2001-02 £m			2002-03 £m	
2.3		Recruitment Advertising	1.9	
0.6		Other Advertising	1.0	
5.2		Promotions & other Publicity	7.0	
8.1		Total	9.9	

## 2. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended by the Local Government and Housing Act 1989 and The Local Government Act 2000 permits the Council to spend up to £3.80 per annum for each resident on grants and donations to voluntary and not for profit organisations. Total expenditure incurred in 2002-03 was £0.6 million against a limit of £3.8 million.

## 3. Pensions

i. Employees of the City Council, other than teachers, may be members of the Local Government Pension Scheme which is a funded defined benefits scheme. The appropriate Fund is the West Midlands Pension Fund which is administered by Wolverhampton City Council. The Fund is subject to an actuarial valuation every three years, the last one being 31 March 2001.

ii. Actuarial Assumptions

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) –

Balance Sheet Items as at 31st March 2003	£m
Market Value of Assets	1,271.7
Liabilities	1,951.3
Surplus/(Deficit)	(679.6)

Financial assumptions were made as follows:

Financial Assumptions	31.03.2002	31.03.2003
Rate of inflation	2.50%	2.50%
Rate of increase in salaries	4.00%	4.00%
Rate of increase in pensions	2.50%	2.50%
Discount Rate	6.00%	6.00%

Expected Rate Of Return on Assets	31.03.2002	31.03.2003
-Equities	8.00%	7.50%
-Government Bodies	6.00%	4.50%
-Other Bonds	6.00%	5.40%
-Property	6.50%	6.50%
-Other	6.50%	3.75%

Split of Assets Between Investment Categories	31.03.2002	31.03.2003
-Equities	83.70%	75.20%
-Bonds	7.40%	14.10%
-Other	8.90%	10.70%

For the financial year ending 31st March 2003, the following additional disclosures are required:

Movement In Deficit During 2002-03		£'000
Deficit at Beginning of Year		-169,900
Current Service Service Cost		-53,740
Employer Contributions		56,580
Past Service/Curtailment Cost		-1,887
Net Interest/Return on Assets		18,565
Actuarial Loss		-529,240
Deficit at End of Year		-679,622

The following costs would have been charged to the City Council's revenue account had full compliance with FRS17 been required in 2002-03.

Operating		
Current Service Cost		53,740
Past Service Cost		1,593
Curtailment Cost		294
Total Cost		55,627
Finance		
Expected Return on Assets		128,787
Interest on Pension Liabilities		-110,222
Net Gain (Cost)		18,565

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

Statements Of Actuarial Gains And Losses	£'000	
Asset Gain (Loss)	-529,240	(41.6% of Assets)
Liability Gain (Loss)	0	(0% of Liabilities)
Change In Assumptions	0	(0% of Liabilities)
Net Gain (Loss)	-529,240	(27.1% of Liabilities)

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

	Assets at March 31st 2002		Assets at 31 March 2003	
	£000's	%	£000's	%
Equities	1,393,605	83.70	956,285	75.20
Government Bonds	118,215	7.10	125,894	9.90
Other Bonds	4,995	0.30	53,410	4.20
Property	103,230	6.20	104,276	8.20
Other	44,955	2.70	31,790	2.50
Total	1,665,000		1,271,655	

## NOTES:

- iii. The City Council's employer's contribution for the year 2002/2003 was £50,575,974 representing 12.5% of members' aggregated pensionable pay.
- iv. The cost of awarding discretionary additional benefits and their associated inflation proofing is borne separately by the City Council. Expenditure in 2002/2003 was £5,068,932 (representing 1.25% of members' aggregated pensionable pay). This amount is made up of £4,783,111 in respect of ongoing added years pension payments and associated pensions increase charges and £285,821 in respect of one off added years lump sum payments. The corresponding figure for 2001-02 was £5,183,593.
- v. The cost of awarding discretionary additional benefits relating to the year 2002/2003 would be £2,191,301 if capitalised over 20 years. The cost of awarding discretionary additional benefits in earlier years for which payments are still being made capitalised over 18 years is £82,903,875.
- vi. In the latest Actuarial Valuation as at 31 March 2001 95.5% of past service liabilities were funded. An employer's contribution rate has been set for the City Council of 12.50% for the three years from 1 April 2002 to 31 March 2005. The employer's rate includes an assumption regarding the number of potential early retirements over that three-year period. If the actual level of early retirements exceeds those provided for in the Valuation, it may be necessary to review the employer's contribution rate, or otherwise make a lump sum contribution to the Pension Fund. For the years 2000/2001, 2001/2002, 2002/2003 the City Council has managed its early retirements within the Actuarial guidelines.
- vii For Teachers, the City Council paid an employer's contribution of £24.5m (8.35% of pensionable pay) in 2002/2003 to the Teachers' Pension Scheme. The teachers' pension scheme is administered by the Teachers Pensions Agency and is not the direct responsibility of the City Council. In addition, £5.6m was paid to retired teachers in respect of added years benefits and, in certain cases, the employer share of teacher pension benefits. These figures include pension increases, where appropriate.

## 4. Leasing

During 2002-2003, the City Council paid £0.1m in finance lease rentals and £8.7m in operating lease rentals.

As at 31 March 2003, the City Council has a commitment to meet the following rental charges on both finance and operating leases:

	Finance leases £m	Operating leases £m
2003-04	0.1	5.5
2004-05	0.0	4.3
2005 to 2010	0.0	7.3
Total	0.1	17.1



## 5. Officers Emoluments and Members Allowances

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

No. of Employees 2001-02	Remuneration Band	No. of Employees 2002-03
135	£50,000 - £59,999	156
55	£60,000 - £69,999	71
9	£70,000 - £79,999	21
4	£80,000 - £89,999	4
5	£90,000 - £99,999	3
2	£100,000 - £109,999	1
2	£110,000 - £119,999	1
0	£120,000 - £129,999	1
1	£140,000 - £149,999	0

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 2002-03 totalled £2.3m (2001-2002 £1.7m)

## 6. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 6. Related Party Transactions

During the financial year 2002-03 there were no material transactions between the City Council and its Chief Officers, other than the payment of salaries. Details of these are disclosed in Note 5 above.

During 2002-03 works and services to the value of £0.09 million were commissioned from a company in which a Member had an interest. Contracts were entered into in compliance with City Council Standing Orders.

The City Council received a number of general and specific grants from central government totalling £1,245.4 million. Precepts were paid to the West Midlands Police Authority, the West Midlands Fire & Civil Defence Authority and Frankley in Birmingham Parish Council amounting to £26.5 million. Payments to other local authorities and health authorities, excluding precepts, totalled £6.3 million. Receipts from other local authorities totalled £2.5 million. In addition, payments of Employers' Pension Contributions were made to Wolverhampton M.B.C. in respect of members of the Local Government Pension Scheme, and to the Teachers' Pensions Agency in respect of teachers. The amounts of these are detailed in disclosure note 3 above. The City Council also has interests in a number of companies, as detailed in the notes to the Balance Sheet. The following transactions are considered material.

	£m
Optima Community Association	2.9
Groundwork Birmingham	1.3
NEC Finance plc	0.9
NEC Development plc	0.9
Birmingham Repertory Theatre	0.9
Witton Lodge Community Association	0.5
Academy of Youth Ltd	0.3

Groundwork Birmingham is a public body on which the Council is represented by elected members.

### 7. Building Control Account

The Local Authority Building Control regulations 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.



