

Annual Accounts 2006/2007

Birmingham City Council



Birmingham City Council - Statement of Accounts 2006/2007

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Foreword

These accounts set out the financial results of Council activities for the year ended 31st March 2007.

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

- **Income and Expenditure Account** - this account gives details of the cost of services which the City Council provides and shows how the net cost (after departmental income and movements to and from reserves) has been financed from Revenue Support Grant and local taxpayers.
- **Statement of Movement On General Fund Balances** - this new statement reconciles the deficit on the Income and Expenditure Account to the overall movement in the Council's balances and shows the relationship between the Council's spending and the Council Tax levied.
- **Statement of Total Recognised Gains and Losses** - This statement shows all the realised and unrealised gains and losses that make up the movement in the Council's reserves and balances.
- **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 2007).
- **Cash Flow Statement** - summarises the total cash movements during the year for revenue and capital purposes.
- **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.
- **Group Accounts** - these statements consolidate the City Council's accounts with those of the National Exhibition Centre (NEC) Ltd, NEC Finance plc, NEC Developments plc, Birmingham Technology (Property) Ltd, and Service Birmingham Ltd.

Changes in Accounting Policies

The main change in accounting policies is the production for the first time of a UK GAAP compliant Income and Expenditure Account supported by a statement reconciling the net deficit to the movement in General Fund balances and a Statement of Total Recognised Gains and Losses. The latter is a new statement analysing the movement in the Council's net equity between realised and unrealised gains and losses. The requirement to charge asset charges based on notional interest has been removed and services revenue accounts were only charged with depreciation in 2006-07.

Government grants funding assets that are not depreciated have in 2006-07 been credited to the Government Grants Deferred Account rather than to the Capital Financing Account as in previous years. The amounts of such grants in 2006-07 was £64 million.

2006 was the second year of the operation of the Landfill Allowances Trading Scheme. The council has recognised the value of its allowances on the balance sheet. The Council did not trade any allowances in 2006-07.

Foreword

A summary of the City Council's financial performance for the financial year 2006/2007

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

Committee/Portfolio	Revenue Outturn £'000	Capital Outturn £'000
Leader	80,816	30,824
Deputy Leader	75,027	56,470
CYP & Families	228,275	56,459
Equalities & Human Resources	5,372	473
Housing	15,204	140,054
Leisure, Sport & Culture	50,059	28,778
Local Services & Community Safety	9,643	4,696
Regeneration	22,917	19,956
Adults & Communities	244,299	18,458
Transportation & Street Services	79,563	49,293
Council Business Management	9,245	115
Planning Committee	3,434	0
Licensing Committee	152	0
Public Protection Committee	12,220	664
Constituencies	99,894	0
Sub-Total	936,120	406,240
Capital Financing & Other Adjustments	(77,056)	0
Total	859,064	406,240

	Original Estimate 2006/07 £'000	Actual Net 2006/07 £'000	Variation £'000
Net cost of City Council Services	858,202	859,064	862
Funded by Government grants and local taxpayers	(858,202)	(858,202)	0
Contribution from/(to) General Balances	0	862	862

Foreword

General Fund Reserves and Balances

Balances at the end of 2006/07 stand at £28.7m.

Capital Expenditure

Total expenditure on capital schemes in 2006/07 was £406.2m (2005/06 £550.1m). This compared to the latest capital budget of £525.7 million. Full details are given in Note Seventeen to the Core Financial Statements.

Housing Revenue Account (HRA)

The net deficit for 2006/07 was £10.4 million which will be deducted from the surplus of £13.4 million brought forward to make a carry forward surplus of £3.0 million.

Other Matters

Borrowing

The Council's authorised limit for external debt in 2006/07 was £1,799 million. The maximum external debt during the year amounted to £1,617 million.

Other resources available to fund capital expenditure include:

Capital Receipts
Section 106 Balances
Grants
Revenue balances.

Provisions

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

Pension Liability

There is currently a net deficit on the fund and this will be reviewed periodically by the West Midland Pension Fund Actuary and steps will be taken to address the deficit. The City Council's share of the deficit is £804.5 million.

Statement of Responsibilities

The City Council's Responsibilities

The City Council is required to:

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

The Corporate Director of Resources' Responsibilities

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

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

The Chief Financial Officer has also:

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

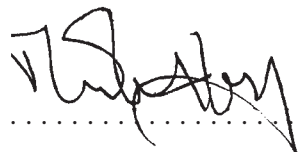
Certification of Accounts

I certify that the Statement of Accounts presents fairly the position of Birmingham City Council at 31st March 2007 and its income and expenditure for the year ended 31st March 2007.

.....


Paul Dransfield
Corporate Director of Resources

I confirm that these accounts were approved by the Council Business Management Committee on 26th June 2007. Signed on behalf of Birmingham City Council:

.....


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

Annual Good Governance Statement

Birmingham City Council

Annual Good Governance Statement 2006/2007

1. Scope of responsibility

- 1.1 Birmingham City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Birmingham City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Birmingham City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.3 Birmingham City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website at www.birmingham.gov.uk. This statement explains how Birmingham City Council has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2006 in relation to the publication of a statement on internal control.
- 1.4 During 2006/7, Birmingham City Council was a National Pilot for the Audit Commission with regard to its Good Governance Survey. Work on this is progressing and the opportunity has been taken, as part of this Annual Good Governance Statement, to ensure Birmingham City Council is ahead of the game in meeting the emerging National Good Governance Standard, in line with the ethos in the Council Plan 2007+ that Birmingham should always be at the forefront of progress.

2. The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, culture and values for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of not fully achieving policies, aims and objectives and therefore provides a reasonable rather than absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Birmingham City Council policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place for a number of years at Birmingham City Council and, in particular, for the year ended 31 March 2007 and up to the date of approval of the Statement of Accounts.

Annual Good Governance Statement

3. The governance framework

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

- 3.1 Birmingham City Council continues to have an established Council Plan setting out its objectives and there is an accompanying Performance Plan in which achievement of the authority's objectives is monitored.
- 3.2 Birmingham City Council facilitates policy and decision-making via a Cabinet Structure with Cabinet Member portfolios. There are Scrutiny Committees covering all portfolios and a Co-ordinating Overview and Scrutiny Committee. An Audit Committee provides independent assurance to the Council on risk management and control, and the effectiveness of the arrangements the Council has for these matters. The Constitution is reviewed annually by the Monitoring Officer and is codified into one document which is available on the intranet and external web pages.
- 3.3 Birmingham City Council ensures compliance with established policies, procedures, laws and regulations - including risk management. There is a comprehensive corporate induction programme in place and information regarding policies and procedures are held on the intranet, which continues to be enhanced and developed. The City Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with External Audit. The Audit Commission through its Inspectorate functions also reviews compliance with policies, procedures, laws and regulations within their remit.
- 3.4 Birmingham City Council has continued to enhance and strengthen its internal control environment through the introduction of new policies and procedures.
- 3.5 The City Council has had a risk management strategy since July 2002, and this is regularly updated. Leadership is provided to the risk management process by the Corporate Director of Resources who is the Officer Corporate Governance Champion and the Deputy Leader who is designated as the Member's Corporate Governance Champion. The City Council has approached embedding of risk management in accordance with best practice guidance as a "top down" process, with a Corporate Risk Register supported by Directorate and Divisional risk registers.
- 3.6 Birmingham Audit continues to give presentations, provide training, facilitate workshops and provide guidance through the publication of a risk management toolkit which has been produced to give managers at all levels a better understanding of how to implement risk management in their area of responsibility and to have some understanding of the process up and down the City Council. The toolkit provides a step by step approach to implementing Risk Management using the Council's methodology. The high level risk management methodology is being reviewed to provide more focus to Member and senior officer management of risk.
- 3.7 Birmingham City Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency, and effectiveness as required by the Best Value duty.
- 3.8 The Comprehensive Performance Assessment (CPA) framework currently assesses the Council as two-star and improving adequately. The Audit Commission's annual assessment of the Council identified that "the quality of some key services has improved and the Council is becoming better at responding to the expectations of local people."
- 3.9 Financial management in Birmingham City Council and the reporting of financial standing is

Annual Good Governance Statement

undertaken through a General Ledger and Management Information System, GLAMIS, which integrates the general ledger function with those of budgetary control and payments. These are supported by a Corporate Accounting Procedures Manual held on the Council's intranet which contains information on financial and business procedures and processes to be followed in all areas of the City Council. A Scheme of Delegation which sets out the powers of Directors, the Financial Regulations and Contract Standing Orders form part of the Constitution. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action is initiated.

- 3.10 Performance management in Birmingham City Council and the reporting of performance management continues to be improved with a more focussed Council Plan setting out priorities and supported by a Performance Plan. The Performance Plan explains how the Council will deliver the priorities and the commitments made in the Council Plan. The Performance Plan focuses on corporate priorities and reflects the Council's determination to prioritise the areas of greatest importance for the people of Birmingham. Information on performance across the remaining Best Value Performance Indicators is also included. The Performance Plan is also supported by a range of Service Plans. These set out detailed objectives, priorities and actions, plus performance indicators and resources, for every major area of Council service. Performance indicators are recorded and monitored on the Performance Plus system.
- 3.11 During 2006/2007 the Council rolled out the BEST programme designed to focus each work team and individual on the values of Belief, Excellence, Success and Trust. The aim is to transform the way the Council works and provides services through many local improvements. BEST is also now incorporated in every executive report so as to ensure impact and furtherance of the initiative at time of decision-making.

4. Review of effectiveness

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

- 4.1 The City Council contributes to the delivery of the Community Strategy for Birmingham 'Taking Birmingham Forward' through the Council Plan 2007+. This is supported by a planning framework which includes twenty Policy Framework Plans and Directorate/Service Plans. The Council monitors and reports publicly on progress so residents can see how issues that matter to them are being tackled. The Plan is monitored on a quarterly basis both by the Executive and Overview and Scrutiny Committees.
- 4.2 Directorate, Divisional and Service unit business plans contain a variety of performance indicators and targets, that are regularly reviewed.
- 4.3 The Council's constitution, which is annually reviewed by the Monitoring Officer, sets out the responsibilities of both Members and senior managers. In particular the Council has identified the three statutory posts as follows:-
- Head of Paid Service - Chief Executive
 - Chief Financial Officer - Corporate Director of Resources
 - Monitoring Officer - Chief Legal Officer

Annual Good Governance Statement

- 4.4 The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/Solace guidance, has developed a local code of corporate governance and is working towards the National Good Governance Standard.
- 4.5 The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Corporate Director of Resources is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2003 as amended in 2006. The internal audit provision is managed, independently, by the Assistant Director, Audit and Risk Management and operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The Birmingham Audit plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Council establishments and fraud investigations. The resulting work plan is discussed and agreed with the Strategic Directors, and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement. These are submitted to Members, Strategic Directors, School Heads and Chairs of Governors as appropriate.
- 4.6 The Council's review of the effectiveness of the system of internal control is informed by:
- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
 - the work undertaken by Birmingham Audit during the year;
 - the work undertaken by the external auditor reported in their annual audit and inspection letter;
 - other work undertaken by independent inspection bodies.
- 4.7 From the work undertaken by Birmingham Audit in 2006/07 the Assistant Director, Audit & Risk Management was able to give the following assurance "I am able to provide a 'reasonable assurance'" on the key areas of risk management, corporate governance and financial control. In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. Internal Audit did identify a number of concerns that required remedial action and these were reported to the appropriate Strategic Director or Senior Manager during the year.

We have been advised on the results of the review of the effectiveness of the governance framework by the Audit Committee. A plan to address areas needing further work to ensure continuous improvement of the system is in place.

5. Significant governance issues

- 5.1 The City Council, working with strategic partners and local communities has set out priorities which aim to ensure that all Birmingham residents:
- **Succeed economically** - benefiting from education, training, jobs and investment
 - **Stay safe** - living in clean, green and safe communities
 - **Be healthy** - enjoying long and healthy lives
 - **Enjoy a high quality of life** - benefiting from good housing and renowned cultural and leisure opportunities
 - **Make a contribution** - valuing one another and playing an active part in the community.

Annual Good Governance Statement

- 5.2 These form the basis for the Council Plan 2007+ and Performance Plans referred to above and provide the focus for the improvements which are being made in all areas of the Council. A new Delivery Support Unit is being set up to drive delivery of the Council Plan, working closely with Directorates to spread best practice, track performance and strengthen performance of off-track targets.
- 5.3 The Comprehensive Performance Assessment (CPA) in 2006 identified the Council as improving adequately and categorised as "two stars". The Audit Commission noted that "the quality of some key services has improved and the Council is becoming better at responding to the expectations of local people." Specific areas for improvement identified by the CPA Corporate Assessment were the need to further develop working with partners and the Council's overall approach to diversity and equality.
- 5.4 The review of internal control also highlights these as significant areas for the delivery of change by the Council although the systems to ensure the management of the risks have been shown to be sound. The main areas are:
- 5.4.1 The improvement of care services for Adult groups remains a priority area for the Council. This is reflected in the Council Plan 2007+. The new Adults and Communities Directorate has strengthened governance through Directorate Performance Boards, Health and Well-Being Partnership and business transformation. Commissioning strategies provide a framework for future service delivery and continuous improvement of Adult Services. A wide reaching transformation programme is being developed and service modernisation involving extensive process re-engineering to improve and standardise the quality of provision for all is underway.
- 5.4.2 Continued improvement in the Housing Service has been recognised by the Audit Commission, with rapid improvements in some key areas. The service will continue to be transformed and 3 Star service improvement plans have been developed to deliver further sustained changes in 2007/2008 and beyond.
- 5.4.3 The newly formed Children, Young People and Families Directorate has received high ratings from both Ofsted and CPA. The Directorate comprises a strong set of services which are generally well regarded by external assessors and service users. Children's social care continues to improve and be judged as improving by external assessors. The Directorate is well placed to bring further coherence to these services and more momentum is being built behind work with partners to improve outcomes for children and young people based on a better understanding of need and an outcomes based planning approach.
- 5.4.4 The Council, with partners in the Birmingham Strategic Partnership (BSP) has entered into a Local Area Agreement (LAA) with Central Government from April 2006. This covers four service areas: Children and Young People, Healthy Communities and Older People, Safer and Stronger Communities, and Economic Development and Enterprise, and involves the aligning of over £300m of resources including some £30m pooled funds. To ensure the successful delivery of the LAA, the BSP has appointed a Director who will be supported by a small team. The City Council provides day to day management on behalf of the BSP.
- 5.4.5 Equality and Diversity is a key element of the Council Plan 2007+ particularly in "Making a Contribution". Priority actions include improving ways for people particularly hard-to-reach and disengaged groups to communicate with and influence the Council, tackling the causes of community unrest, and delivering the 'Respect' agenda.

