



Birmingham

Annual Accounts

2008/09

Birmingham City Council

Birmingham City Council – Statement of Accounts 2008/09

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Foreword to the Accounts

Background

These accounts set out the financial results of Council activities for the year ended 31 March 2009.

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

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

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

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

The net operating expenditure for 2008/09 amounted to £1,818.5m (after departmental income and movements to and from reserves) and was financed by area based grant of £92.2m, Government revenue support grant of £86.9m, redistributed non-domestic rates of £561.4m and demands on the collection fund of £320.8m. This left a technical deficit of £757.2m mainly due to depreciation and the notional costs of pension liabilities which are reversed through the Statement of Movement on the General Fund Balance below.

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

The opening entry in this Statement is the outturn on the Income and Expenditure Account, which was a deficit of £757.2m. The next line contains the total of all reconciling items to convert the Income and Expenditure Account figure into the sum required by statute and proper practice, and this amounts to net income of £750.3m. The outcome is the decrease in the general fund balances for the year of £6.9m.

The balance of the general fund reserve as at 31 March 2009 was £21.1m.

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

The statement reveals a decrease in net worth of £679.8m and includes the deficit on the Income and Expenditure Account, a deficit on revaluation of fixed assets, actuarial gains recognised on the pension fund and a deficit on the Collection Fund.

Foreword to the Accounts

Balance Sheet – summarises the financial position of the Council including the HRA and the Collection Fund. It provides a statement of the assets and liabilities at the end of the financial year 31 March 2009.

The balance sheet total is £2,313.1m and represents the net worth of the Council.

The Fixed Assets have a net book value of £5,690.4m. £2,003.1m of this sum is for the Council's housing stock, which is calculated on the basis of Existing Use Value for Social Housing.

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

The Cash Flow Statement shows the cash inflows and outflows arising from transactions with third parties for capital and revenue activities. The statement enables the full movements in cash to be identified. The overall outcome was an increase in cash balances of £0.2m.

Housing Revenue Account – the HRA records the financial position of the Council's statutory obligation to account separately for the costs of its housing provision. The deficit on the housing revenue account is £371.8m (2008: surplus £0.4m). However, there is a net credit of £371.7m on the Statement of Movement of the Housing Revenue Account balance, so that the overall deficit is £0.1m. This figure is deducted from the balance brought forward of £3.5m, to leave a carry forward balance of £3.4m.

The total reserve on the HRA decreased from £3.5m to £3.4m as at 31 March 2009.

Collection Fund – is maintained separately, as a statutory requirement, to show the transactions of the Council as Billing Authority in relation to Non-Domestic Rates and Council Tax. It illustrates the way in which the income has been distributed to the following Precepting Authorities:

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

The total net income from Council taxpayers in 2008/09 amounted to £ 273.5m.

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

The total net income from non-domestic ratepayers in 2008/09 amounted to £360.8m.

Foreword to the Accounts

The deficit for the year on the fund was £1.9m, and the final balance a deficit of £0.03m. This position is compared to the budgeted outturn figures in the table below:

	2008/09 Budgeted Outturn		2008/09 Actual Outturn	
	Total City Council Share		Total	City Council Share
	£000s	£000s	£000s	£000s
In Year (Surplus)/Deficit	(5,513)	(4,880)	(5,486)	(4,851)
Additional Precept Expenditure (Per Prior Year Forecast)	7,351	6,503	7,351	6,503
In Year Net (Surplus)/Deficit	1,838	1,623	1,865	1,652
Prior Year Actual Surplus	(1,838)	(1,623)	(1,838)	(1,623)
(Surplus)/Deficit C/F	0	0	27	29

Group Accounts – these statements consolidate the Council's accounts with those of the National Exhibition Centre Limited Group (which includes NEC Finance Plc), National Exhibition Centre (Developments) Plc and Service Birmingham Ltd.

Changes in Accounting Policies

Under the 2008 SORP the Council has adopted the amendment to FRS17, Retirement Benefits. As a result quoted securities held as assets in the Local Government Defined Benefit Pension Scheme (LGPS) are now valued at bid price rather than mid-market value. The effect of this change is that the value of scheme assets at 31 March 2009 has been restated from £1,883.7m to £1,881.8m, a decrease of £1.9m, resulting in an increase in the notional pension deficit of £1.9m (2008: £2.3m). Current and prior year surplus have been unaffected by this change.

The Council has reviewed its policy of holding Community Assets on the Balance Sheet at a nominal £1 per asset. The SORP requires such assets to be held at historical cost and this is now the policy adopted by the Council. Further details are provided in the note to the Statement of Total Recognised Gains and Losses. The total value on the Balance Sheet at 31 March 2009 was £112.8m.

A Summary of the Council's Financial Performance for the Financial Year 2008/09

The 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.

Foreword to the Accounts

Committee/Portfolio	Revenue	Capital
	Outturn	Outturn
	£'000	£'000
Leader	68,375	54,470
Deputy Leader	158,905	119,409
Adults & Communities	295,207	11,456
Children, Young People & Families	303,655	92,010
Equalities & Human Resources	7,982	403
Housing	12,930	154,775
Leisure, Sport & Culture	52,395	33,444
Local Services & Community Safety	8,437	901
Regeneration	24,376	17,698
Transportation & Street Services	96,366	137,935
Council Business Management	9,412	0
Planning Committee	5,257	1
Licensing Committee	284	0
Public Protection Committee	13,757	994
Constituencies	105,276	0
Sub-total	1,162,614	623,496
Capital Financing & Other Adjustments	(197,401)	
Total	965,213	623,496

General Fund Reserves and Balances

Balances at the end of 2008/09 stand at £21.1m.

Capital Expenditure

Total expenditure on capital schemes in 2008/09 was £623.5m (2008: £584.7m). This compared to the latest capital budget of £739.7m. The under-spending is mainly due to delays in expenditure on a number of capital schemes. Details of this slippage are given in the Council's Capital Outturn report for 2008/09. It should be noted that no Council resources were lost as a result of the slippage as the resources and planned expenditure will be "rolled forward" into future years. Full details are given in [Note 17](#) to the Core Financial Statements.

Financing

The proposed financing arrangements in respect of the 2008/09 capital expenditure are summarised below:

Financing method	£m
Borrowing supported by Government	54.2
Borrowing not supported by Government	408.0
Government Grants	122.0
Usable Capital Receipts	0.3
Other Grants and Contributions	39.0
Revenue/Capital Fund	0.0
Total financing	623.5

Foreword to the Accounts

In order to manage the risks to the future funding of the approved capital programme, £47m of resources from prudential borrowing have been applied to fund 2008/09 expenditure, instead of applying these resources to 2009/10 expenditure. This enables capital receipts and revenue contributions totalling £47m, which have been received in 2008/09, to be carried forward to finance the approved 2009/10 capital programme. Taken together, the increased use of prudential borrowing and the unapplied capital resources result in no net change to the Council's actual or planned external borrowing.

It should be emphasised that this does not increase the Council's capital resources, but provides a robust mechanism to help deliver its existing capital plans.

Borrowing

The Council's authorised limit for external debt in 2008/09 was £2,419.6m. The maximum external debt during the year amounted to £2,290.3m.

Full details regarding financing of capital expenditure and the acquisition and disposal of fixed assets are given in [Note 17](#) & [18](#) to the Core Financial Statements.

Other resources available to fund capital expenditure include: Capital receipts; Section 106 balances; Grants and Revenue balances.

Future Revenue and Capital Expenditure Plans

The Council's plans for the forthcoming financial year and beyond are represented financially within the 2009/10 Budget Report, approved by Council on 24 February 2009. This includes a Long-Term-Financial Strategy for both capital and revenue expenditure which projects all known estimated financial requirements and pressures over a 10 year period and also illustrates Birmingham's ambitious efficiency commitments and major service transformation programme which will enable the Council to continue to invest in and maintain front line services.

Revenue

The revenue budget for 2009/10 totals £983.9m. After allowing for the effects of inflation it has been possible to commit £21.8m to addressing key priorities and funding essential budget pressures, (planned to rise to £40.9m by 2011/12). The main areas include investment in adults' care services (£6.7m growing to £11.5m), accommodating the costs of waste disposal, recycling and grounds maintenance (£2.6m growing to £3.5m), meeting the financing costs of the new Library of Birmingham (£1.2m growing to £4.1m), resourcing ICT expenditure (£2.8m), and addressing the short-term trading position of the NEC.

Capital

During 2008/09 services developed a draft ten year view of their capital investment needs, in the context of strategic corporate and service priorities and directions. The strategies seek to maintain and expand existing services and develop new services, with the main areas being Housing Strategy and Housing Revenue Account Plan, Local Transport Plan and Highways Maintenance, Transforming Education, Leisure/Sport and Culture, Regeneration, Adults and Communities and Working for the Future.

The Council continues to transform the way it undertakes its' business whilst giving priority to frontline services, with a view to reducing overhead costs and re-focusing its' service delivery models to make better use of existing assets.

Full details of the 2009/10 Revenue and Capital Budgets can be found within the Budget Report approved by Council on the 24 February 2009, via www.birmingham.gov.uk.

Foreword to the Accounts

Other Matters

Material Assets Acquired

The Council acquired The Pallasades Shopping Centre headlease on the 31 March 2009, for a total value of £91.0m. This acquisition forms part of the overall Birmingham Gateway Project being delivered in conjunction with Network Rail to enable the regeneration of New Street Station and associated interests.

Provisions

The Council has carried a provision for the repayment of The National Exhibition Centre Limited debt when it 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 National Exhibition Centre Limited's finance costs while releasing the existing provision for use in funding refurbishment works on the exhibition halls at the NEC. The Council's balance sheet therefore shows both an asset and a liability in respect of this transaction. The bonds are shown at nominal value.