### Building Control Trading Account

Outturn 2001-02		Outturn 2002-03		
Total £000		Total Chargeable Activities £000	Total Non Chargeable Activities £000	Total £000
2,703	Expenditure	2,466	466	2,932
-2,371	Income	-2,390	-55	-2,445
332	Net (surplus)/deficit	76	411	487
12	Appropriation from reserve	-76	0	-76
344	Net (surplus)/deficit After appropriation	0	411	411

### 8. Pooled Funding

The Council established a partnership agreement with the Birmingham and Black Country Strategic Health Authority using powers under section 31 of the Health Act 1999 to pool funds from the two organisations and create a single budget. The Performance Improvement Plan dated September 2001 identified two separate elements of spend to improve the delayed hospital discharges situation and established the principle of a pooled budget to fund them. An immediate placement of 42 individuals into residential or nursing homes was the first element and the pooled budget was to provide an average of 18 months funding. The second element involved the provision of 215 packages of "tapering" home support. Although this proposal met with initial market interest the level of assessed demand did not meet original expectations and the project was not initiated.

	Cash contribution £
<b>Initial Funding</b>	
Birmingham & Black Country Strategic Health Authority	400,000
Birmingham City Council	400,000
<b>Total Funding</b>	<b>800,000</b>
<b>Balance Brought Forward</b>	<b>586,002</b>
Expenditure 2002-03	332,208
<b>Net underspend/carried forward</b>	<b>253,794</b>

The Strategic Health Authority and Birmingham Social Services are discussing proposals for the re-utilisation of the remaining pooled budget funds.

## 7. HOUSING REVENUE ACCOUNT (HRA)

2001-02 £'000		2002-03 £'000
	Management & Maintenance:	
60,135	Repairs Expenditure	61,626
1,704	Leasing	1,904
42,187	Housing General Management Expenditure	39,147
14,746	Expenses attributable to Estate Services	15,311
<u>118,772</u>	Total Management & Maintenance	<u>117,988</u>
4,063	Rents, Rates, Taxes and Other Charges	5,799
132,272	Rent Rebates	131,281
4,402	Provision for Bad and Doubtful Debts	4,078
82,860	Cost of Capital/Impairment/Deferred Charges	82,025
42,626	Depreciation (dwellings)	41,552
192	Debt Management Expenses	198
<u>385,187</u>	Total Expenditure	<u>382,921</u>
	Rental Income:	
197,976	Gross Debit - Dwellings	194,960
-5,414	Less Voids	-5,701
1,758	Shop Rents	1,638
3,335	Land & VP's	3,548
-803	Less Voids	-892
<u>196,852</u>	Total Rental Income	<u>193,553</u>
984	Charges for Services and Facilities	3,076
164,426	HRA Subsidy Receivable (inc MRA)	159,068
1,266	GF Contributions towards Expenditure	1,364
<u>363,528</u>	Total Income	<u>357,061</u>
21,659	Net Cost of Services (surplus) deficit	25,860
-36,562	Transfer to/(from) AMRA	-40,532
461	Amortised Premiums & Discounts	575
-1,101	Investment Income/Mortgage Interest	-257
<u>-15,543</u>	Net Operating Expenditure	<u>-14,354</u>
	Appropriations:	
12,343	HRA Set Aside to repay debt	11,913
900	Revenue Contribution to Capital	2,824
<u>-2,300</u>	(Surplus) Deficit in the year	<u>383</u>
	Housing Revenue Account Balance:	
-4,754	(Surplus) Deficit at the beginning of the year	-7,054
-2,300	(Surplus) Deficit for the year	383
<u>-7,054</u>	(Surplus) Deficit at the end of the year	<u>-6,671</u>



The financial framework for local authority housing has been reviewed and changes were introduced with effect from 1st April 2001. This new financial framework is referred to as the “New Financial Framework for Local Authority Housing – Resource Accounting”. The changes include a number of notes to the accounts (as set out in the Housing Revenue Account - Accounting Practices – Directions 2000) which provide more information about the income and expenditure in the accounts. These are detailed below.

### 1. Value of land, houses and property

The housing stock, land and other property within the HRA has been valued in line with the Guidance on stock valuation published in May 2000. The basis of the valuation is in accordance with the Royal Institute of Chartered Surveyors using the Existing Use Value for Social Housing (EU-V-SH).

Total balance sheet value of operational assets including shops and garages is:

	1 April 2002 £m	31 March 2003 £m
(i) dwellings	1,334	1,384
(ii) other land/buildings/garages	33	33
Total	1,367	1,417

The change reflects properties lost through sales, demolitions, acquisitions and revaluation of Beacon values. It also reflects depreciation. The movement in other land and buildings reflects reclassification of assets.

The balance sheet value of non-operational assets includes surplus vacant property awaiting demolition and development land. The only non operational assets valued were vacant properties awaiting demolition and these were assessed at a liability of £6m.

### 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 2002 is £2,592m.
- (b) The difference between the above figure and the £1,417m in the balance sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the ODPM’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 2002/03.

### 4. Impairment charges

Impairment charges reflect a reduction in the value of fixed assets due to, for example, a decline in demand, obsolescence or commitments to make significant changes to housing. No impairment charges have been identified in the 2002/03 accounts.



## 5. Major Repairs Reserve

The major repairs allowance was introduced from April 2001. This is a cash sum allocated per property according to type, age 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:

	£000's
(a) The balance on the Major Repairs Reserve on 1 April 2002	3,792
(b) The amount transferred to the Major Repairs Reserve during the year	41,552
(c) 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	-45,025
(d) The balance on the Major Repairs Reserve on 31 March 2003	319

## 6. Housing Revenue Account Subsidy

This system was introduced in 1990-91 and amended in 2001/02. There are three components HRA Subsidy, Rent Rebate Subsidy and the Major Repairs Allowance. The HRA Subsidy element is based on stock management and maintenance allowances, capital financing costs and notional rent income. The Rent Rebates Subsidy offsets the rebates granted. It also includes adjustments for backdated and over paid benefit that are met by a cash grant of 1.7% of total rebates expenditure. The MRA is paid through HRA Subsidy regime and has been explained in note 5.

A breakdown of the amount of HRA subsidy payable to the authority for the financial year in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of Housing Revenue Account Subsidy for the year is:

	£000's
Rent Rebates Subsidy	130,937
HRA element	-13,421
Major Repairs Allowance	<u>41,552</u>
Total	159,068

## 7. Capital expenditure on HRA assets

The total expenditure on a cash basis for HRA assets in 2002-03 was £55.599m. This was funded from the following sources:

	£000's
Major Repairs Reserve	45,024
Direct Revenue Financing	2,824
Other	<u>7,751</u>
Total	55,599

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £75.9m, of which £55.5m is reserved for debt repayment. This excludes mortgage principal repayments from ex council houses of £1.0m.



### **8. Cost of capital charges**

The cost of capital charges based on a 6% basis on the valuation are £82.025m. The capital finance charges calculated in accordance with Item 8 Debit (General Determination 2001-02) are £54.2m including interest and principal repayments at 2% of debt outstanding.

### **9. Depreciation charges**

The total charge for depreciation for dwellings within the authority's HRA is £41.552m. The principle adopted by the authority is that depreciation is equal to the Major Repairs Allowance which reflects the maintenance of properties in their present condition. Non-dwellings, which are subject to depreciation, are depreciated in accordance with their anticipated residual lives.

### **10. Rent arrears**

Arrears of rent on housing dwellings at 31 March 2003 amounted to £13.5m (31 March 2002: £12.7m). Arrears of rent on other services and income amounted to £6.8m at 31 March 2003 (31 March 2002: £7.7m).

A provision for bad debts has been made to meet possible future write offs of rent outstanding. The provision was £14.6m at 31 March 2003 and has been calculated in accordance with government guidelines.

Arrears relating to former tenants are written out of the accounts at the year-end. The debts continue to be pursued by officers and income subsequently collected is credited to the Housing Revenue Account. The total former tenants' arrears written out in 2002-03 was £4.1m (2001-02 £4.2m).