Annual Good Governance Statement

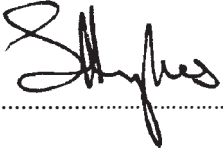
- 5.5 The Council continues to be actively involved in developing the way it works with partners and organises itself to deliver services. Developments of this nature require careful management and the Council has sought to identify and minimise the impact of risks associated with this change. The major developments are:
- 5.5.1 The strategic partnership with Capita that has established a joint venture company, Service Birmingham, to deliver core ICT services and support the Business Transformation programme. The programme has an initial nine work streams covering major service areas and cross-cutting support functions.
 - 5.5.2 The Corporate Services Transformation programme is the most advanced of these work streams and is scheduled to deliver new financial and business management functionality supported by new processes and organisational arrangements from November 2007.
 - 5.5.3 The Council continues to develop and implement an extensive efficiency programme to improve services and respond to the challenges of the Gershon report and the need to identify significant on-going savings in both the current and future years.
- 5.6 Other areas which have been highlighted in the review of the council's internal control include those listed below. In each case the Directors responsible have identified the risk involved and prepared plans to contain the risks and deliver the necessary improvements:
- 5.6.1 The Council is implementing the Single Status agreement which was made nationally between the National Joint Council (NJC) for Local Government and Signatory Trades Unions on 1 April 1997. This sets out the review of Pay and Grading which is designed to equalise terms and conditions of service for most City Council employees. An integral part is the application of a job evaluation exercise covering all affected posts to ensure consistency, fairness and a justification for differences of grade and salary between jobholders.
 - 5.6.2 In addition the Council has taken action to identify staff who may have grounds for a claim under the Equal Pay legislation and has agreed funding for, and a process by which, the City Council's obligations in relation to the equal pay challenge can be settled.
 - 5.6.3 The Council's arrangements for Devolution and Localisation of services to Constituencies were subject to an in-depth Overview and Scrutiny review that reported to Council in July 2006. A detailed Executive action plan setting out the way forward in response to this was approved by Council in October 2006 and is being implemented.
 - 5.6.4 Significant re-organisation of the Council's Directorates was begun towards the end of 2006/2007 in order to develop a combined Housing and Constituencies Directorate which will better equip the Council to deliver vibrant urban villages and improve services for customers. This also involves linking of Development and Culture in one directorate which will enable the strategic development of cultural services, maximising the potential of culture as a reason why people live, work and visit Birmingham.
 - 5.6.5 A transition plan for Connexions into the local authority was developed in 2006/2007. This identifies the process, timescales and milestones to be achieved for April 2008.
 - 5.6.6 The waste disposal contractual arrangements are currently being re-negotiated with a view to improving the balance of finance and performance management elements.

Annual Good Governance Statement

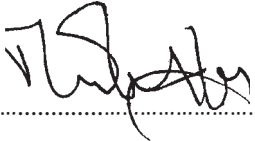
5.6.7 The Council continues to develop a PFI for Highways and is working closely with Central Government to ensure maximum benefit to the city through this arrangement.

5.6.8 Information security has improved but still remains a key issue within the Council. Revised standards have been produced and these need to be fully implemented during the year to prevent and minimise risk of the occurrence of fraud.


5.7 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed 

Stephen Hughes
Chief Executive

Signed 

Councillor Mike Whitby
Leader of the Council

Signed 

Paul Dransfield
Corporate Director of Resources

Signed 

Mirza Ahmad
Chief Legal (&Monitoring) Officer

Statement of Accounting Policies

Introduction

The City Council's Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2006. The code has been approved as a Statement of Recommended Practice (SORP). This SORP introduced a number of important changes to the main accounting statements.

The Consolidated Revenue Account has been replaced with a UK GAAP compliant Income and Expenditure Account. A new statement, the Reconciliation to the Movement in Balances includes all those items arising from legislative requirements where local authorities are unable to follow UK GAAP accounting. The Statement of Total Movements in Reserves has been replaced by a Statement of Total Recognised Gains and Losses. These three statements, together with the Cash Flow Statement, are grouped together as Core Financial Statements followed by a number of explanatory and disclosure notes. The remaining financial statements, the Housing Revenue Account, the Collection Fund Account and the Group Financial Statements are grouped together as Supplementary Financial Statements. All of the prior year financial statements have been restated where necessary.

The following policies have been adopted in compiling the accounts:

Best Value Accounting Code of Practice (BVACOP)

In 2000 the Chartered Institute of Public Finance and Accountancy published their Best Value Accounting Code of Practice (BVACOP). Several substantial revisions to this Code have been published, the most recent in 2006. 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 Income and Expenditure Account and note 1 on trading activities have been prepared in accordance with BVACOP.

Accruals

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

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

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

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

Support Services

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

Statement of Accounting Policies

Asset Charges

Service revenue accounts, including the Housing Revenue Account, are debited with a depreciation charge on the assets employed in providing the services. These depreciation charges are not taken into account in determining the movement in the Council's balances and are included in the Reconciliation to the Movement in Balances as an adjusting item. This means that depreciation charges do not affect the level either of local taxation or of Council Housing rents. In previous years a charge was made to service revenue accounts for notional interest on the carrying value of the assets used. The requirement to make this charge was removed by the 2006 SORP and no charge for notional interest was made in 2006-07. The prior year Income and Expenditure Account has been restated to reflect this change.

Deferred Charges

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

Leases

a) Finance leases

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

b) Operating leases

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

Pension schemes

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

a) Teachers' Pension Scheme

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

b) Local Government Pension Scheme

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

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

Statement of Accounting Policies

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

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

Interest Charges

Interest on loans is charged to the Income and Expenditure Account based on the amount which is due and payable within the financial year.

Government Grants

Revenue grants are matched with the expenditure to which they relate. Grants and contributions relating to fixed assets are credited to a government grants deferred account and released to the relevant service line in the Income and Expenditure Account in line with depreciation of the asset. This is one of the reconciling items included in the Statement of Reconciliation to the Movement in General Fund Balances. Where grants cannot be matched to a depreciable asset they are written off immediately to the Income and Expenditure Account against the relevant service line.

Value Added Tax

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

Fixed Assets

a) Asset Categories

Fixed assets are categorised as follows:

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

b) Recognition of Fixed Assets

New assets are recognised in accordance with the provisions of 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 Account.

Statement of Accounting Policies

c) Valuation Bases

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

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

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

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

d) Revaluation Cycle

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

e) Disposals

Income from the disposal of fixed assets is credited to the Usable Capital Receipts Reserve, and accounted for on an accruals basis. The difference between the sale proceeds of an asset and its carrying value in the balance sheet is a gain or loss on disposal and taken to the Income and Expenditure Account as a corporate item below the Net Cost of Services. Most assets are revalued to market value prior to disposal and gains and losses will only arise when assets are sold for other than market value, e.g. discounted sales of land to Registered Social landlords for house building. In respect of council housing, the Council is required by statute to sell to tenants at a discount. In accordance with CIPFA accounting guidance, however, the loss incurred in selling council houses at a discount is treated as a revaluation loss. Receipts from the sale of council housing are pooled nationally. A set percentage of receipts, (75% for house sales and 50% for disposals of land), is required to be paid over to the DCLG on a quarterly basis. These payments are shown in the Income and Expenditure Account as levies below the Net Cost of Services and an appropriation is made from the Useable Capital Receipts Reserve to finance the levy. This appropriation is shown in the Reconciliation to Movement in Balances and is one of the items making up the difference between the deficit on the Income and Expenditure Account and the overall movement in revenue balances. Upon disposal, the net book value of the asset disposed of is written off against the Fixed Asset Restatement Account.

f) Depreciation

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

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

Statement of Accounting Policies

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

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

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

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

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.

Surplus Assets - These are depreciated over their anticipated useful life where appropriate. As all the Council's surplus assets are freehold land they are not depreciated.

h) Impairment of Fixed Assets

In accordance with FRS 11 (Impairment of Fixed Assets), a review was carried out to identify any land and/or buildings whose current values had fallen below the carrying amount (the balance sheet value) as a result of, for example, obsolescence or physical damage. Assets so identified are considered to be impaired. The diminution in value is charged to the relevant service revenue account with a corresponding appropriation being made from the Capital Financing Account so that there is no impact on the Council's net revenue expenditure. In 2006/07 4 assets were found to be impaired. The total impairment was £1.249 million. In addition to the assets identified for impairment, Wyndley Swimming Pool is currently closed for major works, including the installation of a new ventilation system. It was not considered that this constituted an impairment within the meaning of FRS11 and no adjustment has, therefore, been made in the accounts.

i) Housing Stock Revaluation

The entire housing portfolio was revalued in 2005/2006 to meet the Government's guidance on Housing Resource Accounting. The basis used was Existing Use Valuation (Social Housing). In accordance with the guidance, a sample of properties was chosen to be representative of each type of property and were valued as "beacons". The full valuation was obtained by extrapolating these beacon values across the whole housing stock. These beacon values will be reviewed annually to reflect movements in property market values: High rise flats and defective dwellings continued to be valued using a Discounted Cash Flow method, in the absence of appropriate market evidence. In 2006-07 this valuation was updated using a desk top methodology.

Intangible Assets

Intangible assets, such as computer software, are shown in the balance sheet at cost less depreciation. They are depreciated on a straight line basis over five years.

Private Finance Initiative (PFI)

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

Statement of Accounting Policies

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

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

Investments

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

Stocks and Work in Progress

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

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

Redemption of Debt

The City Council is required to set aside from revenue each year, a minimum amount for the redemption of debt. The Revenue Account is charged with the minimum revenue provision (MRP) which represents 4% of the Capital Financing Requirement, effectively the net sum of Long Term assets and Long Term liabilities derived from the opening balance sheet. This is a change from the previous calculation of MRP based on outstanding loans less reserved capital receipts. This change results from the introduction of prudential borrowing from April 1st 2004 under the Local Government Act 2003 which repealed the provisions of Section Four of the Local Government and Housing Act 1989. Local authorities may also make a revenue provision in excess of the minimum and this is known as a Voluntary Revenue Provision (VRP). Formal restrictions on borrowing have been removed and replaced by allowing the authority to borrow within "prudential" limits of what the Council can afford to service from revenue resources. The prudential limits are calculated by reference to balance sheet figures. The requirement for a Minimum Revenue Provision in the Housing Revenue Account has been removed. The Council has, however, elected to make a voluntary provision for HRA debt repayment of £1.1 million. These amounts are not charges to service revenue accounts which receive a depreciation charge as described in note (f) on Fixed assets above. The difference between MRP and depreciation is appropriated to or from the Capital Financing Account (CFA) via the Statement of Movement on General Fund balances so that depreciation does not impact on the City Council's net revenue expenditure.

The Council may repay loans ahead of maturity to take advantage of lower interest rates. Such premature redemption of borrowing may incur a premium payable to the lender or a discount receivable from the lender. Premiums and discounts are taken to the balance sheet as a long term asset or deferred income and written off to revenue over the term of the replacement loan.

Statement of Accounting Policies

Provisions

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

Reserves

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

Details of reserves held at 31st March 2007 are shown in the notes supporting the Balance Sheet and the Statement of Total Recognised Gains and Losses.

Capital Reserves

The Fixed Asset Restatement Account represents principally the balance of surpluses and deficits arising from the periodic revaluation of fixed assets.

The Capital Financing Account represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets. It also includes amounts set aside for debt redemption (the Minimum Revenue Provision) in accordance with statute, and the reserved portion of capital receipts.

The balances on these reserves are not, for the most part, backed by cash and do not constitute resources available to finance capital expenditure.

Contributions from developers (Section 106 monies)

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

Landfill Allowances

In 2005/06 the Landfill Allowances Trading Scheme was introduced. Under this scheme local authorities are given an allowance of tonnes of refuse that may be disposed of by landfill. Disposal in excess of this incurs a financial penalty payable to the Department for Rural Affairs (DEFRA). Alternatively allowances may be purchased from other local authorities. Authorities not planning to make full use of their allowances may sell them. The Council did not trade any allowances in 2006/07 but has recognised the value of allowances as an asset in accordance with accounting guidance issued by CIPFA.

Post Balance Sheet Events

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

Group Accounts

The City Council has material interests in a number of subsidiary and associated companies. In

Statement of Accounting Policies

accordance with FRS 2 (Accounting for Subsidiary Undertakings) consolidated financial statements have been prepared as an annex to the main accounts. The companies making up the NEC Group are regarded as subsidiaries and have been consolidated on a line by line basis while NEC Developments plc and Birmingham Technology (property) Ltd are regarded as associates and have been consolidated on a net equity basis, where the Council's investment is recorded at cost and adjusted each year for its share of the company's profit and unrealised gains or losses. With effect from the 1st April 2006, the City Council and Capita Business Services Ltd entered into a joint venture in the form of Service Birmingham Ltd. In order to comply with the disclosure requirements specified by FRS 9, (Associates and Joint Ventures), Service Birmingham Ltd has been consolidated on a gross equity basis.