Pension Liability

There is currently a net shortfall and this will be reviewed periodically by the West Midlands Metropolitan Authorities Pension Fund Actuary and steps will be taken to address the shortfall. The Council's share of the shortfall is £1,068.9m at 31 March 2009. While the figure is substantial it should be remembered that:

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

Details of the pension liability and assets can be found in [Note 6](#) to the Core Financial Statements.

Changes to Statutory Functions

With effect from April 2008 the Council gained responsibility for the Connexions Service, (previously the Careers Service), which has been included in the Children's and Education Services section of the Net Cost of Services within the Income and Expenditure Account. The related budget is £11.6m which is Area Based Grant funded.

Annual Good Governance Statement

Birmingham City Council

Annual Good Governance Statement 2008/09

1. Scope of responsibility

- 1.1 Birmingham City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Birmingham City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Birmingham City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.3 Birmingham City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is available from CIPFA/SOLACE. This statement explains how Birmingham City Council has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2006 in relation to the publication of a statement on internal control.

2. The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, culture and values for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Birmingham City Council policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Birmingham City Council for the year ended 31 March 2009 and up to the date of approval of the Statement of Accounts.

3. The Governance Framework

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

- 3.1 The City Council, working with strategic partners and local communities has established a Council Plan setting out its objectives within the overall vision of "a global city with a local heart". This aims to ensure that all Birmingham residents:
 - **Succeed economically** – benefiting from education, training, jobs and investment
 - **Stay safe** – living in clean, green and safe communities
 - **Be healthy** – enjoying long and healthy lives
 - **Enjoy a high quality of life** – benefiting from good housing and renowned cultural and leisure opportunities
 - **Make a contribution** – valuing one another and playing an active part in the community.

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We have had strong public, third sector, and business engagement in developing our sustainable community strategy which drives our Council Plan, Local Area Agreement and commissioning. Working with partners through Be Birmingham, the Local Strategic Partnership, the Council monitors, and reports publicly through an Annual Report on progress so residents can see how issues that matter to them are being tackled.

- 3.2 The Council Plan, the council's delivery vehicle for its responsibilities within the Sustainable Community Strategy is available on the Council's web-site and copies are circulated to stakeholders and held in libraries and neighbourhood offices. The Council Plan measures explain how the Council will deliver the priorities and the commitments made in the Council Plan. They focus on corporate priorities and reflect the Council's determination to prioritise the areas of greatest importance for the people of Birmingham. Information on performance across the remaining National Indicators is also included. The Council Plan measures are formally agreed by Cabinet following extensive discussion within members and stakeholders. Regular monitoring and quarterly reporting against these plans ensures that shortfalls in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.
- 3.3 The Council Plan include details Measures, in which achievement of the authority's objectives and the quality of key services is monitored. The Measures explain how the Council will deliver the priorities and the commitments made in the Council Plan. They focus on corporate priorities and reflect the Council's determination to prioritise the areas of greatest importance for the people of Birmingham. Information on performance across the remaining National Performance Indicators is also included. The Measures are formally agreed by Council following extensive discussion within the Council and with stakeholders. The Measures are 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. Regular monitoring and quarterly reporting against the Measures ensures that shortfalls in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.
- 3.4 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. Achievement of value for money is central to the Council Plan and Long Term Financial Strategy and the Council's Efficiency Programme is monitored and reported on a monthly basis.

Roles of Members and Officers

- 3.5 The Council's Constitution is codified into one document which is available on the intranet and external web pages. The Constitution sets out the respective roles and responsibilities of the executive and other Members and Officers and how these are put into practice. The Constitution is reviewed annually by the Corporate Director of Governance and any amendments are agreed at the Annual General Meeting. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee. Birmingham City Council facilitates policy and decision-making via a Cabinet Structure with specific Cabinet Member Portfolios. Specialist Cabinet Committees also exist for Property, Procurement, Private Finance Initiative, Academies and Achieving Excellence with Communities to enable more focused decision making in these areas. The Council has also devolved certain executive responsibilities to Constituency Committees. Regulatory Committees exist for Licensing, Public Protection, Planning and Standards matters. The Council Business Management Committee agrees the management of Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters. The Constitution sets out the terms of reference for each of these Members and Committees and includes a schedule of matters reserved for decision by Full Council.
- 3.6 The Council's Constitution 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

Protocols determining the roles of these officers and their relationship with Members and other Officers are set out. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Directors. The Council has a Remuneration Panel which is chaired by an independent person.

Annual Good Governance Statement

- 3.7 Birmingham City Council has developed a Partnership Toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets. A programme of review against these requirements has been started. A Third Sector Partnership Team was also launched in June 2007.

Values and Standards of Conduct and Behaviour

- 3.8 The Constitution includes a Code of Conduct for Members and a Code of Conduct for Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangement for declaration of interests and registering of gifts and hospitality offered and received. The Council has developed a comprehensive programme for embedding the values of the organisation; Belief, Excellence, Success and Trust (BEST). All Council employees participate through work groups in developing actions based on these values which assist in ensuring effective service delivery and the development of the whole organisation.

Scrutiny and Risk Management

- 3.9 The Overview and Scrutiny Committees cover all Cabinet Member portfolios and a Co-ordinating Overview and Scrutiny Committee provides an overarching and co-ordinating role for the Overview and Scrutiny committees. All Executive decisions can be called in for Scrutiny to ensure that the decisions are soundly based and consistent with Council policy. The Council's Audit Committee provides independent assurance to the Council on financial management, risk management and control, and the effectiveness of the arrangements the Council has for these matters. The Council has a well-established procedure for handling Complaints, Compliments and Comments (3Cs) which monitors formal contact with members of the public. Complaints are actively tracked through the process and independently reviewed. The 3Cs information is regularly reported to Corporate Management Team and Members.
- 3.10 The Council ensures compliance with established policies, procedures, laws and regulations – including risk management. All reports to Cabinet and Cabinet Members are required to include governance information relating to six areas: Council Policy, Member consultation, compliance with legislation, resourcing and policy compliance, equalities and fit with the Council's BEST programme (aimed at embedding the Council values of belief, excellence, success and trust). Reports are required to be passed to finance and legal officers to ensure that proper professional advice is provided where necessary.
- 3.11 The 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 Director of Corporate Governance (& Monitoring Officer) who is the Officer Corporate Governance Champion and the Deputy Leader who is designated as the Member's Corporate Governance Champion.
- 3.12 The Council has approached embedding of risk management in accordance with best practice guidance as a "top down" process, with a Corporate Risk Register supported by Directorate and Divisional risk registers. Birmingham Audit continues to give presentations, provide training, facilitate workshops and provide guidance through the publication of a risk management toolkit which has been produced to give managers at all levels a better understanding of how to implement risk management in their area of responsibility and to have some understanding of the process up and down the Council. The toolkit provides a step by step approach to implementing Risk Management using the Council's methodology. The high level risk management methodology has been reviewed to provide more focus to Member and senior officer management of risk. The Council's Whistle-blowing Policy was introduced in the late 1990s and is well publicised throughout the workforce.
- 3.13 Legal requirements and Council policy, together with guidance on their implementation, are set out in detail in the Policies, Standards, Procedures and Guidance database held on the Council's intranet for financial, Information Computer Technology and business procedures and People Solutions for Human Resources policies and procedures. Directorates maintain detailed delegations and guidance on specific legislative requirements which affect their service delivery. The 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.

Annual Good Governance Statement

Capacity and Capability

- 3.14 The Council has 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. Tailored induction is also developed for new staff and Members.
- 3.15 The Council has introduced regular training opportunities for Members. There is a dedicated area of the intranet for Member issues and a newsletter, City Councillor, is produced and circulated by the Corporate Director of Governance, by e-mail. This gives detail of legislation, training opportunities and other issues of importance to Members. From 2008 all Councillors received a 'Personal Pack' to encourage consideration, planning and undertaking of development and learning to become an effective and efficient elected representative. All training is prioritised to assist councillors in planning workloads, etc. In addition all Councillors will automatically have access via their computers to 'The Modern Councillor' [Learning Pool] offering a range of learning and development modules designed for easy and quick access at the convenience of the Councillor.
- 3.16 A Performance and Development Review Process for all staff has been introduced as part of the Excellence in People Management programme replacing the previous processes. This ensures that individual's targets are aligned with those of the organisation and enables a consistent means of assessing and rewarding performance. It also provides a way of developing tailored training and development programmes for staff.

Engagement with Local People and Other Stakeholders

- 3.17 The Council engages in a wide range of consultation activities to inform service delivery and decision making. These were summarised in an annual report. The Council's Scrutiny function regularly engages with key partners and other interested groups and individuals in order to assess the impact and suitability of the Council's activity. The Scrutiny Committees make an annual report to Full Council. The Customer First programme and Communications Review aim to ensure that clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meeting in public wherever possible. As part of Excellence in People Management new arrangements for consultation with staff and representative groups were introduced. Directorates have extensive programmes of consultation and engagement activity for specific services.

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 of Audit & Risk Management's annual report, and also by comments made by the external auditors and other review agencies and inspectorates:

- 4.1 The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/SOLACE framework, "Delivering Good Governance in Local Government" and continues to learn from experiences and makes necessary changes to improve its local code of governance. The Council's review process uses the Key Roles and Core Principles included in this guidance and this Statement sets out how the Council meets these roles and principles in its control and governance arrangements.
- 4.2 The Council has a well developed methodology for annual governance review which is reviewed and updated each year. This requires each Directorate and Service area to produce an Assurance Statement to the Chief Executive highlighting significant matters to be brought to his attention and setting out the processes of internal control compliance and review in the Directorate.
- 4.3 The Council's review of the effectiveness of the system of internal control is informed by:
- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
 - the work undertaken by Birmingham Audit during the year;
 - the work undertaken by the external auditor reported in their annual audit and inspection letter;
 - other work undertaken by independent inspection bodies.