## 8. COLLECTION FUND

2001-02 £'000		Note	2002-03 £'000	£'000
	Income			
	Council Tax:	2		
204,095	Income		215,908	
71,771	Benefit		73,910	
0	Decrease in provision for bad debts		<u>1,846</u>	
<u>275,866</u>				291,664
	Business ratepayers:			
271,083	Income collectable			283,433
	Community charge:			
	Income collected resulting in a reduction to provision for bad debts			<u>54</u>
<u>128</u>				<u>575,151</u>
<u>547,077</u>				
	Expenditure			
	Demands on the Collection Fund:			
248,310	Birmingham City Council		259,404	
0	Frankley in Birmingham Parish		44	
8,465	West Midlands Fire and Civil Defence Authority		9,245	
15,918	West Midlands Police Authority		<u>17,247</u>	
<u>272,693</u>				285,940
	Council Tax:			
2,197	Increase in provision for bad debts			0
2,964	Debts Written Off			4,386
	Business rate:	3		
269,188	Payment to national pool		281,553	
1,895	Cost of collection allowance		<u>1,880</u>	
<u>271,083</u>				283,433
-579	(Surplus)/Deficit brought forward			<u>1,281</u>
<u>548,358</u>				<u>575,040</u>
<u>1,281</u>	(Surplus)/Deficit carried forward			<u>-111</u>



### 1. General

These accounts represent the transactions of the Collection Fund.

This is a statutory fund which the City Council administers on its own behalf, and that of New Frankley in Birmingham Parish Council and of the West Midlands Police, and Fire and Civil Defence Authorities. It records major sources of funding and their distribution. As the City Council is the billing authority, the fund is consolidated with other accounts in the Consolidated Balance Sheet on page 32 of these accounts.

The accounts have been prepared on an accruals basis.

### 2. Contribution from council tax payers

The council's tax base at January 2002 (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	355	5/9	197
A	127,479	6/9	84,986
B	100,765	7/9	78,373
C	60,117	8/9	53,437
D	27,246	1	27,246
E	16,051	11/9	19,618
F	7,269	13/9	10,500
G	5,171	15/9	8,618
H	711	2	1,423
<b>Total</b>	<b>345,164</b>		<b>284,398</b>
	Less adjustment for collection rate		-5,688
			<b>278,710</b>

### 3. Business ratepayers

Under the arrangements for uniform business rates, the council collects National Non-Domestic Rates (NNDR) for its area which are based on local rateable values multiplied by a uniform rate which is set by the Government (43.7p for 2002/2003). The total non-domestic rateable value at 31 March 2003 was £863.8m. 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 2002/2003 are analysed as follows:

2001-02 £'000		2002-03 £'000
369,601	a) Contribution to the NNDR pool: Non-domestic rates	390,592
4,818	Less: transitional relief adjustments	8,462
-105,230	Less: allowances and adjustments	-117,501
269,189	Net contribution to NNDR pool	281,553
261,024	Amount actually paid during the year	272,367
8,165	Payment to/ (refund due from) pool	9,186
275,393	b) Redistribution from the NNDR pool: Net income to City Council	300,121

#### 4. Precept Payments

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

#### 5. Bad debts

Every effort is made to recover all amounts due from council/community tax and business ratepayers. However, where it has been proved impossible to recover unpaid charges, such amounts are written off to the Collection Fund Account. In 2002-2003, £2.6m in respect of unpaid NNDR and £4.4m of Council Tax was written off. These write-offs represented 0.87% of NNDR due as at 1st April 2002 including amounts brought forward from earlier years and 1.32% of the amount of Council Tax due including arrears from earlier years.

The basis for calculating the council tax bad debt provision was changed in 2002/03, resulting in a £1.9m reduction, to reflect improved collection arrangements. The basis for calculating the NNDR bad debt provision is unchanged but will be reviewed in 2003/04.



## 9. CONSOLIDATED BALANCE SHEET

31st March 2002 £'000		Note to the accounts	31st March 2003 £'000	31st March 2003 £'000
	<b>Fixed Assets</b>			
	<i>Operational assets</i>			
1,367,085	- council dwellings and other HRA properties	}	1,417,264	
1,392,996	- other land and buildings	}	1,457,341	
19,320	- vehicles, plant, furniture and equipment	} 1,2 & 3	28,239	
327,548	<i>Infrastructure assets</i>	}	361,228	
22,972	<i>Community assets</i>	}	1	
312,196	Non-operational assets	}	327,310	
<u>3,442,117</u>				3,591,383
8,783	Premature debt repayment premiums	4		8,793
55,637	Long term investments	5		68,873
36,007	Long term debtors	6		<u>32,474</u>
<b>3,542,544</b>	<b>Total long term assets</b>			<b>3,701,523</b>
	<i>Current assets</i>			
64,335	- other investments	5	31,995	
3,321	- stocks and work in progress	7	3,159	
177,465	- debtors	8	193,363	228,517
	<b>Current liabilities</b>			
-88,372	- borrowings repayable within 12 months	9	-57,253	
-288,086	- creditors	10	-261,364	
-58,071	- cash overdrawn		-52,205	<u>-370,822</u>
<b>3,353,136</b>	<b>Total assets less current liabilities</b>			<b>3,559,218</b>
-1,120,598	Long term borrowing	9		-1,106,845
-111,399	Deferred liabilities	11		-120,965
-83,803	Deferred Government grants	12		-122,173
-33,100	Provisions	13		-57,689
<u>2,004,236</u>	<b>Total assets less liabilities</b>			<u>2,151,546</u>
1,261,950	Fixed Asset Restatement Reserve	14		1,317,916
672,570	Capital Financing Reserve	15		725,824
3,792	Useable Capital Receipts Reserve	16		29,051
36,939	Earmarked Reserves	16		54,578
3,792	Housing Major Repairs Reserve	16		319
19,420	Balances - General Fund	}		17,076
7,054	- Housing Revenue Account	17		6,671
-1,281	- Collection Fund	}		111
<u>2,004,236</u>	<b>Net Equity</b>			<u>2,151,546</u>

## 1. Capital Expenditure and movement in fixed assets 2002-03

The City Council finances capital expenditure on a payments basis. However, the authority also needs to account for capital expenditure on an accruals basis, showing the amounts owing to contractors etc, for incorporation into the City Council's asset register and balance sheet.

The City Council's capital expenditure on an accruals basis, including amounts owing but not paid in 2002/03, analysed between types of asset, is summarised below. This also includes deferred charges.

Capital Expenditure Type of Asset	2002-03 (£m)	Capital Financing Source	2002-03 (£m)
Other Land & Buildings	47.3	Borrowing Approvals	88.1
Vehicles and equipment	14.3	Capital Receipts	20.4
Investment Properties	0.3	Capital Grants	88.7
Infrastructure	55.5	Contributions	16.2
Community Assets	6.0	Revenue	3.6
Council dwellings	53.1	Operational Leasing	4.2
<b>Total Capital Expenditure re Fixed Assets</b>	<b>176.5</b>		
Deferred Charges	37.1	<b>Total</b>	<b>221.2</b>
Operational Leasing	4.2		
<b>Total Capital Expenditure (Accruals Basis)</b>	<b>217.8</b>		
Movement in Accruals	3.4		
<b>Total Capital Expenditure (Payments Basis)</b>	<b>221.2</b>		

	Council Dwellings, & Garages £m	Other Land, & Buildings £m	Vehicles Plant & Equipment £m	Infrastructure Assets £m	Community Assets £m	Investment Properties £m	Total £m
Net book value at 1 April 2002	1,367.1	1,393.0	19.3	327.5	23.0	312.2	3,442.1
Additions	1.4	41.1	14.2	55.8	0.0	0.8	113.3
Disposals	-75.7	-5.0	0.0	0.0	0.0	-1.7	-82.4
Revaluation and Restatements	166.1	54.5	0.0	0.0	-23.0	15.9	213.5
Depreciation for year	-41.6	-26.3	-5.3	-22.1	0.0	0.0	-95.3
Book value At 31 March 2003	1,417.3	1,457.3	28.2	361.2	0.0	327.2	3,591.2

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



*Operational Assets (Housing):*

The entire housing stock was revalued as at 1st April 2000 by Peter Jones MRICS, according to the former DETR 'Guidance on Stock Valuation for Resource Accounting' issued in 2000. The valuation was on the basis of Existing Use, Social Housing using sample "beacon properties" and a valuation certificate was issued in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Not all properties were inspected by the Valuer. A desktop review of the beacon values was carried out as at 01.04.02 by Peter Jones MRICS in accordance with the former DETR guidance.