Business Improvement District

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

Core Financial Statements

Income and Expenditure Account

2005/06 Net Expenditure £'000		Gross Expenditure £'000	Income £'000	2006/07 Net Expenditure £'000
13,041	Central Services to the Public	104,174	91,573	12,601
961	Court & Probation Services	1,539	267	1,272
143,904	Cultural, Environmental & Planning Services	478,108	264,010	214,098
743,087	Education Services - Note 16	1,113,278	986,371	126,907
75,732	Highways, Roads & Transport	111,984	34,483	77,501
9,209	Housing Services	646,138	641,732	4,406
355,630	Social Services - Note 10	534,187	123,054	411,133
17,079	Corporate & Democratic Core	15,760	375	15,385
(34,690)	Non Distributed Costs	16,681	0.00	16,681
1,323,953	Cost of Services	3,021,849	2,141,865	879,984
58	Parish Precept			65
(10,799)	Surplus on Trading Undertakings	Note 1		(10,109)
25,979	Levies	Note 13		25,603
31,926	Contribution of Housing Capital Receipts to Government Pool	Note 13		31,704
2,473	Premiums on Premature Debt Redemption	Note 24		1,668
107,852	External Interest Charges			113,792
144,704	Interest Cost - Pensions	Note 6		153,549
(116,929)	Expected Return on Pensions Assets	Note 6		(138,239)
3,174	(Gains)/Losses on the Disposal of Fixed Assets			(7,900)
(37,179)	Interest & Investment Income			(38,440)
1,475,212	Net Operating Expenditure			1,011,677
	Sources of Finance			
(225)	Bid Levy	Note 15		(321)
(839,448)	Revenue Support Grant*			(95,784)
(330,592)	Non Domestic Rates Redistribution**			(474,356)
(288,034)	Council Tax	Note 3		(295,118)
1,117	Transfer in respect of Collection Fund Surpluses			626
18,030	Deficit for Year			146,724

* Including PFI grant of £4.564 million

** NNDR income includes an amount of £1.8 million received from central government under the Local Authority Business Growth Incentive Scheme. (LABGI)

Statement of Movement on General Fund Balances

	2005/06 £'000	2006/07 £'000
(Surplus) / Deficit For year on the Income and Expenditure Account	18,030	146,724
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(21,940)	(145,862)
Decrease in General Fund Balance for year	(3,910)	862
General Fund Balance brought forward	(25,635)	(29,545)
General Fund Balance carried forward	(29,545)	(28,683)

NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND 2006-07

Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund

Depreciation	(73,067)	(81,262)
Write Down of Deferred Grants	12,138	14,112
Deferred Charge	(29,297)	(73,147)
Appropriation to/from Pensions Reserve	4,183	(38,604)
Net Gain/(Loss) on Sale of Fixed Assets	(3,174)	7,900
Other Government Grants	15,287	8,027

Amounts not Included in the Income and Expenditure Account but required by statute to be included when determining the movement on the General Fund

Minimum Revenue Provision	34,528	44,181
Voluntary Revenue Provision	643	1,141
Direct Revenue Financing of Capital	5,104	9,094
Appropriation In Respect of Pooling of Housing Capital Receipts	(31,926)	(31,704)
Appropriations re repayment of long term debtors	(13,020)	(194)
Appropriations re repayment of long term liabilities	1,831	1,992

Transfers to or from the General Fund that are required to be taken into account when determining the Movement on the General Fund

HRA balances	(3,476)	(10,342)
Schools Balances	4,443	10,404
Other Earmarked Reserves	53,863	(7,460)
Movement in Balances	(21,940)	(145,862)

Statement of Total Recognised Gains and Losses

	2005/06 £'000	2006/07 £'000
(Surplus)/Deficit on Income & Expenditure Account for the year	18,030	146,724
(Surplus)/Deficit arising on revaluation of fixed assets	(412,527)	(220,455)
Actuarial (Gains)/ Losses on pension fund assets and liabilities	1,058	(184,971)
(Surplus) on Collection Fund Attributable to City Council	(1,126)	(3,680)
Other General Fund movements	(9,883)	(8,108)
Total Recognised (Gains) and Losses for the Year	(404,448)	(270,490)
Balance Sheet Movement	(404,448)	(270,490)

Note. The balance on the published balance sheet for 2005-06 was £2,731 million. The difference between that figure and the balance of £2,799 million on the restated balance sheet used in the production of this statement is made up of changes arising from the 2007 SORP, specifically, the moving of the Collection Fund balance owing to Preceptors out of the reserves section of the Balance Sheet and the prior period adjustments detailed in Note 51.

Total Gains and Losses recognised since published statement of accounts for 2005/06

	2006/07 £'000
Total Recognised (Gains)/Losses for year	(270,490)
Effect of restatements for new statements required by SORP	23,070
Effect of prior period adjustments (see note 51)	(91,346)
Total Gains and Losses recognised since published statement of accounts for 2005/06	(338,766)
Opening Net Equity per 2005/2006 published statements	2,731,123
Closing Net Equity per these 2006/2007 published statements	3,069,889
	(338,766)

Balance Sheet

31st March 2006 £'000	Note	31st March 2007 £'000
Fixed Assets		
0	Intangible Fixed Assets	7,845
Tangible Fixed Assets		
Operational Assets		
2,293,688	Council Dwellings & Garages	2,345,302
2,192,698	Other Land & Buildings	2,410,918
27,038	Vehicles, Plant, Furniture & Equipment	21,518
414,883	Infrastructure Assets	433,966
0	Community Assets	0
411,588	Non-Operational Assets	435,352
5,339,895		5,654,901
14,175	Premature Debt Repayment Premiums	38,799
226,853	Long Term Investments	227,868
36,011	Long Term Debtors	31,376
277,039		298,043
5,616,934	Total Long Term Assets	5,952,944
Current Assets		
113,913	Other Investments	153,024
3,377	Stocks & Work in Progress	3,143
2,853	Landfill Allowances	4,038
244,795	Debtors	282,957
52,564	Cash in Hand	66,178
Current Liabilities		
(52,151)	Borrowings repayable within 12 months	(173,461)
(392,694)	Creditors	(423,101)
(52,731)	Cash Overdrawn	(57,792)
(23,004)	Capital Contributions Unapplied	(30,982)
(66)	Collection Fund	(552)
(103,144)		(176,548)
5,513,790	Total Assets less Current Liabilities	5,776,396
(1,331,824)	Long Term Borrowing	(1,387,321)
(950,848)	Pensions Liability	(804,481)
(115,751)	Deferred Liabilities	(113,753)
(283,531)	Deferred Grants	(350,828)
(29,391)	Provisions	(44,546)
(3,046)	Premature Debt Repayment Discounts	(5,578)
2,799,399	Total Assets less Liabilities	3,069,889

Balance Sheet

31st March 2006		Note	31st March 2007	
£'000			£'000	£'000
2,693,305	Fixed Asset Restatement Account	36		2,833,749
845,143	Capital Financing Account	37		838,981
14,788	Useable Capital Receipts Reserve	38		12,293
9,998	Deferred Capital Receipts	51		8,128
(950,848)	Pensions Reserve	6		(804,481)
143,453	Earmarked Reserves	38		145,183
0	Housing Major Repairs Reserve	38		0
	Balances:			
29,545	General Fund	} 39		28,683
13,406	Housing Revenue Account			3,064
609	Collection Fund			4,289
2,799,399	Net Equity			3,069,889

The 2006 figures have been re-stated following changes to the SORP. See page 25 and note 51.

Cash Flow Statement

2005/06 £m		£m	2006/07 £m
	Revenue Activities		
	<i>Cash Outflows:</i>		
1,210.8	Cash Paid to and on behalf of Employees	1,295.5	
1,241.5	Other Operating Cash Payments	1,295.3	
37.0	Housing Capital Receipts Pooling Payments	31.7	
303.5	National Non- Domestic Rate Payments to National Pool	331.0	
150.4	Housing Benefit Paid out	179.2	
35.5	Precepts Paid	37.3	
2,978.7			3,170.0
	<i>Cash Inflows:</i>		
(107.0)	Rents (after Rebates)	(101.1)	
(244.0)	Council Tax Receipts	(242.1)	
(330.6)	National Non-Domestic Rate Receipts from National Pool	(474.4)	
(305.1)	Non-Domestic Rate Receipts	(330.5)	
(834.9)	Revenue Support Grant	(91.2)	
(239.3)	DWP Support Grant (note 50)	(263.6)	
(555.4)	Other Government Grants (note 50)	(1,240.0)	
(312.8)	Cash Received for Goods and Services	(303.8)	
(218.3)	Other Operating Cash Receipts	(222.5)	
(3,147.4)			(3,269.2)
(168.7)	Revenue Activities Net Cash Flow (note 47)		(99.2)
	Returns on Investments and Servicing of Finance		
	<i>Cash Outflows:</i>		
87.1	Interest Paid	94.1	
	<i>Cash Inflows:</i>		
(37.2)	Interest Received	(38.8)	
49.9			55.3
	Capital Activities		
	<i>Cash Outflows:</i>		
335.1	Purchase of Fixed Assets	295.5	
0.0	Purchase of Long Term Investments	0.0	
58.8	Other Capital Cash Payments	110.8	
393.9			406.3
	<i>Cash Inflows:</i>		
(101.8)	Sale of Fixed Assets	(92.2)	
(4.3)	Capital Contributions Received	(8.0)	
(113.6)	Capital Grants Received (note 50)	(132.9)	
(219.7)			(233.1)
55.4	Net Cash Outflow/ (Inflow) before Financing		129.3
	Management of Liquid Resources		
71.4	Net Increase/ (Decrease) in Short Term Deposits	39.1	
	Financing		
	<i>Cash Outflows:</i>		
60.0	Repayments of Amounts Borrowed	289.6	
	<i>Cash Inflows:</i>		
(195.0)	New Loans Raised - Long Term	(466.5)	
			(137.8)
(8.2)	Net (Increase)/ Decrease in Cash (note 48)		(8.5)

Notes to Core Financial Statements

1. Trading Services

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

2005/06 Profit/(Loss) £'000	Trading activity (see brief descriptions below)	2006/07 Turnover £'000	Expenditure £'000	Profit/(Loss) £'000
3	Highways & Sewers	8,535	8,588	(53)
8,680	Property Services	84,292	76,221	8,071
583	Legal Services	9,887	9,644	243
807	Markets	8,198	6,711	1,487
(26)	Non-Schools Cleaning	3,666	3,762	(96)
162	Catering	2,187	2,011	176
(232)	Street Lighting	7,306	7,377	(71)
(45)	Vehicle Maintenance	4,602	5,093	(491)
(493)	Education Catering	27,308	27,886	(578)
120	Education Staff Agency	8,631	8,975	(344)
368	Trade Refuse	5,658	4,610	1,048
608	Urban Design	16,628	15,874	754
(16)	Grounds Maintenance	6,105	6,206	(101)
90	Education Cleaning	7,915	7,910	5
33	Design & Print	3,463	3,389	74
(1)	Meals Direct	2,370	2,388	(18)
260	Birmingham City Laboratories	2,732	2,461	271
51	Landscape Practice	1,287	1,306	(19)
(11)	Community Day Nurseries	1,460	1,488	(28)
(142)	Other Trading Activities	3,337	3,558	(221)
10,799		215,567	205,458	10,109

Details of Trading Undertakings

Highways and Sewers

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

Property Services

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

Legal Services

The Legal Services Office of the Legal & Democratic Services Department is a highly successful trading organisation and is the largest in-house local authority legal department in the UK - and amongst the largest, in Europe - providing high quality legal advice and representation services to meet the full requirements of the City Council, its Departments and the citizens of Birmingham.

Notes to Core Financial Statements

Markets

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

Non-Schools Cleaning

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

Catering

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

Street Lighting

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

Vehicle Maintenance

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

Education Catering

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

Education Staff Agency

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

Trade Refuse

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

Urban Design

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

Grounds Maintenance

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

Notes to Core Financial Statements

Education Cleaning

Education Cleaning provide cleaning services to all types of establishment, primary and secondary including nursery schools, plus children centers and Surestart units. It is this diversity of provision, on a daily basis, that helps to develop and maintain the highest levels of modern cleaning practice and technology.

Design & Print

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

Meals Direct Service

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

Birmingham City Laboratories

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

Landscape Practice

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

DSD Trading Community Day Nurseries

There are 852 places for Birmingham children, in 23 Community Day Nurseries, managed and maintained by the Education Service. The nurseries are open 52 weeks of the year and cater for children from 6 weeks old. DSD provide all the catering and cleaning services at these units.

Others

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

2. Minimum Revenue Provision

The Local Government Act 2003 requires the City Council to charge to the revenue account a provision for the redemption of debt calculated as 4% of the Capital Financing Requirement. There is no longer a requirement to make a revenue provision in the Housing Revenue Account. The amount set aside in 2006/07 was £44.2 million. An additional voluntary provision of £1.1 million was made in the Housing Revenue Account.

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

3. Council Tax

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

Notes to Core Financial Statements

4. Publicity Expenditure

The Council is required by Section 5(1) of the Local Government Act 1986 to provide details of its spending on Publicity. During 2006/07 £10.3m was spent including £0.6m in respect of the National Exhibition Centre (2004/05 £0.6m).