Annual Good Governance Statement

- 4.4 The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Corporate Director of Resources is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations (amendments) 2006. The internal audit provision is managed, independently, by the Assistant Director, Audit & Risk Management and operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2003.
- 4.5 The Birmingham Audit plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Council establishments and fraud investigations. The resulting work plan is discussed and agreed with the Strategic Directors, and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses. These are submitted to Members, Strategic Directors, School Heads and Chairs of Governors as appropriate.
- 4.6 From the work undertaken by Birmingham Audit in 2008/2009 the Assistant Director, Audit & Risk Management was able to give the following assurance: "From the work we have carried out during the year on the key areas of risk management, corporate governance and financial control I am able to provide reasonable assurance." In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. Internal Audit did identify a number of concerns that required remedial action and these were reported to the appropriate Strategic Director or Senior Manager during the year. The more significant of these are set out in section 5 below.
- 4.7 The internal audit function is monitored and reviewed regularly by the Audit Committee. The Committee also reviews progress against issues raised in the Annual Good Governance Statement and in implementing recommendations made in significant, high risk audit reports.
- 4.8 The Council has established a Finance and Performance Overview and Scrutiny Sub-Committee which receives reports on key control issues including risk management, budgetary monitoring, efficiency and business transformation.
- 4.9 The Council Plan and performance is monitored on a quarterly basis both by the Executive and Overview and Scrutiny Committees. Directorate, Divisional and Service unit business plans contain a variety of performance indicators and targets that are regularly reviewed. The Corporate Management Team have established four Sub-Groups which focus on managing and developing different aspects of the Council's operations.
- 4.10 The Council's BEST programme is designed to focus each work team and individual on the values of Belief, Excellence, Success and Trust. Further developments to the programme were made during 2008/2009. Staff develop improvement goals which focus teams throughout the organisation on improving service delivery. Incentives are provided to teams through BEST awards. The Council has also developed the Chamberlain Awards programme which rewards excellence in service delivery and work.
- 4.11 The Council has established a number of mechanisms to review and develop its effectiveness. These include an Excellence Board, including external challenge focusing on specific improvement areas, an informal Member Productivity, Efficiency and Performance Group to provide in-depth analysis on behalf of the Executive, and governance arrangements around the Business Transformation Programme.
- 4.12 The Council's Standards Committee meets regularly and is updated on National and Local issues. Special Training Sessions were held in October and November 2007 for all Members on the Revised Code of Member Conduct. Arrangements have also been put in place for the operation of the Local Assessment regime - which became operative from 8th May 2008 - with the introduction of three Standards Sub-Committees. The Standards Committee composition has also been increased to comply with the new legislative requirements. The relevant Complaints Form and other supporting information on the new Local Assessment regime is already on the Council's website.
- 4.13 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and officers, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Annual Good Governance Statement

5. Significant governance issues

- 5.1 The matters shown in this section have either been identified as having a significant or high likelihood in the Corporate Risk Register or have been highlighted as corporate issues in the annual assurance process. The Council actively addresses these matters and identifies areas where further improvements need to be made. In particular:
- 5.2 The Council is undertaking a major Business Transformation consisting of 9 inter-relating Programmes covering most areas of the Council's activities. Four of these are service related covering Adults Services, Housing Services, Children, Young People and Families Services and Environmental Services. The remaining five are city wide support activities. These are Corporate Services (finance and performance), Excellence in People Management, Working for the Future (Property), Customer First and Excellence in Information Management.
- 5.3 In partnership with Service Birmingham, the Council's joint venture ICT and business change partners, the Council is looking to review these areas and bring significant investment and process and organisational change to the service delivery and management of these areas. The overall Programme is moving to a key implementation phase and the Council continues to recognise the risks involved in undertaking such a wide-ranging and comprehensive efficiency review and investment programme. Detailed governance arrangements involving Member and Senior Officer leads for each Programme control all aspects of the programmes. These are supported by Programme Boards and operational structures to lead on the design and implementation of the transformation solutions. These are resourced by secondment of Council staff and change teams from Service Birmingham. A detailed methodology has also been developed for Business Transformation and implementation of Business Transformation will continue to be closely and frequently monitored by the Executive and Scrutiny.
- 5.4 Business Transformation is an integral part of the Council's Efficiency Programme. Achievement against the budget targets is regularly reported to Cabinet and directorates continue to monitor their financial and activity performance including the delivery of efficiency savings on a regular basis. The Corporate Director of Business Change, in conjunction with the Director of Corporate Finance, is refreshing the corporate monitoring arrangements for efficiencies.
- 5.5 The Council has recognised compliance with new processes and procedures arising from transformation as a key risk. The Corporate Business Change team has allocated appropriate resources to work on compliance and this is being addressed through the governance processes of each programme. In particular this is being addressed through the Corporate Services and Excellence in People Management implementation. Corporate Procurement Services have led a major initiative to improve procurement compliance.
- 5.6 To assist this compliance and further improve the Council's internal controls, internal and external audit have also identified the need to strengthen the procedures and controls for a number of financial systems. A programme of work to implement these improvements is in place and is being monitored by Birmingham Audit.
- 5.7 An Equality Standard Peer Challenge in March 2009 resulted in the Council being confirmed as a Level 3 authority. Work has been initiated to take on board the requirements around the new Equality Framework which replaced the Standard in April 2009. Outcomes linked to the review of directorate equality scheme targets will be aligned to the core elements of the Framework. Business transformation tools will be utilised to provide better information and documentation management across Directorates. As part of the actions from the Equality Framework for Local Government, there will be a focus on 'knowing your community' and equality mapping. Customer Knowledge will act as principle tool in this regard. The Community Cohesion Implementation Plan has been developed and is aligned to the Local Area Agreement. Work and identified actions around the Council's preparation for the 'Duty to Involve' will also be a contributor to the overall approach to community cohesion.
- 5.8 The Council is actively working with the Department for Children, Schools and Families (DCSF) and Government Office for the West Midlands to agree a specific transformation plans to manage and deliver improvement in children's social care and safeguarding, in light of the most recent Ofsted Inspection. The Council will receive additional Government funding to urgently strengthen senior management and social work capacity and performance. Additionally an external review will be undertaken of the Safeguarding Board and front-line practice. All improvements will be governed by the Leader's Taskforce and Scrutiny Inquiry.

Annual Good Governance Statement

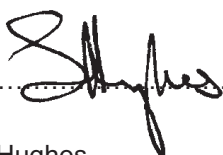
5.9 Other areas which have been highlighted in the review of the council's internal control include those listed below. In each case the Directors responsible have identified the financial and other risks involved and the Council has prepared plans to contain the risks and deliver the necessary improvements:

5.9.1 The Council has implemented the Single Status agreement which was made nationally between the National Joint Council (NJC) for Local Government and Signatory Trades Unions on 1 April 1997. The majority of Council employees are now working to new contracts but there remain a number of appeals against the job evaluation process and a number of matters which are still subject to negotiation with Trades Unions.

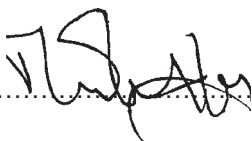
5.9.2 In addition the Council has taken action to identify staff who may have grounds for a claim under the Equal Pay legislation and has agreed funding for, and a process by which, the Council's obligations in relation to the equal pay challenge can be settled. Again the majority of payments in this respect have now been made but some matters remain outstanding.

5.9.3 The Council continues to develop a Private Finance Initiative for Highways and is working closely with Central Government to ensure maximum benefit to the city through this arrangement. The preferred bidder will be selected summer 2009, with the contract due to then commence April 2010.

5.10 These matters are monitored through the Corporate Risk Register, Corporate Management Team and Directorate Service and operational plans as required. During the year the Audit Committee monitors progress against the issues identified in this statement. We propose over the coming year to learn from the Audit Commission's follow-up audit of our National Pilot on Good Governance Action Plan of August 2007 which has been reported to the Standards and the Audit Committees, so as to ensure further positive steps are taken to further enhance the Council's status as a well governed local authority. We are satisfied that these steps will address any need for improvements and we will monitor their implementation and operation as part of our next annual review.

Signed 

Stephen Hughes
Chief Executive
(& Head of Paid Service)

Signed 

Councillor Mike Whitby
Leader of the Council

Signed 

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

Signed 

Mirza Ahmad
Corporate Director of
Governance (& Monitoring Officer)

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has 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 Council's Chief Financial Officer is the Corporate Director of Resources. He is responsible for the preparation of the 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

These financial statements replace the unaudited financial statements authorised at the meeting of Council Business Management Committee on 23 June 2009. I certify that the Statement of Accounts presents fairly the position of Birmingham City Council at 31 March 2009 and its income and expenditure for the year ended 31 March 2009:



.....

Paul Dransfield
Corporate Director of Resources
9 February 2010

I confirm that these accounts were approved by the Council Business Management Committee on 9 February 2010. Signed on behalf of Birmingham City Council:



.....

Cllr Paul Tilsley
Deputy Leader of the Council and Chairman of the
meeting of Council Business Management
Committee which approved the accounts

Statement of Accounting Policies

1 General Principles

- 1.1 The Statement of Accounts summarises the Council's transactions for the financial year 2008/09 and show its position as at 31 March 2009.
- 1.2 The Council's Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, published by the CIPFA in 2008. The code has been developed by CIPFA in accordance with Accounting Standards Board guidance and approved as a SORP. As such it constitutes Proper accounting practices within the meaning of the Accounts and Audit Regulations 2003. This SORP introduced a number of important changes to the main accounting statements. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.
- 1.3 The following policies have been adopted in compiling the accounts, where appropriate the estimating techniques will be given along with the policy adopted:

2 Overheads and Support Services

- 2.1 The costs of overheads and support services are charged to the services that benefit from them in accordance with the costing principles of the Best Value Accounting Code of Practice (BVACOP). The exceptions to this rule are as follows, and are accounted for as separate lines on the Income and Expenditure Account as Net Cost of Service:
 - Corporate and Democratic Core which are the costs relating to the Council's status as a multi-functional democratic organisation, such as Corporate Management which includes such items as the costs of external audit, treasury management and Member services.
 - Non Distributable Costs which include the cost of discretionary benefits awarded to employees retiring early.