*Infrastructure and Community Assets:*

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

Community assets were valued at a nominal £1 each as at April 1st 1994. Expenditure since that date was added to the values in previous years. However, in order to ensure consistency of treatment between assets, community assets, which number 393, are now valued at a nominal £1 each.

**4. Premature Debt Repayment Premiums**

	<b>£m</b>
Balance as at March 2002	8.8
Net discounts/premiums on premature redemption of debt	1.0
Amounts charged to asset management revenue account	(1.0)
Balance as at 31 March 2003	8.8

The balance remaining represents net premiums paid on premature repayment of debt and will be charged to the asset management revenue account over the life of the replacement loan.

31.03.02 £m		31.03.03 £m
55.6	Long Term investments: Unlisted investments intended to be held for the medium or long-term, at cost/valuation	68.9
64.3	Short Term investments: Temporary money market deposits	32.0
119.9	Total investments	100.9

The Council is guaranteeing repayment of the £215 million principal of and interest accruing on the NEC Limited loan stocks (see note 24). The City Council is making 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. This arrangement is reflected in the movement in unlisted investments above.



## 2. Land, buildings and other assets

31.03.02	Property Assets (major categories)	31.03.03
81,475	Council Dwellings	76,779
5,465	Investment properties	5,103
486	Schools and Nurseries	481
59	Other educational establishments	57
76	Office and administrative premises	85
139	Social services properties	132
40	Libraries	40
7	Museums and art galleries	7
24	Swimming pools, leisure centres, sports stadia	23
83	Public halls and community centres	82
131	Parks	133
119	Leisure gardens (allotment sites)	116
45	Depots and vehicle workshops	31
72	Public car parks	70
5	Markets	4
9	Cemeteries and crematoria	9
289	Hectares of leisure gardens and smallholdings	282
2,480	Kilometres of roads	2,478
	Council dwellings comprise the following types of properties:	
80,100	Freehold	75,463
974	Long Leasehold	961
401	Short Leasehold	355

## 3. Fixed Asset Valuation

*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, Economic Development Department, carried out all valuations, and valuation certificates were issued in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The effective date of the current year's valuation is the 1st April 2002. Properties regarded as operational were valued on the basis of Existing Use Value. Where no evidence of market value of suitable comparable property was available, and/or 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, previously known as Open 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.

## 6. Long Term Debtors

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

31.03.02 £m		31.03.03 £m
14.3	University of Central England	13.6
2.4	Mortgages:- Former council house tenants	1.4
7.1	Birmingham Airport Holdings	7.1
3.0	Birmingham Technology Group	3.0
2.5	Birmingham Hippodrome	2.5
0.3	Birmingham Rep	0.3
2.4	Employee Loans	2.2
2.5	N.E.C. Development Plc	1.6
0.6	Further Education Funding Council	0.3
0.6	Hyatt Regency Hotel	0.0
0.3	Other Long term Debtors	0.2
<u>36.0</u>	<b>Total Long Term Debtors</b>	<u>32.5</u>

## 7. Stocks and Stores

An analysis of stocks and stores is shown below:

31.03.02 £'000		31.03.03 £'000
827	National Exhibition Centre	824
716	Leisure Services	767
648	Transportation	764
869	Other	530
261	Work In Progress	274
<u>3,321</u>	<b>Total Stocks</b>	<u>3,159</u>

## 8. Debtors

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

31.03.02 £m		31.03.03 £m
	Sums due from:	
47.9	Council tax payers	47.2
2.3	Community Charge Payers	5.8
19.7	Business ratepayers	14.0
30.5	Residential & commercial rents	25.0
38.4	Government departments	61.7
97.3	Others	99.0
<u>236.1</u>		<u>252.7</u>
<u>(58.6)</u>	Provision for bad debts	<u>(59.3)</u>
<u>177.5</u>	<b>Total Debtors</b>	<u>193.4</u>

The increase in Community Charge debtors arises from a change in the basis of calculation from a net to a gross basis.



## 9. Council Borrowing

31.03.02 £m		31.03.03 £m
	Analysis by source:	
20.1	Stock	20.1
5.0	Bonds	5.0
1,105.1	Public Works Loan Board	1,017.0
39.6	Other Market Loans	79.6
39.1	Short Term Loans	42.4
<u>1,208.9</u>	Total Borrowing	<u>1,164.1</u>

The balance sheet shows these borrowings as follows:

31.03.02 £m		31.03.03 £m
88.3	Borrowings repayable within 12 months	57.3
15.0	Between 1 & 2 years' time	75.0
65.0	Between 2 & 3 years' time	71.9
41.9	Between 3 & 4 years' time	28.7
28.7	Between 4 & 5 years' time	0.0
110.5	Between 5 & 10 years' time	156.3
176.8	Between 10 & 15 years' time	184.9
<u>682.7</u>	After more than 15 years	<u>590.0</u>
<u>1,208.9</u>	Total Borrowings	<u>1,164.1</u>

## 10. Creditors

An analysis of creditors is shown below:

31.03.02 £m		31.03.03 £m
42.2	General Creditors	55.9
24.8	Government Grants	37.7
1.7	Housing Benefit	4.0
58.0	Receipts in Advance	52.9
4.6	Amounts Owed to Employees	3.8
18.7	NNDR	14.7
<u>138.1</u>	Other	<u>92.4</u>
<u>288.1</u>	Total Creditors	<u>261.4</u>

## 11. 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:

31.03.02 £m		31.03.03 £m
78.3	Debt taken over from the former West Midlands County Council	77.5
3.2	Walsall Waste Disposal	3.2
0.4	Finance lease obligations on 1 Lancaster Circus	0.0
28.8	Schools PFI	39.7
0.7	Other	0.6
<u>111.4</u>		<u>121.0</u>

The City Council purchased a finance lease on 1 Lancaster Circus in 1987 under which it acquires the freehold by making annual payments. All obligations in respect of this lease were discharged as at 31st March 2003.

## 12. Deferred Government Grants

This account holds the various Government capital grants and contributions from private developers. These will be written off to revenue over the life of the relevant assets in accordance with the depreciation schedule. Grants funding assets which are not depreciated are written off to the Capital Financing Reserve. During the year grants totalling £43.1 million used to finance the acquisition of fixed assets was taken to the account and £4.7 million, equivalent to depreciation on assets financed by grants in previous years, was written off to revenue.

## 13. Provisions

	31.03.02 £m	Increase in year £m	Applied in year £m	31.03.03 £m
NEC Ltd Loan Repayment	31.3	22.0	0.0	53.3
Other	1.8	2.8	-0.2	4.4
	<u>33.1</u>	<u>24.8</u>	<u>-0.2</u>	<u>57.7</u>

### 13.1 NEC Ltd.

The City Council is guaranteeing repayment of the full amount on the principal of and interest accruing on the NEC loan stocks. The City Council has set up a provision to repay the principal of £215m due in 2016 and £73m due in 2027. (see also note 5 and 19).