2005/06 £m		2006/07 £m
1.8	Recruitment Advertising	1.7
0.9	Other Advertising	1.2
6.5	Promotions & Publicity	7.5
9.2	Total	10.4

5. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended by the Local Government and Housing Act 1989 and The Local Government Act 2000 permits the Council to spend up to £3.80 per annum for each resident on grants and donations to voluntary and not for profit organisations. Total expenditure incurred in 2006/07 was £0.1 million (2005/06 £0.3 million) against a limit of £3.8 million (2005/06 £3.8 million).

6. Pensions

Employees of the City Council, other than teachers, may be members of the Local Government Pension Scheme (LGPS), which is a funded defined benefits scheme. The appropriate Fund is the West Midlands Pension Fund which is administered by Wolverhampton City Council. The Fund is subject to an actuarial valuation every three years. A valuation is currently being undertaken as at 31st March 2007, with the results to be implemented from 1st April 2008.

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

- i. The City Council's employer's contribution for the year 2006/07 was £69.67m (£61.5m in 2005/06).
- ii. The cost of awarding discretionary additional benefits and their associated inflation proofing is borne separately by the City Council. Expenditure in 2006/07 was £5.56m (representing 1.07% of members' aggregated pensionable pay). This amount is made up of £5.3m (£5.2m in 2005/06) in respect of ongoing added years pension payments and associated pensions increase charges and £0.25m (£0.1m in 2005/06) in respect of one off added years lump sum payments.
- iii. In the latest complete Actuarial Valuation as at 31st March 2004 74% of past service liabilities were funded. An employer's contribution rate was set for the City Council of 13.30% for the year from 1st April 2006 to 31st March 2007. From 1st April 2005 the City Council has also elected

Notes to Core Financial Statements

to fund the cost of its early retirements on an individual basis rather than through an addition to the employer's pension contribution rate.

For Teachers, the City Council paid an employer's contribution of £45.6million (13.5% of pensionable pay) in 2006/07 to the Teachers' Pension Scheme. The equivalent figure for 2005/06 was £45.6 million (13.5% of pensionable pay). The teachers' pension scheme is administered by Capita Teachers' Pensions and is not the direct responsibility of the City Council. In addition, £6.0m (£6.0 million in 2005/06) was paid to retired teachers in respect of added years benefits and, in certain cases, the employer share of teacher pension benefits. These figures include pension increases, where appropriate. A liability is shown on the balance sheet in respect of the Council's obligations to pay added years benefits.

- iv. The following costs have been charged to the City Council's revenue account to reflect full compliance with FRS17 in 2006/07.

Operating Costs	2005/06	2006/07
	£'000	£'000
Current Service Cost	85,657	103,029
Past Service Cost/(Gain)	(46,397)	854
Curtailment Cost	1,404	1,247
Total Cost	40,664	105,130
Finance Costs		
Expected Return on Assets	116,929	138,239
Interest on Pension Liabilities	(144,704)	(153,549)
Net Gain (Cost)	(27,775)	(15,310)

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

Pensions Liability

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

Balance Sheet Items	31.03.2006	31.03.2007
	£m	£m
Market Value of Assets	2,161.3	2,342.3
Liabilities	(3,112.2)	(3,146.8)
(Deficit)	(950.9)	(804.5)

Notes to Core Financial Statements

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

	Assets at 31.03.2006		Assets at 31.03.2007	
	£'000	%	£'000	%
Equities	1,664.2	77.0	1,674.7	71.5
Government Bonds	172.9	8.0	196.8	8.4
Other Bonds	108.1	5.0	91.3	3.9
Property	151.3	7.0	178.0	7.6
Cash/ Liquidity	64.8	3.0	25.8	1.1
Other	0.0	0.0	175.7	7.5
Total	2,161.3	100	2,342.3	100

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

	£'000
Balance at 01.04.06	(950,848)
Appropriation to CRA	(38,604)
Actuarial loss on LGPS and TPS	184,971
Balance at 31.03.07	(804,481)

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

The following assumptions were made:

Financial Assumptions	31.03.2006 %	31.03.2007 %
Rate of Inflation*	2.90	3.10
Rate of increase in Salaries*	4.65	4.85
Rate of increase in Pensions	2.90	3.10
Discount Rate*	4.90	5.40

Expected Rate of Return on Assets

Equities	7.00	7.50
Government Bonds	4.30	4.70
Other Bonds	4.90	5.40
Property	6.00	6.50
Cash/ Liquidity	4.50	5.25
Other	0.00	7.50

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

Notes to Core Financial Statements

For the financial year ending 31st March 2007, the following additional disclosures are required:

Movement In Deficit	2005/06 £'000	2006/07 £'000
Deficit at Beginning of Year	(953,973)	(950,848)
Current Service Cost	(85,657)	(103,029)
Employer Contributions	72,622	81,836
Past Service/Curtailment Cost	44,993	(2,101)
(Net Interest)/Return on Assets	(27,775)	(15,310)
Actuarial (Loss)/Gain	(1,058)	184,971
Deficit at End of Year	(950,848)	(804,481)

LGPS Statement of Actuarial Gains & Losses	2002/03		2003/04		2004/05		2005/06		2006/07	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
Difference between the expected and actual return on assets	(529,240)	41.6	179,198	11.6	68,617	4.0	319,438	14.8	20,984	0.9
Difference between actuarial assumptions about liabilities and actual experience	0.00	0.0	0.00	0.0	68,346	2.6	(66,619)	2.2	0.00	0.0
Changes in the demographic and financial assumptions used to estimate liabilities	0.00	0.0	0.00	0.0	(457,872)	(17.6)	(248,751)	(8.2)	162,101	5.3
Net Actuarial Gain/(Loss)	(529,240)		179,198		(320,909)		4,068		183,085	

Notes to Core Financial Statements

TPS Statement of Actuarial Gains & Losses	2002/03		2003/04		2004/05		2005/06		2006/07	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
Difference between the expected and actual return on assets	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0
Difference between actuarial assumptions about liabilities and actual experience	0.00	0	0.00	0	1,509	2.3	(2,076)	(3.0)	0.00	0
Changes in the demographic and financial assumptions used to estimate liabilities	0.00	0	0.00	0	(6,091)	(9.4)	(3,050)	(4.4)	1,886	2.9
Net Actuarial Gain/(Loss)	0.00		0.00		(4,582)		(5,126)		1,886	

Further information regarding the nature of the two pension schemes and providing actuarial valuation details can be found within the Statement of Accounting Policies.

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

Notes to Core Financial Statements

7. 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 2005/06		No. of Employees 2006/07
468	£50,000 - £59,999	528
135	£60,000 - £69,999	184
43	£70,000 - £79,999	58
21	£80,000 - £89,999	29
7	£90,000 - £99,999	10
0	£100,000 - £109,999	6
0	£110,000 - £119,999	0
2	£120,000 - £129,999	3
4	£130,000 - £139,999	2
0	£140,000 - £149,999	0
0	£150,000 - £159,999	2
0	£160,000 - £169,999	1
<hr/>		<hr/>
680		823

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 2006/07 totalled £2.7m (2005/06 £2.5m).

8. Related Party Transactions

The City Council received a number of general and specific grants from central government totalling £1,634.9million. Precepts were paid to the West Midlands Police Authority, the West Midlands Fire & Civil Defence Authority and New Frankley in Birmingham Parish Council amounting to £37.3 million. Payments to other local authorities and health authorities, excluding precepts, totalled £10.9 million. Receipts from other local authorities totalled £10.4 million. In addition, payments of Employers' Pension Contributions were made to Wolverhampton M.B.C. in respect of members of the Local Government Pension Scheme, and to the Teachers' Pensions Agency in respect of teachers. The amounts of these are detailed in Note 6 above. The City Council paid £118.0 million in grants to a range of voluntary and community organisations. These grants were the main source of funding for a number of these organisations. The City Council also has interests in a number of companies, as detailed in notes 43 and 44. The following transactions are considered material:

Notes to Core Financial Statements

Payments	£m
Birmingham & Solihull Connexions Services Ltd	0.6
Birmingham Asian Resource Centre	0.2
Birmingham Research & Development Ltd	0.2
Birmingham Technology Ltd	0.1
Birmingham Wheels Ltd	0.1
Chinese Community Centre - Birmingham	0.1
Groundwork Birmingham & Solihull Ltd	0.8
Local Leagues Ltd	0.3
Marketing Birmingham Partnership	0.2
Millennium Point Property Limited	0.2
Optima Community Association	0.3
Saint Pauls Community Development Trust	1.3
Service Birmingham	31.0
Symphony Hall (Enterprises) Ltd	2.5
The Birmingham Repertory Theatre Ltd	0.9
The National Exhibition Centre Ltd	0.9

Receipts	£m
Birmingham & Solihull Connexions Services Ltd	0.6
Birmingham Research Park Ltd	0.2
Birmingham Technology (Property) Ltd	0.5
Birmingham Wheels Ltd	0.2
Broad Street Partnership Ltd	0.2
Groundwork Birmingham & Solihull Ltd	0.5
Marketing Birmingham Partnership	0.3
Optima Community Association	2.9
Service Birmingham	6.8
The Birmingham Repertory Theatre Ltd	0.1
The National Exhibition Centre Ltd	0.3

There were no other material transactions between the City Council and its Chief Officers, other than the payment of salaries. Details of these are disclosed in Note 7 above.

9. Building Control Account

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

Notes to Core Financial Statements

Planning

Building Regulations Outturn 2006/07

2005/06				2006/07
Total		Total Chargable Activities	Total Non-chargable Activities	Total
£'000		£'000	£'000	£'000
3,222	Expenditure	2,619	590	3,209
(2,635)	Income	(2,621)	(151)	(2,772)
587	Net (Surplus)/Deficit	(2)	439	437
(73)	Appropriation (from)/to Reserve	2	0	2
514	Net (Surplus)/Deficit after Appropriation	0	439	439

10. Pooled Funding

Integrated Community Equipment Service

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

Expenditure in 2006/07 was:

	Planned Spend £	Actual Spend £	Carry Forward £
PCT'S Main Fund			
Scheme:			
General Schemes	174,755	(14,967)	189,722
Telecare Development	48,609	62,152	(13,543)
Beds Co-Ordinator	45,552	44,734	818
Carry Forward	268,916	91,919	176,997
HOB - Children's Equipment -	27,000	5,929	21,071
East and North Birmingham PCT Children's Equipment	51,394	43,501	7,893
South Children's Equipment	30,000	31,649	(1,649)
Birmingham City Council	422,000	422,000	0
Carry Forward	530,394	503,079	27,315
Memorandum Carry Forward:			
East and North PCT 38.07%			67,383
South 34.30%			60,710
HOB 27.63%			48,904
			176,997

Notes to Core Financial Statements

Pooled Fund to Support the Provision of Adult Learning Disability Services

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

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

	Cash Contributions		There are nine projects included in this plan:
	2005/06 £	2006/07 £	
Birmingham East and North PCT	967,922	1,161,953	1. Advocacy Services
Birmingham City Council	163,854	200,899	2. Health Related
Balance Brought Forward	0	0	3. Supported Living
Total Funding	1,131,776	1,362,582	4. Person Centred Planning
Expenditure	1,131,776	790,461	5. Carers
Net Underspend/Carried Forward	0	572,391	6. Modernising Day Activities
			7. Employment
			8. Leadership
			9. Transition

11. Auditors Remuneration

The Council's appointed auditors are the Audit Commission. Payments to the auditors in 2006/07 totalled £1.1 million (£1.2 million in 2005/06) of which £0.8million (£0.7million in 2005/06) related to the audit of the Council's statutory accounts, service inspections, and assessments of the Council's improvement programmes. The £0.8 million was made up of £0.2million inspection work and £0.6million code of practice work. The remaining £0.3 million (£0.5 million in 2005/06) related to the audit of grant claims submitted to central government and the European Union.

12. Local Government (Goods and Services) Act 1970

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

2005/06 Net £'000		Expenditure £'000	Income £'000	2006/07 Net £'000
(38)	Birmingham City Laboratories	233	(282)	(49)
0	Education Services	149	(149)	0
0	Health & Safety Advice	28	(51)	(23)
0	Highways	1,268	(1,268)	0
0	Legal Services	55	(61)	(6)
0	Planning	120	0	120
0	Property Services	34	(52)	(18)
(22)	Urban Design	123	(173)	(50)
(60)	Total	2,010	(2,036)	(26)

Notes to Core Financial Statements

13. Levies

The following levies were paid by the Council in 2006/07:

Payments	£m 2005/06	£m 2006/07
Passenger Transport Authority	25.7	25.3
Environment Agency	0.3	0.3
Housing Capital Receipts Pooling Payment To the Office of the Deputy Prime Minister	31.9	31.7
Total	57.9	57.3

14. Private Finance Initiative

The Council currently has two Private Finance Initiative Schemes in operation, one for the provision of ten new schools and the other for the replacement of public conveniences.

Private Finance Initiative Commitments

i) Schools PFI

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

At 31st March 2003, all 10 schools had been completed. In accordance with FRS5 the balance sheet reflects these 10 schools as the Council's assets because the Council bears the majority of the risks and rewards of ownership. The value of assets recognised on the Balance Sheet is £71.9m net of depreciation of £3.8m. The deferred liability recognised in respect of this scheme, amounts to £37.5m.

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 33, represents the present value of basic availability payments. In 2006/07 the deferred liability was written down by £0.6 million. The remaining availability payments are charged to the Income and Expenditure Account as an approximation for interest. Further availability payments are charged to the Education Service Revenue Account.

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

	Services £'000	Availability £'000	Total £'000
Within one Year	3,201	4,813	8,014
2008/9 to 20012/13	16,825	24,647	41,472
20013/14 to 2017/18	19,035	25,713	44,748
2018/19 to 2022/23	21,537	26,918	48,455
2023/24 to 2027/28	24,367	28,282	52,649
2028/29 to 2031/32	21,780	23,727	45,507
Total	106,745	134,100	240,845

Notes to Core Financial Statements

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

The City Council was awarded a PFI Credit of £50.6 million, 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 21 locations. The contract is a Private Finance Initiative under the Capital Finance Regulations.