3. Accruals of Income and Expenditure

- 3.1 The 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 (Accounting Principles).
- 3.2 Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or service.
- 3.3 Significant supplies are recorded as expenditure when consumed, stocks being carried in the balance sheet for transport parts and fuel for example.
- 3.4 Works are charged as expenditure when completed; for capital work-in-progress is carried on the balance sheet.
- 3.5 Where income and expenditure have been recognised, but cash has not been received or paid a debtor or creditor is recorded in the balance sheet. Where it is doubtful that a debt will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- 3.6 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.
- 3.7 The Council has adopted a de-minimus level for accruals of £5,000. Debtors and Creditors below this level are not included in the accounting statements. This is intended to improve the efficiency of the final accounts process in order that earlier closedown deadlines can be achieved.

Statement of Accounting Policies

4. Charges to Revenue for Fixed Assets

Asset Charges

- 4.1 Service revenue accounts, including the HRA, 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 addition to depreciation the following charges may also be made to service revenue accounts:
- Impairment losses where a clear consumption of economic benefit on tangible fixed assets has occurred and other losses where there are no accumulated gains in the Revaluation Reserve, which the loss can be written off against;
 - Amortisation of intangible fixed assets.
- 4.2 The Council is required to make an annual provision from revenue known as the Minimum Revenue Provision, to contribute towards the reduction in the overall borrowing requirement. The previous basis of calculation (4% of the capital financing requirement) continues for borrowing whose revenue costs are supported by Government grant, but for other 'prudential' borrowing, MRP is now based on a prudent assessment of the relevant asset's life, in accordance with Statutory Guidance. This provision is not a charge to service revenue accounts which receive a depreciation charge as described above. The difference between MRP and depreciation is appropriated to or from the Capital Adjustment Account, so that depreciation does not impact on the Council's Net Revenue Expenditure.

5 Revenue Expenditure Funded from Capital Under Statute

- 5.1 This category of expenditure, formerly known as deferred charges, represents 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 Council's net operating expenditure as an offsetting appropriation is made from the Capital Adjustment Account in the Statement of Movement on General Fund Balance. This expenditure does not, therefore, impact on council tax.

6. Leases

Finance Leases

- 6.1 The 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.

Operating Leases

- 6.2 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.

Statement of Accounting Policies

7 Pension Schemes

- 7.1 The 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:

Teachers' Pension Scheme

- 7.2 Teachers may be members of the Teachers' Pension Scheme. This is administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families. The employers' rate is set nationally by that department and the contributions are invested in a notional fund, valued at least every five years by the Government Actuary. Further information on this scheme may be obtained from the website at www.teacherspensions.co.uk. This is a defined benefit scheme, however, the arrangements mean that liabilities for these benefits cannot be identified to the Council and the scheme is therefore accounted for as if it were a defined contributions scheme. As this is an unfunded scheme there are no investment assets built up to meet the pension liability and cash has to be generated to meet actual pension payments as they fall due. In addition, no liability for future payment of benefits is recognised in the Balance Sheet and the Children's and Education Service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

Local Government Pension Scheme

- 7.3 Employees of the Council, other than teachers, may be members of the Local Government Pension Scheme. The appropriate Fund is the West Midlands Metropolitan Authorities 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. This is a funded defined benefit scheme meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension fund's liabilities with investment assets.
- 7.4 The fund is subject to an actuarial valuation every three years, the last one being 31 March 2007, with results implemented from 1 April 2008. Under FRS17 (Retirement Benefits) different assumptions are required for the discount rate used in the calculation of liabilities and the inclusion of retirement benefits. This results in a calculation of the value of the assets at 31 March 2009 of £1,881.8m which represented 65.1% of the value of liabilities. Liabilities are discounted to their value at current prices using a discount rate of 7.1%.
- 7.5 FRS17 requires the recognition of the Council's share of the fund's assets and liabilities in its accounts, as well as requiring recognition in the Council's revenue account of the full costs of providing for future retirement benefits. In accordance with Government regulations, a Pensions Reserve has been set up and the Council's liabilities arising from its participation in the schemes have been written onto the balance sheet. The revenue account has been debited with the full cost of providing for future pension liabilities arising from in year service in accordance with FRS17. Appropriations equal to the difference between this amount and the actual employers' pension contribution are made from the Pensions Reserve so that the additional costs of providing for retirement benefits in accordance with FRS17 do not impact on levels of local taxation. Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the pension fund in the year. In the statement of Movement on General Fund Balance entries are made to remove the notional FRS17 charges and replace them with the cash paid to the pension fund.
- 7.6 The net liability on the pension reserve calculated in accordance with FRS17 has reduced during the year from £1,140.8m (restated from £1,138.5m) to £1,068.9m. This change is highlighted in further detail within the pensions note to the Core Financial Statements, under 'Scheme History' and represents a reduction in the present value of the scheme liabilities of £532.1m offset by a reduction in the fair value of the scheme assets amounting to £460.2m. The elements making up the movement in the assets and liabilities are detailed below and the changes related to the individual elements can be seen within the pensions note to the Core Financial Statements, under 'Assets and liabilities in relation to retirement benefits'.

Statement of Accounting Policies

- Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked;
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs;
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account;
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account;
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs;
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses;
- Contributions paid to the West Midlands Local Government Pension Fund – cash paid as employer's contributions to the pension funds.

7.7 Note 6 to the Core Financial Statements provide further information in respect of both pension schemes.

8. Financial Liabilities

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

Interest Charges

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

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

8.4 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. The SORP requires premiums arising from loan redemptions deemed extinguishments to be written off immediately to the Income and Expenditure Account. For the purpose of calculating the movement in General Fund balances, the premium is amortised in accordance with Government Regulations over the life of the loan repaid or the life of the replacement loan, with the difference an adjusting item in the Statement of General Fund Balances.

Statement of Accounting Policies

9. Financial Assets

9.1 Loans and Receivables

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

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

9.2 Available for Sale Assets

Birmingham City Council has interests in two major operators The NEC, and Birmingham Airport. In theory these interests represent assets available for sale. Assets of this nature are maintained in the Balance Sheet at fair value. The fair value in respect of these is considered under the SORP to be subject to independent appraisal, because the holding is of equity shares with no quoted market price.

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

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

10. Area Based Grant

- 10.1 The Council was a participant in a Local Area Agreement (LAA) – a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. With effect from 1 April 2008 this grant was replaced by Area Based Grant which is payable to the Council and shown with other general government grants at the bottom of the Income and Expenditure Account.

11. Government Grants and Contributions (Revenue)

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

12. Grants and Contributions (Capital)

- 12.1 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 Movement in General Fund Balances since it is a capital financing item which has already been applied to meet capital expenditure. The balancing entry for this reconciliation is against the Capital Adjustment Account.

Statement of Accounting Policies

13. Value Added Tax

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

14. Fixed Assets

Intangible Fixed Assets

14.1 Expenditure on assets that do not have a physical substance but are controlled by the Council, such as software licences is capitalised and amortised to the relevant service revenue account over a period of five years. The Council does not re-value these assets.

Tangible Fixed Assets

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

Asset Categories

14.3 Fixed assets are categorised as follows:

Type	Examples
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Operational	Council dwellings, other land and buildings, vehicles and equipment used to deliver services directly. Infrastructure assets such as Highways and Community assets such as Parks and museum exhibits.
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Non operational	Investment property, surplus assets held for disposal, assets under construction.
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Recognition of Fixed Assets

14.4 New assets are recognised in accordance with the provisions of FRS15 (Tangible Fixed Assets). Expenditure on routine repairs and maintenance is charged to revenue as it is incurred. All capital expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Where it is considered by the Authority's valuer that the increase in value is less than the amount of expenditure the difference is charged to the relevant service revenue account as impairment with the book value of the asset written down accordingly. An appropriation is made from the Capital Adjustment Account in the Statement of Movement on General Fund Balances to ensure that there is no impact on balances.

Measurement

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

14.6 Operational assets of land and buildings, and vehicles, plant and equipment, are included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use 'Existing Use Value', and dwellings are valued by Existing Use Value – Social Housing. Short life operational assets, such as vehicles, plant and equipment, are included at historical 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.

14.7 Non operational assets, including investment properties and assets that are surplus, are included on the balance sheet at Market Value. Assets under construction are recorded at cost.

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

Statement of Accounting Policies

14.9 Community assets are assets which are held for the community in perpetuity, and in many cases they 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. The SORP requires that these assets are valued at historical cost, however, prior to 2008/09, the Council held these assets at a nominal £1 at April 1 1994. With effect from 2008/09 expenditure on community assets is debited to the assets concerned. Total expenditure for 2007/08 and earlier years has been added to Fixed Assets and a corresponding adjustment made to the Capital Adjustment Account as a prior year adjustment.

Revaluation Cycle

14.10 When an asset is included in the balance sheet at Market Value, Existing Use Value and Depreciated Replacement Cost, it is formally re-valued at intervals of not more than five years, and the revised amount included in the balance sheet. Where the value of an asset has increased, a credit equivalent to the change in value is made to the Revaluation Reserve. Where an asset value has decreased, an amount equivalent to the change in value is debited to the Revaluation Reserve up to the amount of revaluation gains relating to that asset, until the asset reaches its depreciated historical value and any subsequent reductions are charged to the Income and Expenditure Account. The revenue impact is neutralised through the Statement of Movement on General Fund Balance, by entries to the Capital Adjustment Account. The Council has a rolling programme in place to revalue approximately 20% of its property assets each year.