The forecast maturity value of the NEC Sinking Fund had been insufficient to meet the repayment of the NEC Stock Issue in full. A one-off contribution of £4.5m was made in 2002-03 and ongoing contribution levels have been increased. It is now expected that the sinking fund should be able to meet the loan repayments of £215m in 2016 and £73m in 2027, providing that investment returns do not fall further.

### 13.2 Bad Debt Provision

The provision for bad debts is shown in the balance sheet as a deduction from current debtors (see note 8 above).

#### 14. Fixed Asset Restatement Reserve

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

The movements on the fixed asset restatement reserve in 2002-03 are shown below:

	£m
Balance at 1 April 2002	1,262.0
Revaluation and restatement of fixed assets	213.5
Movement in deferred liability	-12.0
Exp not resulting in a change in asset values	-63.2
Disposal of fixed assets	-82.4
Balance at 31 March 2003	<u>1,317.9</u>

#### 15. Capital Financing Reserve

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

The movements on the Capital Financing Reserve are shown below:

	£m	£m
Opening Balance		672.6
Capital Receipts Reserved		
Sales of Fixed Assets	55.1	
Mortgage Principal	<u>1.0</u>	56.1
Financing of Capital Expenditure		
Use of Capital receipts	20.4	
Direct Revenue Financing	3.6	
Use of Major Repairs Reserve	<u>45.0</u>	69.0
Depreciation	(53.5)	
Impairment of Fixed Assets	(0.2)	
Transfer from Major Repairs Reserve	(45.0)	
Write Down of Deferred Grant	4.7	
Write Off of Grants Not Funding Assets	11.1	
Deferred Charges - Expenditure	(37.1)	
Deferred Charges - Income	10.7	
Minimum Revenue Provision	35.4	
Other	<u>2.0</u>	<u>(71.9)</u>
		<u>725.8</u>



## 16. Earmarked Reserves

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

	31.03.02 £m	Movement in year £m	31.03.03 £m
Sums set aside to finance capital expenditure	3.7	6.8	10.5
Housing Major Repairs Reserve	3.8	-3.5	0.3
Reserve Airport sale	0.3	-0.3	0.0
Reserves for budgets delegated to schools	22.8	-1.0	21.8
DLO/DSO reserves	2.4	-0.7	1.7
Service Development Reserve	0.0	6.3	6.3
PFI Schools Reserve	0.0	2.1	2.1
Insurance Reserve	2.0	1.5	3.5
Other	5.7	2.9	8.6
	40.7	14.1	54.8
Usable Capital Receipts	3.7	25.4	29.1
	44.4	39.5	83.9

The reserve in respect of budgets delegated to schools is a net figure held by schools at 31 March 2003 and is an earmarked reserve which must in totality be available for schools' use. These balances include £2.0m (2001/2002: £2.3m) relating to former Grant Maintained schools (see Note 26).

The net figure held by schools, before any temporary loans to the General Fund are taken into account, is made up of £30.9m underspent by schools and £0.4m 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 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. £3.8 million was brought forward from 2001-02 and £41.5 million received during the year. £45.0 million was applied to the funding of Housing capital expenditure leaving a balance of £0.3m.

The Usable Capital Receipts Reserve has grown from £3.7m to £29.1m from 31 March 2002 to 31 March 2003. It represents the carry forward of unspent capital receipts at the year end. The increase is due largely to a higher than expected level of capital receipts in year; the planned use of receipts for specific purposes in later years; and the slippage of planned capital expenditure into later years.

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

	31.03.02 £m	Movement in year £m	31.03.03 £m
General Fund	19.4	(2.3)	17.1
Housing Revenue Account	7.1	(0.4)	6.7
Collection Fund	(1.3)	1.4	0.1
	25.2	(1.3)	23.9

For 2003-04 the City Council has budgeted to make a contribution of £1.7m to General Fund balances.

The Collection Fund is a statutory fund in which the Council records transactions for council tax and business rates. Amounts due to the precepting authorities are shown as a creditor in the balance sheet.

## 18. Provision for Credit Liabilities

These are amounts required by law to be set aside, mainly from charges made to the revenue account for the principal element of capital financing costs (minimum revenue provision), from the reserved element of receipts from the sale of assets. They are primarily used to repay debt and as a substitute for new borrowing. Each year the City Council uses all such monies collected so that no balance is carried forward at the year end.

2001-02 £m		2002-03 £m
0.0	Balance brought forward	0.0
34.7	Minimum revenue provision	35.4
36.2	Reserved capital Receipts	56.1
(70.9)	Use of provision	(91.5)
0.0	Balance carried forward	0.0

## 19. Contingent Liabilities

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

- i) The City Council is guaranteeing repayment of the full amount on the principal of and interest accruing on the NEC Ltd loan stocks raised for the construction of the International Convention Centre, the National Indoor Arena and Hall 10 at the National Exhibition Centre. At 31st March 2003 the amount of the loans guaranteed was £215M (2002:£215M). At 31st March 2003, the City Council had a provision of £53.3M (2002: £31.3M) in respect of the repayment of principal on loans raised for the construction of the International Convention Centre, National Indoor Arena and additional halls at the National Exhibition Centre (see note 13).
- ii) 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 (2002: £73M).
- iii) The City Council has agreed to guarantee up to a maximum of £13.5m of commercial loans made by Württembergische Hypothekenbank AG to Aston Science Park Limited, which is presently finishing Phase IX of the Aston Science Park. At 31 March 2003 the full amount of £13.5m (2002: £13.5m) had been drawn down against this facility. The loan facility is due for repayment over 6 years commencing in 2006.
- iv) The City Council has agreed to provide the benefit of a guarantee for any shortfall in income below £1.8m per annum up to a maximum of £275,000 per annum to enable Millennium Point Property Ltd to meet its commitments on a £15m bank loan from Barclays Bank plc. The loan is required as part of the projects £113m funding. Millennium Point is a 100% owned subsidiary of Millennium Point Trust Ltd who are charged with procuring, designing, building, financing and operating Millennium Point.



- v) The City Council has an Accountable Body role for a range of grant funding regimes such as Single Regeneration Budget, New Deal for Communities 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 programme. There is a potential liability to the Council arising from potential non-delivery of outputs, ineligible expenditure or disposal of assets. As at 31st March 2003 commitments under the Council's Accountable Body roles totalled £114.5m with projected future commitments arising in years to 2011/12 of £300m. 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.
- vi) The City Council's final Housing Benefit claim for 2001/2002 is still being considered by the Department of Work and Pensions in respect of information relating to rent officer referrals. There may be a clawback of subsidy from the City Council and provision has been made for this. Any clawback in excess of this provision would reduce the level of benefit income shown and also reduce the General Fund balance carried forward.

## 20. Commitments under Capital Contracts

The City Council has to plan its capital spending in advance of work proceeding. Thus, at 31 March 2003, a number of contracts had been entered into/commitments made under which payments will become due in future years as the work is carried out. Significant commitments (£1m or more) under capital contracts at that date were as follows:

	£m
<b>Transportation Schemes</b>	
Birmingham Outer Circle Radial Junction	1.2
Masshouse Circus	2.9
<b>Economic Development Schemes</b>	
Afro-Caribbean Resource Centre	1.2
<b>Leisure, Sports, Culture Schemes</b>	
Refurbishment of Bham Town Hall	2.7
Northfield Pool	1.8
<b>Education &amp; Lifelong Learning Schemes</b>	
Arden JI School	3.8
Priestley Smith Special Colocation	2.6
Queensbridge/Fox Hollies Colocation	2.6
	18.8



## 21. Advance Capital Payments

As at 31st March 2003, Satman Developments (Birmingham) Limited held £ 0.5m (2002 £0.5m) of funds by way of advance payments to undertake building works on behalf of the City Council.