At 31st March 2007 there were 21 conveniences provided under the contract. All 22 conveniences are expected to be operational in 2007/08. There are no payments made under the contract for facilities that are not operational.

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

	£'000
2007/08 to 2011/12	2,621
2012/13 to 2016/17	2,950
2017/18 to 2021/22	3,355

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

15. Business Improvement District

The Broad Street area of the city centre has been a Business Improvement District since August 2005. Under this scheme local businesses pay a levy, collected by the City Council, and paid to over to the BID Management Company, which is used to fund additional services and environmental improvements. The amount billed in 2006/07 was £321,017. The Council incurred collection costs of £12,000. Neither the proceeds of the levy nor the payment to the BID company are shown in the Council's accounts. Any uncollectable levies are a charge to the BID Company and not to the Council.

16. Dedicated Schools Grant

The Council's expenditure on schools is funded by a grant from the Department of Education and Skills (DES). This grant is known as the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget which is divided into a budget share for each school. Over- and underspends on the two elements are required to be accounted for separately. The Council is able to supplement the Schools Budget from its own resources but chose not to do this in 2006-07. In the previous year school

Notes to Core Financial Statements

expenditure was funded by Revenue Support Grant which was not accounted for as income to the Education service. This explains the large variance in Education net expenditure.

	Central Expenditure £'000	Individual School Budget £'000	Total £'000
Original Grant Allocation to Schools Budget for the current year in the Council's Budget	51,873	626,973	678,846
Adjustment to Finalised Grant Allocation	(1,054)		(1,054)
DSG Receivable for Year	50,819	626,973	677,792
Actual Expenditure for Year	49,542	617,069	666,611
(Over)Underspend for Year	1,277	9,904	11,181
Planned Top Up Funding from Council Resources	0	0	0
Use Of School Balances Brought Forward	0	0	0
(Over)Underspend from previous year	0	0	0
(Over)Underspend carried forward to 2007-08	1,277	9,904	11,181

17. Capital Expenditure

The City Council's capital expenditure on an accruals basis, including amounts owing but not paid in 2006/07, analysed between types of asset, is summarised below. This also includes deferred charges.

Capital Expenditure Type of Asset	2005/06 £m	2006/07 £m	Capital Financing Source	2005/06 £m	2006/07 £m
Other Land & Buildings	293.7	99.5	Borrowing	66.2	52.9
Vehicles & Equipment	7.0	12.9	Prudential Borrowing	229.3	99.4
Investment Properties	1.2	3.4	Capital Receipts	90.5	74.0
Infrastructure	42.2	42.3	Grants & Contributions	157.5	169.9
Community Assets	29.4	18.3	Revenue	5.1	9.2
Council Dwellings	115.5	110.4	Operating Leasing	1.5	0.8
Intangible Assets		7.8			
Total Capital Expenditure re Fixed Assets	489.2	294.6			
Deferred Charges	59.4	110.8			
Operating Leasing	1.5	0.8			
Total Capital Expenditure	550.1	406.2	Total	550.1	406.2

Notes to Core Financial Statements

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.

18. Movements in Fixed Assets

	Council Dwellings & Garages £m	Other Land & Buildings £m	Vehicles Plant & Equipment £m	Infrast- ructure Assets £m	Surplus Properties £m	Investment Properties £m	Total £m
Gross Book Value at 1 April 2006	2,496.8	2,340.7	55.0	711.4	195.9	215.7	6,015.5
Less Accumulated Depreciation at 1st April 2006	(203.1)	(148.0)	(28.0)	(296.5)	0.0	0.0	(675.6)
Net Book Value at 1st April 2006	2,293.7	2,192.7	27.0	414.9	195.9	215.7	5,339.9
Additions	0.0	38.0	4.1	42.6	0.0	0.0	84.7
Disposals	(47.1)	(1.2)	0.0	0.0	(29.7)	(2.1)	(80.1)
Revaluations	137.6	235.8	0.0	0.0	34.8	20.7	428.9
Restatements	0.0	(6.3)	0.0	0.0	0.0	0.0	(6.3)
Depreciation for year	(38.8)	(48.1)	(9.7)	(23.5)	0.0	0.0	(120.1)
Net Book Value At 31 March 2007	2,345.4	2,410.9	21.4	434.0	201.0	234.3	5,647.0

The Council also has £7.8 million of intangible assets relating to computer software licences. These were acquired in 2006-07.

19. Fixed Asset Valuations

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

Approximately one fifth of the Council's property assets are valued each year. Peter Jones MRICS, Assistant Director and other similarly qualified staff in Birmingham Property Services, Resources Directorate, carried out the valuations, and a Valuation Certificate was issued in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The effective date of the current year's valuation is the 1st April 2006. Properties regarded as operational were valued on the basis of Existing Use Value. Where the asset is of a specialist nature, the method of valuation was Depreciated Replacement Cost.

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

Notes to Core Financial Statements

Operational Assets (Housing):

The entire housing stock was valued as at 1st April 2005 by Peter Jones MRICS and similarly qualified staff in Birmingham Property Services, according to the Office of the Deputy Prime Minister (ODPM) 'Guidance on Stock Valuation for Resource Accounting' updated and revised in July 2005. The valuation was on the basis of Existing Use Value for Social Housing using sample "beacon properties" and a valuation certificate was issued in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The Valuer did not inspect all properties in undertaking this work. A desktop review of the beacon values was carried out as at 1st April 2006 by Peter Jones MRICS and his staff in accordance with the ODPM guidance. A further review will be undertaken for 1st April 2007.

Infrastructure and Community Assets:

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

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

Intangible assets :

Intangible assets are shown at cost.

20. Land, Buildings and Other Assets

31.03.06	Property Assets (major categories)	31.03.07
68,247	Council Dwellings	66,870
6,500	Investment Interests	6,500
456	Schools & Nurseries	440
53	Other Education Establishments	75
126	Office & Administrative Premises	138
133	Social Services Properties	39
40	Libraries	39
12	Museums & Art Galleries	12
28	Swimming Pools, Leisure Centres & Sports Stadia	57
125	Public Halls & Community Centres	89
180	Parks	308
26	Depots	30
66	Public Car Parks	65
282	Hectares of Leisure Gardens & Smallholdings	282
3	Markets	3
2,475	Kilometres of Roads	2,475
11	Cemeteries and Crematoria	13
Council Dwellings comprise the following types of properties		
68,145	Freehold/Long Leasehold	65,768
102	Short Leasehold	102

Notes to Core Financial Statements

21. Commitments under Capital Contracts

The City Council has to plan its capital spending in advance of work proceeding. Thus, at 31 March 2007 a number of contracts had been entered into under which payments will become due in future years as the work is carried out. Significant commitments (£1.0m or more) under capital contracts at that date were as follows:

	Total £m	2007/08 £m	2008/09 £m	2009/10 £m
Transportation Schemes				
Selly Oak Relief Road	2.0	2.0		
Children, Young People and Families				
Construction of Childrens Centres	3.8	3.8		
Economic Development Schemes				
Vocational Training Facility	2.0	2.0		
National Exhibition Centre				
Catering Pods and Toilets Phase 2	4.1	3.7	0.4	
North Car Park	2.3	2.3		
Trane Unit	1.9	1.9		
Resources				
Council House Extension	2.7	1.9	0.8	
Core ICT Server Refresh	16.2	9.1	5.6	1.5
Sutton New Road office block	4.2	4.2		
Total	39.2	30.9	6.8	1.5

22. Leasing

During 2006/07, the City Council paid £0.1m (2005/06 £0.1m) in finance lease rentals and £4.9m (2005/06 £5.5m) in operating lease rentals.

As at 31st March 2007, the City Council has a commitment to meet the following rental charges on both finance and operating leases:

	Finance Leases £m	Operating Leases £m	The assets financed by these leases consist entirely of vehicles, plant and equipment.
2007-08	0.1	3.1	
2008-2009	0.1	2.2	
2009-2012	0.1	0.7	
Total	0.3	6.0	

Notes to Core Financial Statements

23. Segmental Analysis of Net Assets

The Council had net assets of £3,070 million as at 31st March 2007 of which £2,160 million related to the General Fund and £910 million to the Housing Revenue Account.

24. Premature Debt Repayment Premiums

	2005/06	2006/07
	£m	£m
Opening Balance as at 1 April	13.6	11.1
Net Discounts/ Premiums on Premature Redemption of Debt	0.0	23.8
Amounts charged to Asset Management Revenue Account	(2.5)	(1.7)
Closing Balance as at 31 March	11.1	33.2

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

25. Investments

31.03.06		31.03.07
£m		£m
	Long Term Investments	
226.9	Unlisted Investments intended to be held for the medium or long term at cost or valuation*	*227.9
	Short Term Investments	
113.9	Temporary Money Market Deposits and Section 106 Monies	153.0
340.8	Total Investments	380.9

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

The Council is continuing to guarantee repayment of the full amount on the principal of and interest accruing on the NEC (Developments) Limited loan stocks (See Note 40). The City Council is continuing to make a provision to repay the principal on these loan stocks. Part of these sums is now being invested by Morley Fund Management on behalf of the City Council.

Notes to Core Financial Statements

26. Long Term Debtors

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

31.03.06 £m		31.03.07 £m
1.0	Mortgages:- Former Council House Tenants	0.8
3.0	Birmingham Technology Group	3.0
2.9	Birmingham Hippodrome	0.0
1.7	Employee Loans	1.5
1.2	N.E.C. Developments Plc	1.1
0.4	Learning & Skills Council	0.4
16.4	Millennium Point	16.4
1.1	Think Tank	1.0
8.0	Deferred Capital Receipts	7.0
0.3	Other Long Term Debtors	0.2
36.0	Total Long Term Debtors	31.4

At 31st March 2006 a total of £7.1 million was owed to the Council By Birmingham Airport (Holdings) Ltd. This loan was due for repayment by 31st March 2007 and therefore included under current assets in the 2005-06 accounts. The loan was repaid in full in March 2007.

The amount owed by Birmingham Hippodrome at 31st March 2006 was converted into a grant during the year.

27. Stocks and Stores

An analysis of stocks and stores is shown:

31.03.06 £'000		31.03.07 £'000
936	National Exhibition Centre	869
879	Local Services	817
376	Libraries & Museums	331
669	Transportation	571
345	Other	407
172	Work in Progress	148
3,377	Total	3,143

28. Landfill Allowances

The figure for landfill allowances is based on total allowances brought forward from 2005-06 of 72,023 tonnes and allowances received in 2006-07 of 152,551 tonnes. These allowances have been valued at £17.98 per tonne. The 2005-06 vintage allowances were valued at £20.20 in the 2005-06 accounts. The reduction in value represents an impairment which has been charged to the Income and Expenditure Account.

Notes to Core Financial Statements

29. Debtors

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

31.03.06 £m		31.03.07 £m
	Sums due from:	
57.8	Council Tax Payers	70.6
31.4	Business Rate Payers	25.7
22.4	Residential & Commercial Rents	20.3
68.1	Government Departments	92.8
124.5	Others	131.2
304.2		340.6
(59.4)	Provision for Bad Debts	(57.7)
244.8	Total Debtors	282.9

Debtors as at 31st March 2007 include an amount of £11.3 million owed to the Council by Service Birmingham.

30. Cash

Of the total cash held by the City Council, £33.2 million was held by schools operating their own bank accounts under schemes of delegated financial management.

31. Financial Instruments

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

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

Overall level of borrowing

The Council approved an authorised limit for borrowing and other long term liabilities of £1,799m for 2006/07 and the maximum actual level in the year was £1,617m.

Interest rate risks

The Council set an upper limit on its variable interest rate exposure of 35% of its borrowing net of investments. The maximum actual exposure during the year was 5%.

Notes to Core Financial Statements

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

	Liabilities £m	Assets £m
Variable Rate	173.5	136.0
Fixed Rate	1,387.3	200.1
	1,560.8	336.1

The Council had no undrawn committed borrowing facilities but was able to obtain unsecured borrowing from the sterling financial markets and could borrow from the Public Works Loans Board for up to 50 years, for all its needs within its authorised limit of £1,799m. Because the Council funds long term infrastructure assets much of its borrowing is long term, with 75% of its borrowing maturing in excess of 10 years, within a limit of 80% set by the Council. The analysis by type and the maturity structure of financial liabilities was as follows:

31.03.06 £m		31.03.07 £m
	Analysis by Source:	
235.0	Stock	235.0
986.8	Public Works Loan Board	1,042.2
156.9	Other market Loans	166.9
5.3	Short Term Loans	116.7
1,384.0	Total Borrowing	1,560.8

The balance sheet shows these borrowings as follows:

31.03.06 £m		31.03.07 £m
52.2	Borrowings repayable within 12 months	173.5
140.0	Between 1 & 5 years' time	100.1
159.2	Between 5 & 10 years' time	122.7
161.8	Between 10 & 15 years' time	126.7
185.3	Between 15 & 20 years' time	175.3
315.7	Between 20 & 25 years' time	288.0
125.0	Between 25 & 40 years' time	147.7
244.8	After more than 40 years	426.8
1,384.0	Total Borrowings	1,560.8

Notes to Core Financial Statements

Fair values of financial liabilities and assets

Set out below is the book value and fair value of financial instruments at 31 March 2007. The fair value reflects the amount of fixed rate debt taken in earlier years at a relatively high rate of interest:

	Book Value £m	Fair Value £m
Borrowing repayable within 12 months	173.6	189.7
Long term Borrowing from PWLB	1,042.2	1,278.7
Other long term Borrowing	345.0	467.3
Financial Assets	(336.1)	(436.3)
	<hr/>	<hr/>
	1,224.7	1,499.4

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

32. Creditors

An analysis of creditors is shown below.