14.11 The entire housing portfolio was revalued in 2005/06 to meet the Government's requirements for Housing Resource Accounting. A desktop review is carried out in the years between the five yearly valuations.

Housing Stock Revaluation

14.12 The Beacon principle is used to value the Council's housing stock. The stock is valued on the basis of existing use valuation for social housing. In accordance with the guidance, a sample of properties "Beacons" are chosen to be representative of each type of property and valued. The full valuation is then obtained by extrapolating these Beacon values across the whole housing stock. These Beacon values have been reviewed to reflect movements in property market values: High rise flats and defective dwellings continued to be valued using a Discounted Cash Flow method, in the absence of appropriate market evidence. In 2008/09 this valuation was updated using a desktop methodology.

Disposals

14.13 Income from the disposal of Fixed Assets is ultimately credited to the Useable Capital Receipts Reserve, after being accounted for through the Income and Expenditure Account and accounted for on an accruals basis. The difference between the sale proceeds and the carrying value in the balance sheet is debited or credited to the Income and Expenditure Account as a gain or loss and shown below the Net Cost of Services. Only receipts in excess of £10,000 are recorded as capital receipts, and a proportion of receipts from the disposal of dwellings (75%) and housing land (50%) is payable to the Government under pooling arrangements. These pooling payments are shown in the Income and Expenditure Account as Levies.

These do not affect the level of General Fund balances since an equivalent appropriation is made from the Useable Capital Receipts Reserve in the Statement of Movements in the General Fund Balance. The balance of capital receipts is then available to finance capital expenditure.

14.14 The written off value of the asset is not a charge on council tax as an adjustment is made from the Statement of Movement on General Fund Balances and the Capital Adjustment Account.

Statement of Accounting Policies

Depreciation

14.15 **Council Dwellings** – The 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.

14.16 **Other Land and Buildings** – In line with the requirements of FRS15, freehold buildings are depreciated over their estimated useful life. Freehold land is not depreciated. Leasehold property is depreciated over the life of the lease. The anticipated residual lives used to calculate depreciation are reviewed and updated in accordance with the Council's rolling programme of condition surveys.

14.17 **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 basis of valuation required by the SORP.

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

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

14.19 **Community Assets** – community assets have not previously been depreciated, as these assets were held at a nominal value of £1. From 2008/09 these assets will be held at historical cost and depreciation will be charged with effect from 2009/10 on a straight-line basis.

14.20 **Investment Properties** – In accordance with FRS15 investment properties carried at Market Value are not depreciated, but are subject to an annual impairment review.

14.21 Impairment of Fixed Assets

In accordance with FRS11 (Impairment of Fixed Assets), a review was undertaken to identify any land or buildings where the current value had fallen below the carrying amount due to obsolescence, physical damage or general economic conditions.

Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

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

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

14.22 Review of Asset Lives

The residual lives of freehold operational buildings used in the calculation of depreciation are reviewed regularly. The Council's Urban Design Department in the Development and Culture Directorate has a rolling programme of condition surveys carried out by appropriately qualified surveyors. The remaining useful life of each major component of a building is estimated as part of this process. Where necessary the remaining useful life of the building for accounting purposes is adjusted to that of the shortest lived major component identified in the condition survey.

Statement of Accounting Policies

15. Private Finance Initiative (PFI)

- 15.1 PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the council under a contract are charged to revenue to reflect the value of services received in each financial year. The Council has entered into two such contracts for the building of schools and one for the provision of public conveniences. The particular application of this policy is further explained in [Note 14](#) to the core statements.
- 15.2 The 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.
- 15.3 Where the balance of risks and rewards of the PFI property are borne by the 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 Statements of Standard Accounting Practice (SSAP) 21 (Leases and HP Contracts), 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.
- 15.4 PFI credit letters issued by Government, act as a promise that an amount of PFI grant can be claimed once the project is operational. The cumulative excess of grants over expenditure is held in the earmarked reserves.

16. Investment in Companies and Other Entities

- 16.1 Investments in listed and unlisted companies, established for the promotion of local authority activities and in marketable securities, are shown at either cost or fair value as appropriate. Investment income is credited to the Income and Expenditure Account when receivable.

17. Stocks and Work in Progress

- 17.1 Stocks are included on the balance sheet at latest price. This valuation method does not comply with SSAP9 (Long-term Contracts) 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.
- 17.2 The amount at which contract work in progress is included in the balance sheet is cost plus any attributable profit less any foreseeable losses.

Statement of Accounting Policies

18. Provisions

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

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

19. Reserves

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

19.2 Details of reserves held at 31 March 2009 are shown in the notes supporting the Balance Sheet.

19.3 Contributions from Developers, paid under section 106 of the Town and Country Planning Acts 1990 are shown on the Balance Sheet as Capital Contributions Unapplied. Where these monies are invested externally they are shown under short term investments.

20. Landfill Allowances

20.1 The Council did not trade any allowances in 2008/09. During the year outstanding Landfill Allowances have been impaired to zero, in accordance with CIPFA guidance.

21. Post Balance Sheet Events

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

22. Group Accounts

22.1 The Council has material interests in a number of subsidiary and associated companies. In accordance with FRS2 (Subsidiary Undertakings) consolidated financial statements have been prepared as an annex to the main accounts. The National Exhibition Centre Limited Group is regarded as a subsidiary and has been consolidated on a line by line basis, while the National Exhibition Centre (Developments) Plc is regarded as an associate and has been consolidated on a net equity basis. A departure from previous years is the non consolidation of Birmingham Technology (Property) Ltd and full disclosure for this can be found at [Note 42](#) to the core statements.

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

Statement of Accounting Policies

23. Business Improvement District

- 23.1 In accordance with the provisions of the Business Improvement District (BID) Regulations 2004 a ballot of local businesses within four areas, namely Broad Street, the city centre's principal retail area, Erdington Town Centre and King's Heath Town Centre, has resulted in the creation of four distinct Business Improvement Districts. Business ratepayers in these areas pay a levy in addition to the National Non-Domestic Rate to fund a range of specified additional services which are provided by specific companies set up for the purpose.
- 23.2 In line with SORP guidance the Council has determined that it acts as agent to the BID authorities and therefore neither the proceeds of the levy nor the payment to the BID Company are shown in the Council's accounts.

Income and Expenditure Account

2007/08 Net Expenditure £'000		Gross Expenditure £'000	Income £'000	2008/09 Net Expenditure £'000
351,576	Adult Social Care	427,478	(85,124)	342,354
17,208	Central Services to the Public	113,330	(95,674)	17,656
385,986	Children's and Education Services	1,592,792	(1,142,811)	449,981
1,471	Court Services	1,903	(331)	1,572
264,455	Cultural, Environmental & Planning Services	469,481	(202,067)	267,414
91,987	Highways, Roads & Transport	156,466	(50,816)	105,650
66,579	Housing General Fund Services	602,695	(457,518)	145,177
(41,889)	Housing Revenue Account	554,899	(225,540)	329,359
17,906	Corporate & Democratic Core	17,886	(389)	17,497
41,554	Non Distributed Costs	15,020	(24,895)	(9,875)
1,196,833	Net Cost of Services	3,951,950	(2,285,165)	1,666,785
72	Parish Precept			78
(14,008)	Surplus on Trading Undertakings	<u>Note 1</u>		(17,241)
24,293	Levies	<u>Note 13</u>		28,439
25,983	Contribution of Housing Capital Receipts to Government Pool	<u>Note 13</u>		7,917
40,656	Premiums on Premature Debt Redemption			0
112,068	External Interest Charges			128,779
7,473	Pensions Interest Cost & Expected Return on Pensions Assets	<u>Note 6</u>		51,586
(38,458)	(Gains)/losses on the disposal of Fixed Assets			(12,339)
(29,569)	Interest & Investment Income			(35,469)
1,325,343	Net Operating Expenditure			1,818,535
	Sources of Finance			
0	Area Based Grant			(92,183)
(89,591)	Revenue Support Grant*			(86,882)
(505,005)	Non Domestic Rates Redistribution			(561,425)
(304,132)	Council Tax	<u>Note 3</u>		(314,341)
0	Council share of Collection Fund Surplus			(6,503)
426,615	Deficit for Year			757,201

Statement of Movement on General Fund Balances

BIRMINGHAM CITY COUNCIL	2007/08	2008/09
STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE	£'000	£'000
(Surplus)/deficit for the year on the Income & Expenditure Account	426,615	757,201
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(436,907)	(750,318)
(Increase)/Decrease In General Fund Balance for the year	(10,292)	6,883
General Fund Balance brought forward	(17,708)	(28,000)
General Fund Balance carried forward	(28,000)	(21,117)
Note of Reconciling Items for the Statement of Movement on the General Fund Balance	2007/08	2008/09
	£'000	£'000
Amounts included in the Income and Expenditure Account but required by Statute to be excluded when determining the movement on the General Fund Balance for the year		
Depreciation and impairment of fixed assets	(169,815)	(623,096)
Government Grants Deferred amortisation	16,745	0
Revenue expenditure funded from capital under statute	(251,707)	(163,030)
Net charges made for retirement benefits in accordance with FRS 17	(41,702)	(60,171)
Net gain on sale of fixed assets	38,458	12,339
Other Government Grants	0	17,106
Amounts not included in the Income and Expenditure Account but required by Statute to be included when determining the movement on the General Fund Balance for the year		
Minimum revenue provision for capital financing	58,154	67,485
Voluntary Revenue Provision	2,185	2,814
Capital expenditure charged in-year to the General Fund Balance	397	5
Transfer from Usable Capital Receipts to meet payments to the Housing Pool	(25,983)	(7,917)
Appropriations re repayment of long term debtors	(166)	2,059
Appropriations re repayment of long term liabilities	2,181	2,363
Appropriations re restatement of financial instruments	(28,632)	(10,670)
Appropriations re write-off of debt redemption premiums	(37,889)	3,125
Transfers to or from the General Fund that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
HRA Balances	408	(121)
Schools Balances	10,158	899
Other Earmarked Reserves	(9,699)	6,492
Net additional amount required to be credited to the General Fund Balance for the year	(436,907)	(750,318)