## 22. Insurance

The City Council maintains an Insurance Reserve to assist in managing claims falling against negotiated policy excesses accepted by the City Council. The policy excesses, which change from time to time, are for the major risks (2002/2003 policy year):

Fire:	£750,000 per claim
Terrorism:	£750,000 per claim
Employers Liability:	£350,000 per claim
Public Liability:	£40,000 per claim up to £5,000,000 in aggregate pa
Motor Vehicle:	£25,000 per claim up to £850,000 in aggregate pa

The balance on the reserve is £3.5m (2001/02: £2.0m)

Municipal Mutual Insurance Co Ltd (MMI) ceased writing new insurance business in 1992 and is currently using its available resources to meet outstanding claims. MMI may not fully know the full extent of its liability claims as it may take a number of years for them to arise. The City Council had part of its fire insurance and a number of contingency covers with MMI. Claims totalling £0.4m are currently outstanding.

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

The City Council also acts on behalf of the West Midlands district councils in administering insurance claims arising from the former West Midlands County Council. Should the "scheme" be implemented, the City Council will also be called upon to reimburse a proportion, along with the other West Midlands district councils. Since 1st October 1993 claims settled total £0.68m .

The City Council may incur costs arising from claims relating to a former regional assessment centre which predate the Council's liability insurance arrangements. These costs will be met from the Insurance Fund or other resources.

### 23. 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 2003 were £6.2m (2002: £ 7.0m).

In addition, the City Council held £1.5m (2002: £ 1.7m) 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 Council also holds £18 million of funds advanced by developers which will be used to fund capital works.

The major trust funds were:

	Balance at 31.03.2002 £'000	Income £'000	Expenditure £'000	Balance at 31.03.2003 £'000
Clara Martineau Trust - for children with special educational needs	2,666.4	89.1	681.4	2,074.1
Bodenham Trust - for children with special educational needs	494.2	25.0	72.4	446.8
<b>Charles Baker Trust</b> - accommodation for the elderly and disabled	170.7	8.1	0.6	178.2
<b>Girls Night Shelter</b> - for women and girls in need or distress	252.2	9.1	0.0	261.3
Alderson Disabled Ex-Persons Homes - dwellings for ex-servicemen	260.6	39.4	28.2	271.8
<b>The Elford Trust</b> - to promote the education of children & their carers*	201.6	87.4	37.3	251.7
Rupert St. Endowment - improving leisure facilities	500.2	7.6	23.5	484.3
<b>Centre for the Child</b> - to promote healthy recreation for Birmingham citizens	176.4	5.5	0.0	181.9
Museum & Art Gallery Development Trust - enhancement of city museums	229.4	15.7	0.0	245.1
Holinsworth Fund - to further the work of voluntary hospitals	153.3	5.6	40.5	118.4
The Lord Mayor's Charity Appeal - for charitable purposes	123.8	86.6	70.5	139.9
<b>The Harriet Louisa Loxton Charity</b> - for persons in need due to age and infirmity	1,110.6	43.3	245.3	908.6
<b>Other</b>	661.6	32.4	63.7	630.3
	7,001.0	454.8	1,263.4	6,192.4

\* The opening balance on the ElfordTrust has been restated

*The City Council is sole trustee of funds highlighted in bold.*



## **24. 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 19 also lists major contingent liabilities in relation to some of the following companies.

The major investments are in the following companies.

### **THE NATIONAL EXHIBITION CENTRE LIMITED ( DRAFT ACCOUNT FIGURES)**

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. Following the disposal of NEC Ltd and City Council interest in Hyatt Regency Birmingham Ltd during 2002/03, NEC Ltd repaid the £21m outstanding loan raised from Württembergische Hypothekenbank AG which had been re-lent to Hyatt and on which the City Council had provided a guarantee. At 31st March 2003, the City Council was guaranteeing loans of £215M (2002: £236M) to the company (see notes 19 (i) ).

The Company did not make any profit or loss before or after tax during the year to 31st March 2003 (2002: £0). The Company's net assets at 31st March 2003 amounted to £11,000 (2002: £11,000). 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 17th March 1986 and 17th December 1987, as amended by an agreement dated 4th April 1996, Birmingham City Council has agreed to ensure that finance will be available in such a way and of such amount as will make certain that the company will remain solvent within the meaning of Section 123 of the Insolvency Act 1986 (that is that it will be able to meet its debts as they fall due) during such time as all or any part of the loan stock referred to in note 19 of the financial statements, in issue at the date of the agreements, or any interest costs or expenses payable in respect thereof remain to be repaid or paid. During 2002/03, the City Council made reimbursements totalling £15.519M to the Company NEC Ltd.

### **THE NATIONAL EXHIBITION CENTRE (DEVELOPMENTS) PLC (DRAFT ACCOUNT FIGURES )**

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. During 2002/03 the Company repaid £850,000 of the City Council's loan notes to the Company. The City Council now has loan notes totalling £1.6 million in the company and has agreed to make available additional loans of £3.1 million should the Company require further funds. The loss before and after tax for the year to 31st March 2003 amounted to £264,000 (2002: £264,000). The net liabilities at 31st March 2003 amounted to £1,114,000 (2002: £850,000)

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



### **Birmingham Technology Group**

The Birmingham Technology Group of companies aims to promote, encourage and secure the development of a science park in Birmingham. The City Council appoints seven out of the thirteen members of Birmingham Technology Limited, which has loans outstanding after tax from the City Council as at 30 June 2002 of £2.96m (2001: £2.96m). The City Council holds 1,250 £1 ordinary shares (25%) in Birmingham Technology (Property) Limited and is guaranteeing £13.5m 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 2001 and 2002 are as follows:

2001 (Restated) £m		2002 £m
0.2	Profit/(loss) on Ordinary Activities before taxation	0.4
0.1	Profit/(loss) on Ordinary Activities after taxation	0.5
6.8	Net Assets	7.4

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

### **Other associated and subsidiary companies include:**

Aekta Project Limited, Afro Caribbean Resource Centre Ltd, Art Sites Birmingham Limited , Birmingham Academy Trading Ltd, Birmingham and Solihull Connexions Services Limited, Birmingham Bond Scheme Limited, Birmingham Business Support Centre Limited, Birmingham Carnival 2000 Limited, Birmingham Conservation Trust, Birmingham Conservation Trust (Trading) Ltd, Birmingham Core Skills, Development Partnership Limited, Birmingham Economic Development Partnership Limited, Birmingham Research and Development Limited, Birmingham Research Park Limited, Birmingham Venture Capital Limited, Birmingham Wheels (Enterprises) Limited, Birmingham Wheels Limited, Careers and Education Business Partnership, Ex Cathedra Limited, Greenspring Training Limited, Groundwork Birmingham Limited, Ikon Gallery Ltd, Local Leagues Enterprises Limited, Matchbox Enterprises Limited, Midlands Arts Centre, Millennium Point Trust, National Exhibition Centre Finance PLC, Optima Community Association, Saint Pauls Community Project Limited, Satman Developments (Birmingham) Limited, Symphony Hall (Enterprises) Limited, The Academy of Youth Limited, The Birmingham Centre for Manufacturing Limited, West Northfield Community Association Limited., Witton Lodge Community Association Ltd, Witton Lodge Community Association (Subsidiary) Ltd.

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

### **25. Other Company Interests**

#### **BIRMINGHAM AIRPORT HOLDINGS LTD (BAH)**

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



The Shareholders' Agreement provides for the Districts to cast their 49% vote at Company Main Board and General Meetings in one block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

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

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

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

The principal activity of the group is the operation and management of Birmingham International Airport and the provision of facilities and services associated with those operations.