31.03.06 £m		31.03.07 £m
73.3	General Creditors	72.5
28.3	Government Grants	33.0
24.4	HM Collector of Taxes (Income Tax & National Insurance)	25.3
62.0	Receipts in Advance	65.8
18.0	Amounts Owed to and on behalf of Employees	18.7
39.0	Collection Fund	33.2
147.7	Other	174.6
<hr/>		<hr/>
392.7	Total Creditors	423.1

The figure of £18.7 million relating to Amounts Owed to and on behalf of Employees includes accrued pension contributions payable to the LGPS and TPS scheme administrators amounting to £5.9 million and £7.5 million respectively.

Notes to Core Financial Statements

33. Deferred Liabilities

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

31.03.06 £m		31.03.07 £m
74.2	Debt taken over from the former West Midlands County Council	72.9
3.1	Walsall Waste Disposal	3.0
38.1	Schools PFI	37.5
0.4	Other	0.3
115.8	Total Deferred Liabilities	113.7

34. 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. During the year grants totalling £81.5 million (2005/06 £70.4 million) used to finance the acquisition of fixed assets were taken to the account and £14.1 million (2005/06 £12.1m), equivalent to depreciation on assets financed by grants in previous years, was written off to revenue.

35. Provisions

	31.03.06 £m	Increase in Year £m	Applied in Year £m	31.03.07 £m
NEC Ltd Loan Debt	22.3	9.9	0.0	32.2
Other	7.1	5.2	0.0	12.3
	29.4	15.1	0.0	44.5

35.1 NEC Ltd.

In addition to the provision detailed in the table above which relates to the £73m loan stock referred to in note 40i, the City Council is also guaranteeing repayment of the full amount on the principal of and interest accruing on the NEC loan stocks raised for the construction of the International Convention Centre, the National Indoor Arena, and Hall 10 at the National Exhibition Centre. At 31st March 2007 the amount of the loan guaranteed was £200 million (2006: £200 million). Since the City Council has acquired the loan stocks in exchange for new City Council bonds maturing in 2030, the Council no longer requires any provision to repay the loan stock.

35.2 Bad Debt Provision

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

Notes to Core Financial Statements

36. Fixed Asset Restatement Account

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

The movements on the Fixed Asset Restatement account in 2006/07 are as follows:

	2005/06 £m	2006/07 £m
Opening Balance at 1 April	2,361.9	2,693.3
Revaluation and Restatement of Fixed Assets	588.9	422.6
Exp not resulting in a change in Asset Values	(176.4)	(202.1)
Disposal of Fixed Assets	(81.1)	(80.1)
Closing Balance at 31 March	2,693.3	2,833.7

37. Capital Financing Account

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

The movements on the Capital Financing Account are shown below:

	£m	2005/06 £m	2006/07 £m	£m
Opening Balance		776.7		845.1
Capital Receipts Reserved				
Voluntary Set Aside		36.6		1.6
Financing of Capital Expenditure				
Use of Capital Receipts	90.5		75.6	
Use of Major Repairs Reserve	39.4		38.8	
Direct Revenue Financing	5.1	135.0	9.1	123.5
		<u>948.3</u>		<u>970.2</u>
Depreciation	(71.8)		(80.0)	
Impairment of Fixed Assets	(1.3)		(1.2)	
Transfer from Major Repairs Reserve	(39.4)		(38.8)	
Write Down of Deferred Grant	12.1		14.1	
Write Off of Grants not Funding Depreciable Assets	17.6		8.0	
Deferred Charges - Expenditure	(58.4)		(110.8)	
Deferred Charges - Income	30.1		37.7	
Minimum Revenue Provision	35.2		45.2	
Other	(27.3)		(5.4)	
		<u>(103.2)</u>		<u>(131.2)</u>
		845.1		839.0

Notes to Core Financial Statements

38. Earmarked Reserves

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

	31.03.06 £m	Movement in year £m	31.03.07 £m
Sums set aside to Finance Capital Expenditure	57.8	(23.4)	34.4
Reserves for Budgets Delegated to Schools	45.0	10.4	55.4
Service Development Reserve	7.4	(2.3)	5.1
Treasury Management Reserve	5.5	5.8	11.3
Car Parking VAT Reserve	2.3	7.8	10.1
PFI Schools Reserve	4.3	2.0	6.3
Insurance Reserve	6.8	5.0	11.8
Other	14.4	(3.6)	10.8
	143.5	1.7	145.2
Usable Capital Receipts	14.8	(2.5)	12.3
Capital Contributions Unapplied	23.0	8.0	31.0
Housing Major Repairs Reserve	0.0	0.0	0.0
	181.3	7.2	188.5

The reserve in respect of budgets delegated to schools is a net figure held by schools at 31st March 2007 and is an earmarked reserve which must in totality be available for schools' use.

The net figure held by schools, before any temporary loans to the General Fund are taken into account, is made up of £68.4m underspent by schools and £7.7m overspent by schools.

Earmarked reserves are available to fund capital or revenue expenditure, following approval by the Cabinet. Expenditure is charged to the revenue or capital account when it is incurred and is financed by an appropriation from the reserve to the Consolidated Revenue Account. The balance on the Service Development Reserve includes a sum of £4.4 million which is earmarked for particular services but held centrally pending satisfactory progress against the Council's efficiency savings targets.

The Housing Major Repairs Reserve is a reserve to which is credited the Major Repairs Allowance which may be applied to the financing of housing repair work. £38.8 million was received during the year. All of this was applied to the funding of Housing capital expenditure leaving a nil balance.

Notes to Core Financial Statements

39. Balances on revenue accounts and the Collection Fund

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

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

	31.03.06 £m	Movement in year £m	31.03.07 £m
General Fund	29.5	(0.8)	28.7
Housing Revenue Account	13.4	(10.3)	3.1
Collection Fund	0.7	4.1	4.8
	43.6	(7.0)	36.6

40. 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. The City Council currently has the following contingent liabilities:

- i. The City Council is guaranteeing payment of the full amount on the principal of and interest accruing on the National Exhibition Centre (Developments) PLC loan stock raised in May 1997 for the construction of the four new halls at the National Exhibition Centre. The amount of the loan guaranteed is £73m (2006: £73m), due in 2027.
- ii. The City Council has agreed to guarantee up to a maximum of £13.5m of commercial loans made by Württembergische Hypothekenbank AG to Aston Science Park Limited. At 31 March 2007 the full amount of £13.5m (2006: £13.5m) had been drawn down against this facility. The loan facility is due for repayment over 17 years and repayments commenced in May 2004.
- iii. The City Council has an Accountable Body role for a range of grant funding regimes such as Single Regeneration Budget, New Deal for Communities, Birmingham Children's Fund and European Funding. This role can be project specific, where the Council accesses funding directly for itself or on behalf of another organisation, or programme related, where the Council is accountable for the delivery of or underwrites the performance of a specific programme. There is a potential liability to the Council arising from potential non-delivery of outputs, ineligible expenditure or disposal of assets. To minimise the impact of these possible liabilities the City Council has introduced various controls and mechanisms such as legal agreements, charges on assets and detailed expenditure verification and monitoring procedures.
- iv. The City Council's final Housing Benefit claims for 2004/05 and 2005/06 are still being considered by the Department of Work and Pensions. There may be a clawback of subsidy from the City Council, above the level provided for in the accounts, which would reduce the level of benefit income shown and also reduce the General Fund balance carried forward.
- v. In December 2003, the City Council received £7m ERDF grant funding towards a strategic land assembly project on the A38 Bristol Road South as part of a wider partnership development with the Regional Development Agency. This development opportunity is still progressing but has not matured as quickly as was originally anticipated. As a result the City Council may be deemed to be in breach of the funding conditions and be required to repay the grant.

Notes to Core Financial Statements

- vi. Under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003, employees are entitled to equal pay for work of equal value. In 2006/07 the Council paid £25.9m to employees as a consequence of this. Further payments are planned in 2007/08 but the extent of these cannot be quantified at present. No provision has been made in the balance sheet for the 2007/08 or any future potential liabilities.

41. Insurance

The City Council maintains an Insurance Reserve to assist in managing claims falling against negotiated policy excesses. The policy excesses, which change from time to time, are for the major risks (2006/07 policy year):

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

The balance on the reserve is £11.85m (2005/06: £6.8m) as shown in the table at Note 38.

Municipal Mutual Insurance Co Ltd (MMI), through which the City Council had part of its fire insurance and a number of contingency covers, ceased writing new insurance business in 1992 and is currently using its available resources to meet outstanding claims. MMI may not fully know the full extent of its liability claims as it may take a number of years for them to arise, however the company has continued to settle claims in an orderly manner.

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

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

42. 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 2007, based upon the figures within the table below, were £12.8m (2006: £ 12.3m).

In addition, the City Council held £1.8m (2006: £0.4m) of Social Services Clients' Funds.

The trust funds and clients' funds do not represent assets of the City Council and have not been included in the Consolidated Balance Sheet.

Notes to Core Financial Statements

The major trust funds are detailed below, with those highlighted in bold indicating where the City Council acts as sole trustee:

	Opening Balance £'000	Income £'000	Expenditure £'000	Closing Balance £'000
Bodenham Trust - For children with special educational needs	561.6	39.3	32.8	568.1
Centre for the Child - To promote the education of children & their carers	156.4	0.2	17.1	139.5
Charles Baker Trust - For the elderly and disabled	206.6	11.8	1.6	216.8
Clara Martineau Trust - For children with special educational needs	2,556.5	545.7	84.9	3,017.3
Cropwood Estate - Management of the estate	245.6	10.8	0.0	256.4
Francis Lyn Betteridge Memorial Trust - for the relief of needy children	117.4	5.3	0.0	122.7
Girls Night Shelter for women and girls in need or distress	294.2	13.9	0.6	307.5
Holinsworth Fund - To further the work of voluntary hospitals	168.1	15.4	3.8	179.7
Museum & Art Gallery Development Trust - Enhancement of city museums	113.8	30.4	0.5	143.7
The Elford Trust - Healthy recreation for Birmingham citizens	1,743.2	54.1	70.0	1,727.3
The Harriet Louisa Loxton Charity - For the aged and infirm	1,177.1	216.3	14.4	1,379.0
The Lord Mayor's Charity Appeal - For charitable purposes	191.0	94.2	92.1	193.1
Highbury Trust To use the bequest for the benefit of the citizens of Birmingham.	4,000.0	235.1	235.1	4,000.0
Other	560.5	8.7	6.6	562.6
	12,092.0	1,281.2	559.5	12,813.7

All figures are based upon the latest audited accounts of the respective trust funds.

Notes to Core Financial Statements

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

	Restricted Funds Closing Balance £'000	Unrestricted Funds Closing Balance £'000	Total Closing Balance £'000
Bodenham Trust - For children with special educational needs	568.1	0.0	568.1
Centre for the Child - To Promote the education of Children & Their Carers	139.5	0.0	139.5
Charles Baker Trust - For the elderly and disabled	64.1	152.7	216.8
Clara Martineau Trust - For children with special educational needs	3,017.3	0.0	3,017.3
Cropwood Estate - Management of the estate	226.0	30.4	256.4
Francis Lyn Betteridge Memorial Trust - for the relief of needy children	122.7	0.0	122.7
Girls Night Shelter for women and girls in need or distress	248.9	58.6	307.5
Holinsworth Fund - To further the work of voluntary hospitals	161.5	18.2	179.7
Museum & Art Gallery Development Trust - Enhancement of city museums	110.9	32.8	143.7
The Elford Trust - Healthy Recreation for Birmingham Citizens	1,492.0	235.3	1,727.3
The Harriet Louisa Loxton Charity - For the aged and infirm	1,320.9	58.1	1,379.0
The Lord Mayor's Charity Appeal - For charitable purposes	26.9	166.2	193.1
Highbury Trust	4,000.0	0.0	4,000.0
	11,498.8	752.3	12,251.1

Notes to Core Financial Statements

43. 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 40 also lists major contingent liabilities in relation to some of these following companies.

The major investments are in the following companies.

The National Exhibition Centre Limited - Draft Company Accounts

The City Council holds 5,000 £1 shares (50%) in the company, the purpose of which is to promote and operate the National Exhibition Centre, the International Convention Centre and the National Indoor Arena. At 31st March 2007, the City Council was guaranteeing loans of £200m (2006: £200m) to the company.

After discontinued operations, the Company made a profit before and after tax of £2,853k during the year to 31st March 2007 (2006: profit of £819k). The Company's net liabilities at 31st March 2007 amounted to £27,120K (2006: £32,312k). 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 35.1 of the financial statements, in issue at the date of the agreements, or any interest costs or expenses payable in respect thereof remain to be repaid or paid. During 2006/07, the City Council made reimbursements totaling £18,444m to the Company NEC Ltd, (2005/06, £19.803m).

There was no qualification to the audit opinion on the latest audited accounts of this company. The accounts of NEC Ltd. have been consolidated with those of the City Council in the group financial statements on page 68.

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

The Company was set up to provide an additional 30,000 square metres of exhibition space in four new halls. The new building has been financed by a loan stock issue of £73million to the company which is guaranteed by the City Council. The City Council was allotted 450 of 1,000 ordinary shares of £1 each and 50,000 of 100,000 preference shares of £1 each in the company. The City Council has loan notes totalling £1.2 million in the company and has agreed to make available additional loans of £3.1 million should the Company require further funds. The loss before and after tax for the year to 31st March 2007 amounted to £14,000 (2006: £14,000). The net liabilities at 31st March 2007 amounted to £1,170,000 (2006: £1,156,000).