Statement of Total Recognised Gains and Losses

	2007/08 £'000	2008/09 £'000
Deficit for the year on the Income & Expenditure Account	426,615	757,201
(Surplus)/Deficit arising on revaluation of fixed assets	(335,825)	52,928
Actuarial (gains)/losses on pension fund assets and liabilities	292,254	(132,006)
Deficit on Collection Fund Attributable to Council	2,666	1,652
Other General Fund movements	(312)	0
Total Recognised (Gains) and Losses for the Year	385,398	679,775
Balance Sheet Movement*	385,398	679,775

* Prior period adjustments

1. During 2008/09 the authority wrote the balance of historic capital grants from the balance sheet since these could not be attributed to the acquisition of particular assets. The total value written out was £350.8m. In addition, this is partly off-set by a reversal of the amortisation of these grants, totalling £16.7m, which was processed in 2007/08 and is no longer required as the grants have been written out. Further information about deferred grants is included in [Note 33](#).
2. Adjustments have been made between Fixed Assets and the Capital Adjustment Account, totalling £49m, to the carrying amount of Housing Surplus Properties and additional sites valued at £18.6m have been identified.
3. In 2007/08 the Council repaid £7m of ERDF grant. In 2008/09 it was identified that this should have been accounted for as capital expenditure and necessary adjustments have been made between the Capital Adjustment Account and Reserves.
4. Under the 2008 SORP the Council has adopted the amendment to FRS17, Retirement Benefits. As a result quoted securities held as assets in the Local Government Defined Benefit Pension Scheme (LGPS) are now valued at bid price rather than mid-market value. The effect of this change is that the value of scheme assets at 31 March 2008 has been restated resulting in an increase in the notional pension deficit of £2.3m, moving from £1,138.5m to £1,140.8m.
5. The Council has previously had a policy of holding Community Assets (mainly parks and allotments) at a nominal £1 on the balance sheet. It has now been determined to change this policy from 2008/09 and consequently £105.6m has been added to this category of Fixed Assets with a corresponding adjustment to the Capital Adjustment Account.
6. Some of the Revaluations of Land and Buildings in 2007/08 were incorrectly included in the 2007/08 accounts and a correction totalling £74.6m has been to reduce the carrying value of this category of Fixed Assets with a corresponding adjustment to the Capital Adjustment Account.
7. In addition a number of minor differences, totalling £5.7m, between the asset register and the 2007/08 accounts have been corrected by reducing Fixed Assets and a corresponding adjustment to the Capital Adjustment Account. Also a capital receipt of £1m which had been incorrectly held in Government Grants Unapplied has been moved to the Usable Capital Receipts Reserve.

Balance Sheet

As at 31st March 2008 £'000		Note £'000	As at 31st March 2009 £'000
	Fixed Assets		
19,010	Intangible Fixed Assets	<u>17 to 22</u>	23,334
	Tangible Fixed Assets:		
	Operational Assets		
2,482,026	Council Dwellings & Garages	<u>17 to 22</u>	2,003,114
2,526,674	Other Land & Buildings	<u>17 to 22</u>	2,520,756
27,641	Vehicles, Plant, Furniture & Equipment	<u>17 to 22</u>	44,795
436,434	Infrastructure Assets	<u>17 to 22</u>	413,158
150,600	Community Assets	<u>17 to 22</u>	112,808
	Non-operational Assets		
34,474	Assets under Construction	<u>17 to 22</u>	169,283
398,622	Non-Operational Assets	<u>17 to 22</u>	403,115
6,030,481	Total Fixed Assets		5,690,363
0	Premature Debt Repayment Premiums		0
411,505	Long Term Investments	<u>24</u>	366,999
31,399	Long Term Debtors	<u>25</u>	46,530
442,904			413,529
6,473,385	Total Long Term Assets		6,103,892
	Current Assets		
245,637	Other Investments	<u>24</u>	171,707
2,961	Stocks & Work in Progress	<u>26</u>	3,160
1,531	Landfill Allowances	<u>27</u>	0
264,692	Debtors	<u>28</u>	306,547
69,040	Cash in Hand	<u>29</u>	71,829
583,861			553,243
7,057,246	Total Assets		6,657,135
	Current Liabilities		
(118,416)	Short-term Borrowing	<u>30</u>	(274,648)
(467,746)	Creditors	<u>31</u>	(439,341)
(69,567)	Cash Overdrawn	<u>29</u>	(72,158)
(29,754)	Capital Contributions Unapplied	<u>37</u>	(29,389)
(215)	Collection Fund		(2)
(685,698)			(815,538)
6,371,548	Total Assets less Current Liabilities		5,841,597
	Long-term Liabilities		
(1,996,561)	Long-term Borrowing	<u>30</u>	(2,144,990)
(1,140,779)	Liability Related to Defined Benefit Pension Scheme	<u>6</u>	(1,068,943)
(111,467)	Deferred Liabilities	<u>32</u>	(109,096)
(81,939)	Government Grants Deferred	<u>33</u>	(138,016)
(0)	Government Grants Unapplied		(20,132)
(47,893)	Provisions	<u>34</u>	(47,286)
2,992,909	Total Assets less Liabilities	<u>23</u>	2,313,134

Balance Sheet (continued)

As at 31st March 2008		Note	As at 31st March 2009	
£'000			£'000	£'000
	Financed by:			
261,190	Revaluation Reserve	<u>35</u>	200,245	
3,711,535	Capital Adjustment Account	<u>36</u>	2,974,728	
(37,890)	Financial Instruments Adjustment Account		(34,761)	
(1,140,779)	Pensions Reserve	<u>6</u>	(1,068,943)	
6,576	Usable Capital Receipts Reserve	<u>37</u>	52,409	
8,128	Deferred Capital Receipts		6,538	
28,00	General Fund Balance	<u>38</u>	21,117	
3,472	Housing Revenue Account Balance	<u>38</u>	3,351	
151,054	Earmarked Reserves	<u>37</u>	158,479	
0	Housing Major Repairs Reserve	<u>37</u>	0	
1,623	Collection Fund	<u>38</u>	(29)	
2,992,909	Total Net Worth	<u>23</u>	2,313,134	

Cash Flow Statement

2007/08 £'000		2008/09 £'000	£'000
(178,353)	Net Cash Flow From Revenue Activities (Note 47)		(200,015)
	Returns on Investments and Servicing of Finance		
	<i>Cash Outflows:</i>		
113,773	Interest Paid	147,200	
	<i>Cash Inflows:</i>		
(38,300)	Interest Received	(41,870)	
75,473			105,330
	Capital Activities		
	<i>Cash Outflows:</i>		
285,900	Purchase of Fixed Assets	416,500	
76,576	Purchase of Long Term Investments	6,963	
296,870	Other Capital Cash Payments	215,075	
659,346			638,538
	<i>Cash Inflows:</i>		
(70,200)	Sale of Fixed Assets	(55,358)	
(1,700)	Capital Contributions Received	(27,825)	
(139,200)	Capital Grants Received (Note 51)	(158,578)	
(211,100)			(241,761)
345,366	Net Cash Outflow/ (Inflow) before Financing		302,092
	Management of Liquid Resources		
92,613	Net Increase/(Decrease) in Short Term Deposits		
	Financing		
	<i>Cash Outflows:</i>		
187,600	Repayments of Amounts Borrowed	1,863,598	
	<i>Cash Inflows:</i>		
(616,666)	New Loans Raised – Long Term	(2,165,888)	
(336,453)			(302,290)
8,913	Net (Increase)/ Decrease in Cash		(198)

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:

2007/08 (Profit) Loss £'000	Trading activity (see brief descriptions below)	Turnover £'000	2008/09 Expenditure £'000	(Profit) Loss £'000
(130)	Highways & Sewers	(8,730)	8,592	(138)
(214)	Property Services	(7,025)	8,526	1,501
(579)	Legal Services	(11,437)	10,400	(1,037)
(1,462)	Markets	(7,771)	6,561	(1,210)
29	Non-Schools Cleaning	(3,692)	3,843	151
(298)	Catering	(2,104)	2,127	23
16	Street Lighting	(4,171)	4,214	43
543	Vehicle Maintenance	(4,313)	3,910	(403)
175	Education Catering	(31,311)	31,324	13
311	Education Staff Agency	(7,683)	7,481	(202)
(1,191)	Trade Refuse	(6,171)	4,909	(1,262)
(11,183)	Urban Design	(89,316)	74,653	(14,663)
107	Grounds Maintenance	(6,096)	6,273	177
102	Education Cleaning	(8,193)	8,211	18
(190)	Design & Print	(2,944)	2,685	(259)
5	Meals Direct	(2,264)	2,347	83
(309)	Birmingham City Laboratories	(2,330)	2,031	(299)
45	Landscape Practice	(1,177)	1,173	(4)
8	Community Day Nurseries	(1,685)	1,697	12
207	Other Trading Activities	(3,212)	3,427	215
(14,008)		(211,625)	194,384	(17,241)

Details of Trading Undertakings

Highways and Sewers

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

Property Services

Birmingham Property Services (BPS) is the largest in-house local authority Property Consultancy. BPS provide an integrated professional property service to the City Council, with a responsibility to manage and dispose of City-owned commercial land and property, including shops, offices, industrial units, warehouses, business parks and development sites.