The group performance is as follows:

Year to 31st March 2002 £m		Year to 31st March 2003 £m
22.5	Net profit before tax	24.0
15.1	Net profit after tax	15.8
193.3	Net assets at 31st March	198.6
1.9	City Council dividend income	2.2

## 26. Foundation Schools

The Schools Standards and Framework Act 1998 changed the status of Grant Maintained Schools to Foundation or Voluntary Aided Schools maintained by the Local Education Authority. The change for funding purposes took effect from 1st April 1999. This change has resulted in the inclusion of opening and closing balances for current assets and liabilities controlled by former Grant Maintained schools in the consolidated balance sheet. Fixed assets and long term liabilities remain vested in the Governing Bodies of schools and therefore values and amounts have not been consolidated. This treatment is compliant with extant CIPFA guidance although this guidance is no longer considered to comply with FRS5 "Reporting the Substance of Transactions". In the authority area there are 24 former Grant Maintained schools with an estimated fixed asset valuation of £156 million as at 31st March 2003. Of these schools four had long term loans outstanding as at 31st March 2003.

## 27. Private Finance Initiative Commitments

### i) Schools PFI

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





At 31st March 2003, all 10 schools were complete. In accordance with FRS5 the balance sheet reflects the 10 new schools as the Council's assets, because the Council bears the majority of the risks and rewards of ownership. The value of assets recognised on the Balance Sheet is £49.1m net of depreciation of £1.14m. The deferred liability recognised in respect of this scheme amounts to £39.7 million. The value of the asset was originally set at the same amount as the deferred liability. The schools were subsequently revalued in accordance with the Council's policy on fixed asset valuation.

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

The deferred liability for this scheme, shown in Note 11, is based only on the Basic Availability payments of £3.2 million per annum. The remaining availability payments are charged to AMRA as an approximation for interest.

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

	Services £000s	Availability £000s	Total £000s
Within one year	2,570	4,640	7,210
Years 3-5	8,029	14,056	22,085
Years 6-10	14,809	24,593	39,402
Years 11-15	16,755	25,651	42,406
Years 16-20	18,956	26,849	45,805
Years 21-25	21,447	28,203	49,650
Years 26-30	24,478	29,098	53,576
Total	107,044	153,090	260,134

The forecast payments are based on an assumed annual inflation of 2.5% and 100% performance by BSPL. Payments under the contract may be materially different from the forecast, depending upon inflation out-turn and / or penalty deductions applied.

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

#### ii) Public Conveniences PFI

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

The authority pays a performance related annual fee per convenience for 22 locations. The contract is a Private Finance Initiative under the Capital Finance Regulations.



At 31st March 2003 there were 17 conveniences provided under the contract. The remaining five are expected to be operational by 2004/05. There are no payments made under the contract for facilities that are not operational.

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

	£000s
Within 1 year	351
Years 2-5	1,869
Years 6-10	2,612
Years 11-15	2,955
Years 16-20	2,641

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

## **28. 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. On 9th June 2003 the Government announced that only one of the five economic tests had, as yet, been passed. A referendum may be held before or after the next General Election, in either 2004 or 2005. 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 Strategic Director of Resources, and is developing a contingency plan. The Authority has arranged for in-payments to be received in Euro's 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.

The National Exhibition Centre Limited, acting on behalf of the City Council, has won the right to stage the International Textile Machinery Association's show at the National Exhibition Centre in 2003. As part of its undertakings for this major show, the NEC has agreed to receive payment from exhibitors in Euros. The Company and the City Council have developed a hedging strategy to deal with financial transactions for this event in order to reduce the risk that the sterling value of the income will fall.

## **29. Post Balance Sheet Events**

There are no material events which have occurred since the balance sheet date which are required to be disclosed in these statements.



## 10. STATEMENT OF TOTAL MOVEMENT IN RESERVES

	Capital Reserves			Revenue Reserves			Total £m
	Fixed Asset Restatement Reserve £m	Capital Financing Reserve £m	Usable Capital Receipts £m	General Fund £m	Specific Reserves £m	HRA £m	
Balance as at 31.3.2002	(1,262.0)	(672.6)	(3.7)	(19.4)	(40.7)	(7.1)	(2,005.5)
Net (surplus)/deficit for year				2.3	(14.1)	0.4	(11.4)
Net unrealised gain from Revaluation of fixed assets	(213.5)						(213.5)
Unrealised impairment losses		0.2					0.2
Effects of disposals of Fixed assets			(25.4)				(25.4)
Cost or value of assets disposed of	82.4						82.4
Proceeds of Disposals		(56.1)					(56.1)
Financing of fixed assets		(69.0)					(69.0)
Other adjustments	75.2	71.7					146.9
Balance as at 31.3.2003	(1,317.9)	(725.8)	(29.1)	(17.1)	(54.8)	(6.7)	(2,151.4)

## 11. CASH FLOW STATEMENT

2001-02			2002-03	
£m	£m		£m	£m
		<b>Revenue activities</b>		
		<i>Cash Outflows:</i>		
961.9		Cash paid to and on behalf of employees	1,013.6	
684.3		Other operating cash payments	968.0	
132.9		Housing benefit paid out	144.8	
24.4		Precepts paid	26.5	
	1,803.5			2,152.9
		<i>Cash Inflows:</i>		
(85.0)		Rents (after rebates)	(102.6)	
(209.5)		Council tax income	(213.8)	
(34.4)		National non-domestic rate receipts from national pool	(12.7)	
(273.7)		Non-domestic rate receipts	(289.1)	
(620.8)		Revenue support grant	(608.0)	
(197.3)		DSS grants for benefits	(213.7)	
(311.4)		Other government grants (note 4)	(431.9)	
(241.7)		Cash received for other goods and services	(295.0)	
(100.5)		Other operating cash receipts	(143.2)	
	-2,074.3			(2,310.0)
	-270.8	Revenue activities net cash flow (note 1)		(157.1)
		<b>Returns on investments and Servicing of finance</b>		
		<i>Cash Outflows</i>		
111.4		Interest paid	109.9	
0.1		Interest element of finance lease rentals	0.1	
111.5			110.0	
		<i>Cash Inflows</i>		
(6.9)		Interest received	(8.4)	
	104.6			101.6
		<b>Capital activities</b>		
		<i>Cash Outflows</i>		
132.7		Purchase of fixed assets	184.1	
0.8		Purchase of long term investments	13.2	
61.2		Other capital cash payments	37.1	
	194.7			234.4
		<i>Cash Inflows</i>		
(66.5)		Sale of fixed assets	(101.7)	
(78.0)		Capital grants received (note 4)	(95.1)	
	144.5			(196.8)
	(116.0)	Net cash outflow/(inflow) before financing		(17.9)
		Management of liquid Resources		
40.6		Net increase/(decrease) in short term deposits	(32.3)	
		<b>Financing</b>		
		<i>Cash Outflows</i>		
154.2		Repayments of amounts borrowed	148.9	
1.2		Capital element of finance lease rentals	0.4	
		<i>Cash Inflows</i>		
(70.3)		New Loans raised - long term	(105.0)	
	125.7			12.0
	<b>9.7</b>	<b>Net (increase) / decrease in cash (note 2)</b>		<b>-5.9</b>