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

Birmingham Technology Group

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

Notes to Core Financial Statements

The Groups figures for the year ending June 2005 and 2006 are as follows:

2005 £m		2006 £m
0.1	Profit/(loss) on Ordinary Activities before taxation	0.4
0.1	Profit/(loss) on Ordinary Activities after taxation	0.6
7.4	Net Assets	8.1

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

Other Associated and Subsidiary Companies:

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

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

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

44. Other Company Interests

Birmingham Airport Holdings Ltd (Bah) - Draft Company Accounts

The main ordinary shareholders of BAH are the seven West Midland Districts. The Seven Districts together own 49% of BAH's 324 million ordinary shares of 1p each (Birmingham City Council owns 18.7% i.e. 60,535,200 shares). The remaining ordinary shares were held in 2006-2007 by Macquarie Airports Group Limited (24.125%), Aer Rianta International cpt which is owned by Dublin Airport Authority plc (24.125%) and 2.75% by an Employee Share Trust (see note 46 Post Balance Sheet Events).

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.

Notes to Core Financial Statements

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 owned all £18.5m subordinated loan stock. The City Council owned £7,055,322 on which interest was payable at 8.72% fixed until March 2007 when the loan was repaid.

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 31.03.06 as restated £m		Year to 31.03.07 £m
29.3	Net Profit before Tax	17.1
19.5	Net Profit after Tax	12.1
254.5	Net Assets including pension liability at 31 March	254.4
2.5	City Council Dividend Income	2.4

Service Birmingham Ltd- Draft Company Accounts

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

Trading commenced on the 1st April 2006, with the principal activity being the provision of ICT and business transformation outsourcing services to the City Council. The profit after tax for the nine months to 31st December 2006 amounted to £2,035k and the net assets at 31st December 2006 amounted to £2,036k.

45. Possible Introduction of the Euro

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

Birmingham City Council has a Euro Co-ordinator, the Director of Corporate Finance, and is developing a contingency plan. The Authority has arranged for payments to be received in Euros although, at this time, the exchange rate risk remains with the payer. Arrangements are in place to make payments in

Notes to Core Financial Statements

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.

46. Post Balance Sheet Events

The accounts were approved for issue by the Director of Corporate Finance and Asset Management on 26th June 2007. The following event occurred between the balance sheet date and this date that may affect users' understanding of the accounting statements and therefore require disclosure:

On 17th May 2007, it was announced that Macquarie Airports Group Limited and Aer Rianta International cpt had accepted an offer from Airport Group Investments Ltd. (AGIL) of £420m for their 48.25% joint shareholding. AGIL is a limited company owned by the Ontario Teachers Pension Plan and Victorian Funds Management Corporation. The seven West Midlands Districts decided not to exercise their pre-emption rights and the sale to AGIL completed on the 19th September 2007.

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

	2005/06 £m	2006/07 £m
(Surplus)/Deficit on Income & Expenditure Account	18.0	146.7
(Surplus)/Deficit on Collection Fund	(0.6)	(4.2)
	17.4	142.5
Provisions set aside	(25.9)	(11.7)
	(8.5)	130.8
Items Included Under Another Classification:		
Interest Paid	(87.1)	(94.1)
Interest Received	37.1	38.8
Capital Financing Costs	(35.7)	(45.2)
PFI Grant	4.6	4.6
Adjust for Non-Cash Items	(38.1)	(141.6)
Items on an Accrual Basis:		
Movement in Stock	0.3	(0.2)
Movement in Debtors	30.2	38.1
Movement in Creditors	(71.5)	(30.4)
	(168.7)	(99.2)

48. Reconciliation of net cash flow to movements in net debt

Notes to Core Financial Statements

	Long Term Loans £'000	Loans Maturing In 12 months £'000	Long Term Creditors £'000	Other Investments £'000	Overdrawn / (In Hand) £'000	Net Debt £'000
31.03.06	1,331,824	52,151	115,751	(113,913)	167	1,385,980
31.03.07	1,387,320	173,461	113,753	(153,024)	(8,386)	1,513,124
Movement in Year	(55,496)	(121,310)	1,998	39,111	8,553	(127,144)
Made up of Movements in:					Cash	8,553
					Borrowing	(176,806)
					Investments	39,111
					Repayments of Deferred Liabilities	1,998
						(127,144)

49. Analysis of changes in net debt

	01.04.06 £'000	Cash Flow £'000	31.03.07 £'000
Cash Overdrawn	167	(8,553)	(8,386)
Due Within One Year	52,151	121,310	173,461
Due After One Year	1,331,824	55,496	1,387,320
Investments	(113,913)	(39,111)	(153,024)
Deferred Liabilities	115,751	(1,998)	113,753
	1,385,980	127,144	1,513,124

Notes to Core Financial Statements

50. Other Government Grants

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

	2005/06 £m	2006/07 £m
Revenue		
Housing Subsidy	20.6	8.5
NRF	21.0	27.5
Rent Allowances	149.6	167.5
Council Tax Benefit	80.1	82.7
European Social Fund	1.6	2.9
European Regional Development Budget	1.2	1.2
Single Regeneration Budget	3.6	3.5
Education Grants	222.8	918.2
PFI Grant	4.6	4.6
Other	289.6	287.0
	794.7	1,503.6
Capital		
ERDF	6.7	2.2
SRB	7.6	0.0
PRG	0.0	7.7
Education Capital Grants	17.3	42.4
Other	82.0	80.6
	113.6	132.9

51. Prior Year Adjustments

A number of restatements were required to the 2005/06 balance sheet to comply with the new accounting requirements of the 2007 SORP. As a result of the requirement for the new Statement of Total Recognised Gains and Losses a number of additional prior period adjustments were identified.

Not all land cleared of council dwellings had been included on the asset register. An amendment has now been made to include £94.6m of cleared land as a revaluation adjustment in 2005/06 and reflected in the net book value of surplus assets at 31 March 2006. A further £3.7m of assets have been included in the net book value (NBV) of other land and buildings from 31 March 2005. £98.4m of surplus properties included in the NBV of 'other land and buildings' have been re-categorised as non-operational.

In 2005/06 £33.7m of government grants were written off to the capital financing account on the basis that it had not been identified against depreciable assets. £15.3m related to cultural, environmental and planning assets and has now been credited to the income and expenditure account. £16.1m has been identified against depreciable assets and has been included in the deferred government grants account.

The balance sheet as at 31st March 2006 has been amended to show deferred capital receipts of £9.9 million. These relate to disposals of fixed assets where the capital receipts will be received by the Council in future years. Where amounts are due in the following accounting period they are included in current assets debtors. Otherwise they are shown as Long Term Debtors. See Notes 26 and 29.

Supplementary Financial Statements

HRA Income and Expenditure Account

Actual 2005/06 £'000	Actual 2005/06 £'000		Actual 2006/07 £'000	Actual 2006/07 £'000
		Income		
(184,699)		Dwellings Rents (Gross)	(188,625)	
(4,969)		Non Dwellings Rents	(4,835)	
(18,732)		Charges for Services & Facilities	(21,306)	
0.00		Contributions towards Expenditure	0.00	
(20,573)		Housing Revenue Account Subsidy Receivable	(7,590)	
0.00		Sums Directed by the Secretary of State that are Income in accordance with UK GAAP	0.00	
	(228,973)	Total Income		(222,356)
		Expenditure		
75,468		Repairs and Maintenance	74,542	
58,579		Supervision & Management	60,666	
7,994		Rent, Rates, Taxes and Other Charges	6,350	
0.00		Negative Housing Revenue Account Subsidy transferable to the General Fund under transitional arrangements	0.00	
39,379		Depreciation and Impairment Charge	38,810	
202		Debt Management Costs	154	
7,322		Provision for Bad or Doubtful Debts	5,297	
0.00		Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	0.00	
	188,944	Total Expenditure		185,819
	(40,029)	Net Cost of HRA Services as included in the whole Authority Income and Expenditure Account		(36,537)
	39,118	Interest Payable and Similar Charges		38,847
	1,774	Amortisation of Premiums and Discounts		1,260
	(259)	Interest and Investment Income		(1,159)
	874	Pension Interest Cost and Expected Return on Pension Assets		428
	1,478	Surplus or Deficit for the Year on HRA Services		2,839

Statement of Movement on the Housing Revenue Account Balance

Actual 2005/06 £'000		Actual 2006/07 £'000
1,478	Surplus or Deficit for the year on the HRA Income and Expenditure Account	2,839
(1,557)	Appropriation to/from Pension Reserves	(1,592)
3,555	Capital Expenditure funded by Housing Revenue Account	9,095
(16,882)	Housing Revenue Account Balance Brought Forward	(13,406)
(13,406)	Housing Revenue Account Balance Carried Forward	(3,064)

Collection Fund

2005/06 £'000		Note	£'000	2006/07 £'000
Income				
247,048	Council Tax: Income	12	255,979	
80,393	Transfers from General Fund: Council Tax Benefit		83,078	
928	Decrease in provision for bad debts	15	0	
328,369				339,057
316,136	Business Ratepayers: Income collectable	13	329,111	
5	Community Charge: Income collected resulting in a reduction to provision for bad debts		1	329,112
644,510				668,169
Expenditure				
286,859	Demands on the Collection Fund: Birmingham City Council	14	294,427	
58	Frankley in Birmingham Parish		65	
11,662	West Midlands Fire and Rescue Authority		12,302	
23,681	West Midlands Police Authority		24,943	
322,260				331,737
0	Council Tax: Increase in Provision for Bad Debts	15	2,739	
4,847	Debts written off		416	
314,178	Business Rates: Payment to National Pool		327,141	
1,958	Cost of Collection Allowance		1,970	
320,983				332,266
592	(Surplus)/ Deficit Brought Forward			(675)
643,835				663,328
(675)	(Surplus)/ Deficit Carried Forward			(4,841)

Group Accounts

Group Income and Expenditure Account

2005/06 £'000		£'000	2006/07 £'000
13,041	Central Services To The Public	12,601	
961	Court and Probation Service	1,272	
119,467	Cultural, Environmental & Planning Services	185,945	
743,087	Education Services	126,907	
75,732	Highways, Roads & Transport	77,501	
9,209	Housing Services	4,406	
355,630	Social Services	411,133	
17,079	Corporate & Democratic Core	15,385	
(34,690)	Non Distributed Costs	16,681	
1,299,516	Group Cost of Services		851,831
0	Share of (Income) of Joint Ventures	(20,766)	
0	Share of Expenditure of Joint Ventures	19,844	
0	Share of (Surplus)/Deficit of Joint Ventures		(922)
(2,550)	Share of (Surplus)/Deficit of Associates		(2,534)
1,296,966	Cost of Services		848,375
58	Parish Precept		65
(10,799)	(Surpluses)/Deficits on Trading Undertakings		(10,109)
25,979	Levies		25,603
31,926	Contribution of Housing Capital Receipts to Government Pool		31,704
2,473	Premiums on Premature Debt Redemption		1,668
133,097	External Interest Charges		138,726
149,360	Interest Cost - Pensions		159,371
(121,121)	Expected Return on Pension Assets		(143,291)
3,174	(Gains) / Losses on Disposal of Fixed Assets		(7,900)
(37,706)	Interest & Investment Income		(39,051)
0	Share of Interest Payable by Joint Ventures		0
0	Share of Tax Payable by Joint Ventures		279
2,727	Share of Interest Payable by Associates		2,704
0	Share of Tax Payable by Associates		0
(1,738)	Profit on Discontinued Operations		0
409	Minority Interest Share of Surplus/(Deficit) of Subsidiaries		1,426
1,474,805	Net Operating (Income)/Expenditure		1,009,570
(1,457,182)	Income From Taxpayers/Government Grants		(864,953)
17,623	(Surplus) / Deficit for Year		144,617

Group Accounts

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

	2005/06 £'000	2006/07 £'000
(Surplus)/Deficit on Income & Expenditure Account for the year	18,030	146,724
Adjustments for Transaction with other Group Entities	0	0
Deficit on the Group Income & Expenditure Account Attributable to the Council	18,030	146,724
(Surplus)/Deficit Attributable to:		
Joint Ventures	0	(643)
Associates	2	(38)
Subsidiaries	(409)	(1,426)
Deficit on the Group Income and Expenditure Account	17,623	144,617

Statement of Total Recognised Gains and Losses

	2005/06 £'000	2006/07 £'000
(Surplus)/Deficit on Income & Expenditure Account for the year	17,623	144,617
(Surplus)/Deficit arising on revaluation of fixed assets	(957,915)	(221,093)
Actuarial (Gains)/ Losses on pension fund assets and liabilities	14,970	(187,310)
(Surplus) on Collection Fund Attributable to City Council	(1,126)	(3,680)
Other General Fund movements	3,958	(9,528)
Total Recognised (Gains) and Losses for the Year	(922,490)	(276,994)
Balance Sheet Movement	(922,490)	(276,994)

Group Accounts

Group Balance Sheet

31.03.06 £'000		£'000	31.03.07 £'000
6,085,024	Fixed Assets		6,400,518
50,172	Long Term Debtors		70,161
0	Long Term Investments:		
0	Investment in Joint Ventures:		
0	Share of Gross Assets	7,242	
0	Share of Gross Liabilities	(6,600)	
0		642	
227,443	Other Investments	229,226	
227,443	Total Long Term Investments		229,868
6,362,639	Total Long Term Assets		6,700,547
437,152	Current Assets		531,216
(538,794)	Current Liabilities		(707,181)
6,260,997	Total Assets Less Current Liabilities		6,524,582
(2,947,932)	Long Term Liabilities		(2,934,523)
3,313,065	Total Assets Less Liabilities		3,590,059
3,028,533	Reserves		3,306,498
13,979	General Fund Balances		17,123
14,015	Other Balances		7,353
256,538	Minority Interests		259,085
3,313,065			3,590,059