Legal Services

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

Notes to Core Financial Statements

Markets

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

Non-Schools Cleaning

Birmingham City Cleaning currently undertakes cleaning business worth approximately £3.5 million and covers some 322 locations employing a team of 336 full and part-time staff.

Catering

Catering is provided at 5 Civic and Commercial Venues across the City.

Street Lighting

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

Vehicle Maintenance

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

Education Catering

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

Education Staff Agency

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

Trade Refuse

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

Notes to Core Financial Statements

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

Education Cleaning

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

Design & Print

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

Meals Direct Service

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

Birmingham City Laboratories

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

Landscape Practice

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

DSD Trading Community Day Nurseries

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

Others

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

Notes to Core Financial Statements

2. Minimum Revenue Provision

The Local Government Act 2003 requires the Council to charge to the Income and Expenditure Account a provision for the redemption of debt. In relation to borrowing supported by Government revenue grant, this is calculated on a 4% reducing balance method. In relation to borrowing not supported by government grant, MRP is calculated in accordance with Government guidance largely over the life of the associated assets, on an annuity profile. There is no longer a requirement to make a revenue provision in the HRA. The amount set aside in 2008/09 was £67.5m. Service revenue accounts are charged with depreciation on the fixed assets to which the loan debt relates. Where this depreciation is more or less than MRP, a corresponding appropriation is made from or to the Capital Adjustment Account via the Statement of Movement on General Fund Balances. This is explained further in the Note on Accounting Policies.

3. Council Tax

Further details of this source of income are covered in the [Collection Fund Statement](#) and Notes.

4. Publicity Expenditure

The Council is required by Section 5(1) of the Local Government Act 1986 to provide details of its spending on Publicity. During 2008/09 £9.0m was spent including £0.7m in respect of the NEC (2008: £0.7m).

2007/08		2008/09
£m		£m
1.2	Recruitment Advertising	1.7
1.1	Other Advertising	1.3
6.6	Promotions & Publicity	6.0
8.9	Total	9.0

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 2008/09 was £0.16m (2008: £0.07m) against a limit of £3.8m (2008: £3.8m).

6. Pensions

Participation within Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits through participation in two schemes, the Teachers Pension Scheme and the Local Government Pension Scheme, (section 7 of the Statement of Accounting Policies provides further information in respect of both schemes). Although these benefits will not be payable until the employees retire, the Council has a commitment to make payments that needs to be disclosed at the time that employees earn their entitlement.

Notes to Core Financial Statements

Local Government Pension Scheme

- i. The Council's employer's contribution for the year 2008/09 was £87.2m (2008: £77.2m).
- ii. The cost of awarding discretionary additional benefits and their associated inflation proofing is borne separately by the Council. Expenditure in 2008/09 was £5.6m (representing 0.9% of members' aggregated pensionable pay).
- iii. In the latest complete Actuarial Valuation as at 31 March 2007 82% of past service liabilities were funded. A further full valuation will be undertaken as at 31 March 2010. An employer's contribution rate was set for the Council of 14.7% for the year from 1 April 2008 to 31 March 2009. From 1 April 2005 the Council has also elected to fund the cost of its early retirements on an individual basis rather than through an addition to the employer's pension contribution rate.

Teachers Pension Scheme

- i. For Teachers, the Council's employer's contribution for 2008/09 was £53m, 14.1% of pensionable pay, (2008: £51m, 14.1% of pensionable pay).
- ii. In addition, £6.5m (2008: £6.3m) was paid to retired teachers in respect of added year's benefits and, in certain cases, the employer share of teacher pension benefits. These figures include pension increases, where appropriate. A liability is shown on the Balance Sheet in respect of the Council's obligations to pay added years benefits.
- i. The City Council's employer's contribution for the year 2007/08 was £77.2m (£69.67m in 2006/07).

The following transactions have been made in the Income and Expenditure Account and Statement of Movement on the General Fund Balance during the year:

Local Government Pension Scheme				Unfunded Teachers Pension Scheme		
2007/08	2007/08	2008/09	Income and Expenditure	2007/08	2007/08	2008/09
£m	Restated £m	£m	Account	£m	Restated £m	£m
			Net Cost of Service			
95.4	95.4	106.5	Current Service Cost	0.0	0.0	0.0
28.3	28.3	0.5	Past Service Cost	0.0	0.0	0.1
0.0	0.0	0.1	Curtailments	0.1	0.1	0.0
0.0	0.0	0.0	Settlements	0.0	0.0	0.0
			Net Operating Expenditure			
167.5	167.5	209.1	Interest Cost	3.4	3.4	4.2
(163.5)	(163.4)	(161.8)	Expected Return on Scheme Assets	0.0	0.0	0.0
127.7	127.8	154.4	Net Charge to Income and Expenditure Account	3.5	3.5	4.3
			Statement of Movement on the General Fund Balance			
(43.6)	(43.7)	(61.4)	Reversal of Net Charges Made for Retirement Benefits in Accordance with FRS17	2.1	2.1	1.4
84.1	84.1	93.0	Actual Amount Charged Against General Fund Balance for Pensions in Year	5.6	5.6	5.7

Notes to Core Financial Statements

In addition to the recognised gains and losses shown above within the Income and expenditure account, actuarial gains of £132.0m (actuarial losses of £292.3m in 2007/08) have been included in the Statement of Total Recognised Gains and Losses. The cumulative value for actuarial gains and losses included within the Statement of Total Recognised Gains and Losses is a gain of £23.7m.

Assets and liabilities in relation to retirement benefits

The following is a reconciliation of the movement within the schemes liabilities for 2008/09:

	Local Government Pension Scheme			Unfunded Teachers Pension Scheme		Total	
	2007/08 Restated	2008/09 Unfunded	2008/09 Funded	2007/08 Restated	2008/09	2007/08 Restated	2008/09
	£m	£m	£m	£m	£m	£m	£m
Obligations as at 1 April	(3,080.8)	(86.3)	(3,323.9)	(66.1)	(72.6)	(3,146.9)	(3,482.8)
Current Service Cost	(95.4)	0.0	(106.5)	0.0	0.0	(95.4)	(106.5)
Past Service Cost	(28.3)	0.0	(0.5)	0.0	(0.1)	(28.3)	(0.6)
Curtailments	0.0	0.0	(0.1)	(0.1)	0.0	(0.1)	(0.1)
Interest on Pension Liabilities	(167.4)	(5.1)	(204.1)	(3.5)	(4.3)	(170.9)	(213.5)
Actuarial Gains/(Losses) on Liabilities	(93.7)	12.5	756.2	(8.6)	9.8	(102.3)	778.5
Benefits/Transfers Paid	88.3	5.6	101.3	5.6	5.7	93.9	112.6
Member Contributions	(32.9)	0.0	(38.3)	0.0	0.0	(32.9)	(38.3)
Obligations as at 31 March	(34102)	(733)	(2,8159)	(727)	(61.5)	(3,482.9)	(2,950.7)

The expected return on fund assets is determined by considering the expected market returns available on the assets underlying the current investment policy. The assumption used is the average of the assumptions, (shown in the section below, 'Basis for estimating assets and liabilities' within the table showing 'Expected rate of return on assets'), appropriate to the individual asset classes and weighted by the proportion of assets in the particular class.

Actuaries have changed some aspects of the methodology in determining expected rates of return, due to the large financial market changes over the year, including:

- i. The assumed investment return on Government bonds is the yield on 20 year fixed interest gilts at the relevant date;
- ii. The expected return on corporate bonds is based on market yields at the relevant date, but this is restricted to 2% pa over and above that available on gilts, reflecting an increased risk of default in the corporate bond yield. As a result the expected return on these investments is lower than the discount rate used in calculations;
- iii. The assumed investment return on equities is the yield on 20 year fixed interest gilts associated with equity investments, plus the 'risk premium' of 3.5% pa (actuary model). The 'risk premium' reflects the increased demand for gilts, partly resulting from the Government's programme of quantitative easing. The total rate is 7.5%, (4% Government bond plus 3.5% risk premium).

The actual return on fund assets in the year was a negative £484.6m (2008: negative £85.5m).

Notes to Core Financial Statements

The following is a reconciliation of movements in the fair value of the scheme assets over the last financial year:

	Local Government Pension Scheme			Unfunded Teachers Pension Scheme		Total	
	2007/08 Restated	2008/09 Unfunded	2008/09 Funded	2007/08 Restated	2008/09	2007/08 Restated	2008/09
	£m	£m	£m	£m	£m	£m	£m
Fair Value of Assets as at 1 April	2,339.8	0.0	2,342.1	0.0	0.0	2,339.8	2,342.1
Employer Contributions	84.1	5.6	87.3	5.6	5.7	89.7	98.6
Expected Return on Assets	163.4	0.0	161.8	0.0	0.0	163.4	161.8
Actuarial Gains/(Losses) on Assets	(189.9)	0.0	(646.4)	0.0	0.0	(189.9)	(646.4)
Benefits/Transfers Paid	(88.3)	(5.6)	(101.3)	(5.6)	(5.7)	(93.9)	(112.6)
Member Contributions	32.9	0.0	38.3	0.0	0.0	32.9	38.3
Fair Value of Scheme Assets as at 31 March	2,342.0	0.0	1,881.8	0.0	0.0	2,342.0	1,881.8

Scheme history

The movement on the pension schemes' asset and liabilities over the last five years are shown below:

	2004/05 *	2005/06 *	2006/07 Restated	2007/08 Restated	2008/09
	£m	£m	£m	£m	£m
Present Value of Scheme Liabilities:					
LGPS	(2,603.0)	(3,043.1)	(3,080.6)	(3,410.2)	(2,889.2)
Unfunded Teachers Scheme	(64.5)	(69.1)	(66.1)	(72.6)	(61.5)
Total Present Value of Scheme Liabilities	(2,667.5)	(3,112.2)	(3,146.7)	(3,482.8)	(2,950.7)
Fair value of Scheme Assets in LGPS:	1,713.5	2,161.4	2,339.9	2,342.0	1,881.8
Surplus/Deficit in the Scheme:					
LGPS	(889.5)	(881.7)	(740.7)	(1,068.2)	(1,007.4)
Unfunded Teachers Scheme	(64.5)	(69.1)	(66.1)	(72.6)	(61.5)
Total	(954.0)	(950.8)	(806.8)	(1,140.8)	(1,068.9)

* The Council has elected not to restate the fair value of scheme assets for 2004/05 and 2005/06 as permitted by FRS17.