**NOTE 1.****RECONCILIATION OF DEFICIT ON REVENUE ACCOUNTS AND THE COLLECTION FUND TO REVENUE ACTIVITIES NET CASH FLOW**

Birmingham City Council Reconciliation of Revenue Account Deficit to Revenue Activities Net Cash Flow		£m
Deficit on Revenue Account		2.3
Deficit on Housing Revenue Account		0.4
Surplus on Collection Fund		<u>-1.4</u>
		1.3
Add Back: Appropriations to Reserves		-14.1
Provisions set aside		<u>-30.0</u>
		-42.8
Items Included Under Another Classification		
Interest Paid		-101.7
Interest Received		8.4
Capital Financing Costs		<u>-41.6</u>
		-177.7
Adjustment for non-cash items		-21.8
Items on an Accruals Basis:		
Movement in Stock		-0.2
Movement in Debtors		15.9
Movement in Creditors		<u>26.7</u>
		-157.1

**NOTE 2.****RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT**

	Long Term Loans £'000	Loans Maturing in 12 months £'000	Other LT Creditors £'000	Investments £'000	Cash Overdrawn £'000	Net Debt £'000
31.03.2002	1,120,598	88,372	82,599	-64,335	58,071	1,285,305
31.03.2003	1,106,845	57,253	81,260	-31,995	52,205	1,265,568
Movement In Year	13,753	31,119	1,339	-32,340	5,866	19,737
Made up of Movements in:						
Cash						5,866
Borrowing						44,872
Investments						-32,340
Repayment of Deferred Liabilities						<u>1,339</u>
						19,737

### NOTE 3. ANALYSIS OF CHANGES IN NET DEBT

	31.03.2002 £'000	Cash Flow £'000	31.03.2003 £'000
Cash Overdrawn	58,071	-5,866	52,205
Due Within One Year	88,372	-31,119	57,253
Due After One Year	1,120,598	-13,753	1,106,845
Investments	-64,335	32,340	-31,995
Deferred Liabilities	82,599	-1,339	81,260
	<u>1,285,305</u>	<u>-19,737</u>	<u>1,265,568</u>

### NOTE 4. OTHER GOVERNMENT GRANTS

The categories of government grants shown in the cash flow statement are:

Grants Received	£m
<b>Revenue</b>	
Housing Subsidy	130.9
NRF	10.4
Rent Allowances	135.8
Council Tax Benefit	70.9
European Social Fund	3.7
European Regional Development Fund	0.4
Single Regeneration Budget	5.7
Education Grants	107.0
PFI Grant	6.8
Other	92.8
	<u>564.4</u>
<b>Capital</b>	
ERDF	8.8
SRB	4.3
Magistrates Courts	0.9
European Capital Grants	23.5
Housing Capital Grants - including MRA	41.9
Other	15.7
	<u>95.1</u>



## 12. GROUP FINANCIAL STATEMENTS

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. The group revenue account shows the council's share (50%) of NEC Ltd.'s operating profit of £0.264m. 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 £1,407 million to £1,677 million and in fixed assets from £3,591 million to £3,849 million.

The accounts of the NEC Ltd. Group have been prepared in full accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) 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. Legislation relating to local authorities does not currently permit full compliance with UK GAAP. There are, therefore, a number of differences of accounting treatment between the Council and the NEC Ltd. Group. It is not, however, considered that these differences materially affect the accuracy of the consolidated accounts.

Further details on the Council's relationship to NEC Ltd. may be found in Notes 19 and 24 to the Council's Balance sheet.

### BIRMINGHAM CITY COUNCIL GROUP REVENUE ACCOUNT

Year Ended	31st March 2003	
31.03.02		31.03.03
£'000		£'000
1,297,003	Net Cost of Services	1,296,750
28	Parish Council Precept	44
0	Levies not attributable to services	16,000
-760	(Surpluses)/Deficits on Trading Undertakings	-210
-97,427	Surplus on Asset Management Revenue Account	-108,180
-8,025	Interest and Investment Income	-9,527
582	Share of Deficits of Subsidiaries	-132
<u>1,191,401</u>	Net Operating Expenditure	<u>1,194,745</u>
-37,974	Appropriations	-18,193
<u>1,153,427</u>		<u>1,176,552</u>
-626,859	Government Grants	-614,771
-523,547	Collection Fund	-559,569
<u>3,021</u>	Deficit for Year	<u>2,212</u>

**BIRMINGHAM CITY COUNCIL GROUP**  
**BALANCE SHEET AS AT 31ST MARCH 2003**

Balance Sheet As At 31st March 2003		
31.03.02 (Amended) £'000		31.03.03 £'000
3,732,274	Fixed Assets	3,849,248
44,776	Long Term Debtors	41,253
55,632	Long Term Investments	68,868
<u>3,832,682</u>	Total Long Term Assets	<u>3,959,369</u>
302,245	Current Assets	265,487
-478,500	Current Liabilities	-395,926
<u>3,656,427</u>	Total assets less Current Liabilities	<u>3,828,930</u>
-1,650,549	Long Term Liabilities	-1,677,368
-824	Minority Interests	-11
<u>2,005,054</u>	Total Assets Less Liabilities	<u>2,151,551</u>
<u>1,979,988</u>	Reserves	<u>2,127,688</u>
19,293	General Fund Balances	17,081
5,773	Other Balances	6,782
<u>2,005,054</u>		<u>2,151,551</u>

**Note 1:**

Had FRS17 (Pensions) been fully implemented in 2002/03, the reported profit of the NEC Group would have fallen by £2.7 million.

**Note 2:**

At 31 March 2003 the amount owed by the Council to the NEC Group totalled £4.916 million and amount owed by the NEC Group to the Council totalled £10.278 million.





## 13. GLOSSARY

### **Accruals**

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

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

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

### **Balances**

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

### **Capital Charge**

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

### **Capital Expenditure**

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

### **Capital Financing Reserve**

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

### **Capital Receipt**

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

### **Collection Fund**

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

### **Community Assets**

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

### **Consistency**

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

### **Creditors**

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

### **Deferred Charges**

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

### **Depreciation**

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

### **Debtors**

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

### **Earmarked Reserve**

A sum set aside for a specific purpose.

### **Emoluments**

Payments received in cash and benefits for employment.

### **Fees and Charges**

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

**Finance Lease**

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

**Fixed Assets**

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

**Fixed Asset Restatement Reserve (FARR)**

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

**FRS**

Financial Reporting Standard.

**General Fund**

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

**Government Grants**

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

**Government Grants Deferred Account**

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

**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 and
- ii) is held for its investment potential, any rental income being negotiated at arms length.

**Liabilities**

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

**Materiality**

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

**Minimum Revenue Provision (MRP)**

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

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

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

**Net Book Value**

The amount at which fixed assets are included in the balance sheet, ie. 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 and
- iii) the companies in which the City Council has an interest

**Revenue Expenditure**

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

**Revenue Support Grant (RSG)**

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

**SSAP**

Statement of Standard Accounting Practice.

**Standard Spending Assessment (SSA)**

The Government's assessment of the amount of expenditure required for each authority to provide a standard level of service across the country.

## 14. AUDITORS' REPORT

### Independent Auditor's Report to Birmingham City Council

I have audited the financial statements on pages 7 to 55 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 10 to 15.

This report is made solely to Birmingham City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

### Respective Responsibilities of the Strategic Director of Resources and Auditor

As described on page 7 the Strategic Director of Resources is responsible for the preparation of the financial statements in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2002. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the financial statements present fairly the financial position of the Council and its income and expenditure for the year.

I review whether the statement on pages 8 and 9 reflects compliance with the requirements of the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2002'. I report if it does not meet the requirements specified by CIPFA/LASAAC or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider whether the statement on internal financial control covers all risks and controls, or to form an opinion on the effectiveness of the Authority's system of internal financial control. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

### Opinion

In my opinion the financial statements present fairly the financial position of Birmingham City Council as at 31 March 2003 and its income and expenditure for the year then ended.

### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature:



Name:

JOHN GREGORY

Date: 17 DECEMBER 2003

Address:

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101 STAFFORD RD  
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