Group Accounts

Group Cash Flow Statement

2005/06 £'m		2006/07 £'m	2006/07 £'m
(195.8)	Net Cash (Inflow)/Outflow From Revenue Activities		(133.7)
	Returns On Investments & Servicing Of Finance		
	Cash Outflows:		
112.3	Interest Paid	119.0	
	Cash Inflows:		
(37.7)	Interest Received	(39.3)	
<u>74.6</u>			<u>79.7</u>
(121.2)	Capital Expenditure & Financial Investment		(54.0)
	Cash Outflows:		
335.5	Purchase of Fixed Assets	295.9	
0.6	Purchase of Long Term Investments	0.5	
59.2	Other Capital Cash Payments	111.3	
	Cash Inflows:		
(118.9)	Sale of Fixed Assets	(92.2)	
(4.3)	Capital Contributions Received	(8.0)	
(113.6)	Capital Grants Received	(132.9)	
<u>158.5</u>			<u>174.6</u>
<u>37.3</u>	Net Cash (Inflow)/Outflow Before Financing		<u>120.6</u>
	Management Of Liquid Resources		
	Cash (Inflows)/Outflows		
71.4	Net Increase/(Decrease) in Short Term Deposits		39.1
	Financing		
	Cash Outflows:		
74.9	Repayments Of Amounts Borrowed	289.6	
	Cash Inflows:		
(195.0)	New Loans Raised - Long Term	(466.5)	
<u>(120.1)</u>			<u>(176.9)</u>
<u>(11.4)</u>	Net (Increase)/Decrease In Cash		<u>(17.2)</u>

Notes to Supplementary Financial Statements

1. Housing Stock

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

	1 Bed	2 Bed	3 or More Bed	Total
Flats	16,313	11,957	4,758	33,028
Housing & Bungalows	3,820	8,885	21,137	33,842
Housing Stock at 31.03.2007	20,133	20,842	25,895	66,870

The movement in stock is analysed below:

	2005/06	2006/07
Stock at 1st April	70,435	68,247
Sales	(960)	(787)
Demolitions/Transfers	(1,228)	(590)
Stock at 31st March	68,247	66,870

The housing stock, land and other property within the HRA are valued in line with the ODPM Guidance on Stock Valuation for Resource Accounting, published in July 2005. The basis of the valuation is in accordance with the Royal Institute of Chartered Surveyors using the existing use value for social housing (EUV-SH).

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

	1 April 2006 £m	31 March 2007 £m
Council Dwellings and Garages	2,294	2,345
Other Land and Buildings	32	32
Total Operational Assets	2,326	2,377
Non Operational Assets	97	98
Total	2,423	2,475

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

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

Notes to Supplementary Financial Statements

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 2006 is £4,724m.
- (b) The difference between the above figure and the £2,454m in the balance sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the former DETR's stock valuation model.

3. Deferred charges

Deferred charges are a reflection of capital expenditure that does not result in an asset. There are no deferred charges in the financial year 2006/07.

4. Impairment charges

Impairment charges reflect a reduction in the value of fixed assets due to the economic environment or something has occurred to the assets. This could include a decline in demand, obsolescence and commitments to make significant changes to housing. No impairment charges have been identified in the 2006/07 accounts.

5. Major Repairs Reserve

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

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

	2005/06 £'000	2006/07 £'000
Opening balance on the Major Repairs Reserve on 1 April	0	0
The Amount transferred to the Major Repairs Reserve during the year	39,379	38,810
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	(39,379)	(38,810)
The balance on the Major Repairs Reserve on 31 March	0	0

6. Housing Revenue Account Subsidy

This now includes two components namely, Housing Subsidy and the Major Repairs Allowance. The rent rebate subsidy is not accounted for in the HRA from 2006/07 in line with the transfer of rent rebates to the *General Fund*. The HRA Subsidy element is calculated using stock numbers, allowances for management/maintenance, capital financing costs and notional rent income. The MRA (explained in Note 5) is paid through HRA Subsidy administration system.

Notes to Supplementary Financial Statements

An analysis of the HRA subsidy payable to the authority for this financial year and prior years in accordance with the regulations of the General Determination of Housing Revenue Account Subsidy 2006/07 is:

	2005/06 £'000	2006/07 £'000
HRA Element	(18,806)	(31,220)
Major Repairs Allowance	39,379	38,810
Total	20,573	7,590

7. Capital Expenditure on HRA Assets

The total expenditure for HRA assets in 2006/07 was £110.4m. This was funded from the following sources:

	2005/06 £'000	2006/07 £'000
Supported Borrowing (Regional Housing Board)	15,394	10,703
Prudential Borrowing	0	12,439
Useable Capital Receipts (Right to Buy)	53,263	28,447
Major Repairs Reserve	39,379	38,810
Revenue Contributions	3,555	9,094
Other Resources primarily Grants	3,992	10,874
Total	115,583	110,367

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £79.5m (land £32.3m, houses £47.2m). The values for 2005/06 were (land £15.4m and houses £48.7m). The government introduced a new capital receipts pooling framework from 2004/05. Of these amounts £31.7 million was paid to Central Government (2005-06 £31.9 million) under the pooling regime for right to buy receipts introduced in 2004-05.

8. Depreciation Charges

The total charge for depreciation for the land, houses and other property within the authority's HRA is £38.810m (£39.379m in 2005/06). The principle adopted by the authority follows guidance from ODPM that the major repairs allowance is a satisfactory proxy as this is based on maintaining properties in their present condition.

	2005/06 £'000	2006/07 £'000
Dwellings	39,379	38,810
Other Land, Buildings and garages	0	0
Operational Total	39,379	38,810
Non Operational	0	0
Total Depreciation	39,379	38,810

Notes to Supplementary Financial Statements

9. Contribution from Pension Reserve

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

10. Rent Arrears

Rent arrears from current tenants at 31 March 2007 totalled £13.2m (31 March 2006: £13.9m). Other services and income arrears, including Housing Benefit overpayments, totalled £8.7m at 31 March 2007 (31 March 2006: £11.0m).

A provision for bad debts has been made to meet possible future write offs of rent and other services/income. The provision was £16.9m at 31 March 2007 (31 March 2006 £19.8m) and has been calculated based on value/aged analysis in accordance with government guidelines.

11. Revenue Contribution to Capital

A revenue contribution to capital expenditure was made amounting to £9.1 million (£3.5m in 2005/06). This is identified in Note 7.

12. Contribution from Council Taxpayers

The council's tax base at January 2006 (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	353	5/9	196
A	126,053	6/9	84,035
B	103,447	7/9	80,459
C	62,304	8/9	55,381
D	29,567	1	29,567
E	17,152	11/9	20,963
F	7,615	13/9	10,999
G	5,123	15/9	8,538
H	673	18/9	1,346
Total	352,287		291,484
Less: adjustment for collection rate			(5,829)
			285,655

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

The total required by the Collection Fund is divided by the Council Tax base. This represents the

Notes to Supplementary Financial Statements

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

The figures for the New Frankley in Birmingham Parish are:

Band	No. of Properties	Ratio	Band D Equivalent Dwellings
AR	0	5/9	0
A	1,271	6/9	847
B	1,428	7/9	1,111
C	97	8/9	87
D	52	1	52
E	1	11/9	1
F	0	13/9	0
G	0	15/9	0
H	1	18/9	1
Total	2,850		2,099
Less: adjustment for collection rate			(42)
			2,057

13. Business Ratepayers

Under the arrangements for uniform business rates, the council collects National Non-Domestic Rates (NNDR) for its area which are based on local rateable values multiplied by a uniform rate which is set by the Government (43.3p for 2006/07 : 42.2p for 2005/06). The total non-domestic rateable value at 31 March 2007 was £948.0m (£957.3m at 31 March 2006). 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 2006/07 are analysed as follows:

2005/06 £'000		2006/07 £'000
459,058	a) Contribution to the NNDR pool: Non-Domestic Rates	456,361
(18,292)	Less: Transitional Relief Adjustments	(6,084)
(126,588)	Less: Allowances and Adjustments	(123,136)
314,178	Net Contribution to NNDR pool	327,141
303,469	Amount actually paid during the year	320,315
10,709	Payment to/ (refund due from) pool	6,826
314,178		327,141
	b) Redistribution from the NNDR pool:	
330,592	Net income to City Council	472,555

Notes to Supplementary Financial Statements

14. Precept Payments

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

15. Bad debts

Every effort is made to recover all amounts due from Council/Community Tax and Business Ratepayers. However, where it has been proved impossible to recover unpaid charges, such amounts are written off to the Collection Fund Account. In 2006/07, £4.5m (£0.4m) in respect of unpaid NNDR and £0.4m (£4.8m) of Council Tax was written off. These write-offs represented 1.37% (0.13%) of NNDR due as at 1st April 2006 including amounts brought forward from earlier years and 0.11% (1.38%) of the amount of Council Tax due including arrears from earlier years. The figures in brackets are those for the previous year.

16. Note to the Group Accounts

The City Council has a 50% interest in the companies making up the National Exhibition Centre Ltd. Group. In addition, the council acts as guarantor of the company's borrowing and underwrites its operating losses. For this reason the Council has decided to account for these companies as subsidiaries in preparing consolidated financial statements. The company made a £2.85 million profit in the year ended 31st March 2007, (2006: £0.82m). The group balance sheet has been produced by consolidating the assets and liabilities of the City Council with those of the NEC Ltd. Group on a line by line basis. The major effect of this is an increase in long term borrowing from £2,668 million (2006: £2,695 million) to £2,896 million (2006: £ 2,929 million) and in fixed assets from £5,557 million (2006: £5,242 million) to £6,302 million (2006: £5,988 million). Additionally the Council holds a 45% stake in NEC (Developments) Ltd, a 25% stake in Birmingham Technology (Property) Ltd and a 31.6% stake in Service Birmingham Ltd (a joint venture between the City Council and Capita Business Services Ltd, which commenced operations on the 1st April 2006). The group income and expenditure account shows the Council's share of the combined surplus in 2006/07 while the Group Balance Sheet includes the Council's share of the combined accumulated net assets. NEC (Developments) Ltd and Birmingham Technology (Property) Ltd have been consolidated as associates and accounted for on a net equity basis while Service Birmingham Ltd has been consolidated as a joint venture and accounted for on a gross equity basis.

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

Further details on the Council's relationship to the companies identified above may be found in Notes 43 and 44 to the Core Financial Statements.

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

Notes to Supplementary Financial Statements

The fixed assets of the NEC Ltd. Group were restated at current valuations in accordance with Local Authority accounting practice. The valuation in the Group balance sheet is £744 million rather than the valuation of £199 million in the NEC Ltd Group balance sheet which was prepared on a depreciated historical cost basis.

17. Note to the Group Balance Sheet

At 31 March 2007 the amount owed by the Council to the NEC Group totalled £0.48 million (2006: £2.1 million) and amount owed by the NEC Group to the Council totalled £14.7 million (2006: £7.1 million).

The amounts owed by the Council to the NEC Group comprise trading balances only. The amounts owed by the NEC Group to the Council consist of trading balances of £14.6 million and a loan balance of £14,000.

18. Note to the Group Cash Flow Statement

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

2005/06 £'m		2006/07 £'m
	Surplus/Deficit:	
18.9	Deficit on Revenue Account	143.8
(0.6)	Surplus On Collection Fund	(4.2)
18.3		139.6
	Add Back:	
(25.9)	Provisions Set Aside	(11.8)
(7.6)		127.8
	Items Included Under Other Classification:	
(112.3)	Interest Paid	(119.0)
37.6	Interest Received	39.4
(35.7)	Capital Financing Costs	(45.2)
4.6	PFI Grant	4.6
(38.1)	Non Cash Item Adjustments	(141.7)
(143.9)		(261.9)
	Items On Accruals Basis	
0.3	Movement In Stock	0.2
29.4	Movement In Debtors	37.5
(74.0)	Movement In Creditors	(36.9)
(44.3)		0.4
(195.8)	Cash (Inflow)/Outflow From Revenue Activities	(133.7)

Glossary

Accruals

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

Balances

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

Capital Charge

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

Capital Expenditure

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

Capital Financing Account

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

Capital Financing Requirement

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

Capital Receipt

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

Collection Fund

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

Community Assets

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

Consistency

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

Creditors

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

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.

Glossary

Debtors

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

Earmarked Reserve

A sum set aside for a specific purpose.

Emoluments

Payments received in cash and benefits for employment.

Fees and Charges

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

Finance Lease

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

Fixed Assets

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

Fixed Asset Restatement Account (FARA)

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

FRS

Financial Reporting Standard.

General Fund

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

Government Grants

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

Government Grants Deferred Account

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

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.

Glossary

Infrastructure Assets

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

Investments

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

Investment Properties

Interest in land and/or buildings:

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

Liabilities

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

Materiality

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

Minimum Revenue Provision (MRP)

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

National Non-Domestic Rates (NNDR)

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

Net Book Value

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

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.

Glossary

Private Finance Initiative (PFI)

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

Provisions

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

Prudence

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

Related Party

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

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

Revenue Expenditure

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

Revenue Support Grant (RSG)

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

SSAP

Statement of Standard Accounting Practice.

Independent Auditors Report

Opinion on the financial statements

I have audited the financial statements of Birmingham City Council and its Group for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

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

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

Basis of audit opinion

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

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

Independent Auditors Report

the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority and its Group as at 31 March 2007 and its income and expenditure for the year then ended.



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17 March 2008

Independent Auditors Report

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

Authority's responsibilities

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

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

Auditor's responsibilities

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

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

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

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Birmingham City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best value performance plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 29 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Independent Auditors Report

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.



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17 March 2008

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

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