Notes to Core Financial Statements

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The total liability of £1,068.9m has a substantial impact on the net worth of the authority. However statutory arrangements for funding the deficit means that the financial position of the authority remains healthy:

- i. The deficit on the Local Government Pension Scheme will be made good by increasing employer contributions over the remaining working life of employees, as assessed by the scheme actuary on a triennial basis;
- ii. Finance is only required to be raised to cover the unfunded teachers' pensions when the pensions are actually paid.

Employee contributions were increased from 1 April 2008 in addition to employer contributions to ensure adequate funding of future pension liabilities given the increase in life expectancies.

The total contributions expected to be made to the Local Government Pension Scheme in 2009/10 by the Council is £96.8m.

Basis for estimating assets and liabilities

Liabilities for both the Local Government Pension Scheme and the unfunded teachers' pension scheme have been assessed by Mercers Human Resource Consulting Ltd, an independent firm of actuaries. The assessment has been on an actuarial basis using the projected unit method, an estimate of the pensions that will have to be paid in the future years dependent on assumptions about mortality rates, salary levels etc. The estimates for the Local Government Pension Scheme have been based on the latest full valuation of the scheme as at 31 March 2007.

The following actuarial assumptions have been made:

Assumptions	Local Government Pension Scheme		Unfunded Teachers Pension Scheme	
	2007/08	2008/09	2007/08	2008/09
Rate of Inflation	3.6%	3.3%	3.6%	3.3%
Rate of Increase in Salaries	5.4%	5.1%	N/A	N/A
Rate of Increase in Pensions	3.6%	3.3%	3.6%	3.3%
Discount Rate	6.1%	7.1%	6.1%	7.1%
Mortality Assumptions				
Longevity at 65 for current pensioners				
- Men	21.1	21.2	21.1	21.2
- Women	24.0	24.0	24.0	24.0
Longevity at 65 for future pensioners				
- Men	22.2	22.2	N/A	N/A
- Women	25.0	25.0	N/A	N/A
Take up option to convert annual pension into retirement lump sum*	50.0%	50.0%	N/A	N/A

* Note: Members of the Local Government Pension Scheme retiring on or after 6 April 2006 are permitted 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.

Notes to Core Financial Statements

The Teachers Pension Scheme has no assets to cover liabilities.

The assets of the Local Government Pension Scheme are valued at fair value and consist of the following categories, by proportion of the total assets held by the fund:

Asset Category	Local Government Pension Scheme	
	2007/08 Restated	2008/09
	%	%
Expected rate of return on assets		
- Equities	7.5	7.5
- Government Bonds	4.6	4.0
- Other Bonds	6.1	6.0
- Property	6.5	6.5
- Cash / Liquidity	5.3	0.5
- Other	7.5	7.5
Asset Value by Investment Categories		
- Equities	65.3	55.7
- Government Bonds	9.4	12.4
- Other Bonds	3.7	4.1
- Property	7.0	7.3
- Cash / Liquidity	4.1	4.0
- Other	10.5	16.5
Total	100.0	100.0

History of experience gains and losses

The actuarial gains identified as movements on the pensions reserve in 2008/09 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2009:

Gains/Losses	2004/05	2005/06	2006/07	2007/08	2008/09
	%	%	Restated %	Restated %	%
Difference between actual and expected return on assets:					
LGPS	4.0	14.8	0.9	(8.1)	(34.4)
Experience gains and losses on liabilities:					
LGPS	2.6	2.2	0.0	(1.8)	0.0
Unfunded Teachers Pension Scheme	2.3	3.0	0.0	0.0	0.0

Notes to Core Financial Statements

7 Officers Emoluments and Members Allowances

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

No. of Employees 2007/08		No. of Employees 2008/09
669	£50,000 - £59,999	834
200	£60,000 - £69,999	255
90	£70,000 - £79,999	88
27	£80,000 - £89,999	49
15	£90,000 - £99,999	22
4	£100,000 - £109,999	7
3	£110,000 - £119,999	3
0	£120,000 - £129,999	1
4	£130,000 - £139,999	0
0	£140,000 - £149,999	4
0	£160,000 - £169,999	0
1	£190,000 - £199,999	0
1	£200,000 - £209,999	1
1,014	Total	1,264

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 Council in 2008/09 totalled £3.0m (2008: £2.9m), note these figures include national insurance and superannuation.

8. Related Party Transactions

The Council received a number of general and specific grants from Central Government totalling £3,458.7m. 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 £41.2m. Payments to other local authorities and health authorities excluding precepts totalled £18.8m. Receipts from other local authorities totalled £44.8m. 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](#). The Council paid £203.9m 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 Council also has interests in a number of companies, as detailed in [Note 43](#). The following transactions are considered material:

Notes to Core Financial Statements

Payments	£m
BXL Services	1.2
Birmingham Research & Development Ltd	0.1
Birmingham Wheels Ltd	0.1
Chinese Community Centre - Birmingham	0.1
Local Leagues Ltd	0.1
Marketing Birmingham Partnership	5.6
Optima Community Association	0.9
Performances Birmingham	1.3
Service Birmingham Ltd	175.5
The National Exhibition Centre Limited	1.9

Receipts	£m
BXL Services	(0.6)
Birmingham Research Park Ltd	(0.1)
Birmingham Technology (Property Ltd)	(1.3)
Marketing Birmingham Partnership	(0.4)
Optima Community Association	(0.8)
Service Birmingham Ltd	(16.5)
The National Exhibition Centre Limited	(0.6)

There were no other material transactions between the 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 2008/09

2007/08		2008/09		
Total		Total	Total	
£'000		Chargable Activities	Non-chargable Activities	
		£'000	£'000	
4,156	Expenditure	2,275	2,011	4,286
(3,243)	Income	(2,235)	(815)	(3,050)
913	Net (Surplus)/Deficit	40	1,196	1,236
12	Appropriation(from)/to Reserve	(40)	0	(40)
925	Net(Surplus)/Deficit after Appropriation	0	1,196	1,196

10. Pooled Funding

Integrated Community Equipment Service

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

Expenditure in 2008/09 was:

	Planned Spend	Actual Spend	Carry Forward
	£	£	£
PCT'S Main Fund			
Scheme:			
General Schemes	76,975	76,443	532
Telecare Development	49,120	49,120	0
Beds Co-ordinator	47,852	48,043	(191)
Carry Forward	173,947	173,606	341
HOB PCT – Children's Equipment -	90,500	53,369	37,131
East and North Birmingham PCT Children's Equipment	130,244	80,000	50,244
South PCT Children's Equipment	36,319	0	36,319
Birmingham City Council	447,697	168,410	279,287
Carry Forward	704,760	301,779	402,981
Memorandum Carry Forward:			
East and North PCT 38.12%			130
South 34.31%			117
HOB 27.57%			94
			341

Notes to Core Financial Statements

11. Auditors Remuneration

The Council's appointed auditors are the Audit Commission. Payments to the auditors in 2008/09 totalled £1.1m (2008: £1.1m) of which £0.8m (2008: £0.7m) related to the audit of the Council's statutory accounts, service inspections, and assessments of the Council's improvement programmes. The £0.8m was made up of £0.1m inspection work and £0.7m code of practice work. The remaining £0.3m (2008: £0.4m) 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

2007/08		Expenditure	2008/09	
Net		£'000	Income	Net
£'000			£'000	£'000
(32)	Birmingham City Laboratories	114	140	(26)
0	Highways	1,321	1,321	0
(16)	Legal Services	0	0	0
(70)	Urban Design	36	61	(25)
(118)	Total	1,471	1,522	(51)

13. Levies

The following levies were paid by the Council in 2008/09:

Payments	£m	£m
	2006/07	2007/08
Passenger Transport Authority	23.9	28.1
Environment Agency	0.4	0.3
Housing Capital Receipts Pooling Payment to the Department for Communities and Local Government	26.0	7.9
Total	50.3	36.3

Notes to Core Financial Statements

14. Private Finance Initiative

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

Private Finance Initiative Commitments

i) Schools PFI

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

At 31 March 2009, all of the 22 schools had been fully completed. In accordance with FRS5 the Balance Sheet reflects the first 10 schools under the BSPL contract as the Council's assets, because the Council bears the majority of the risks and rewards of ownership. This however is not the case with the schools rebuilt under the Transform Schools contract where assets are deemed to be off-Balance Sheet. The value of assets recognised on the Balance sheet is £81.6m net of depreciation of £10.4m. The deferred liability recognised in respect of this scheme, amounts to £36.1m.

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

The deferred liability for this scheme, shown in [Note 32](#), represents the present value of basic availability payments. In 2008/09 the deferred liability was written down by £0.7m. The remaining availability payments are charged to the Income and Expenditure Account as an approximation of interest. Further availability payments are charged to the Children, Young People and Families Service Revenue Account.

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

	Services £'000	Availability £'000	Total £'000
Within one Year	6,806,476	10,713,390	17,519,866
2010/11 to 2014/15	28,834,811	43,289,733	72,124,544
2015/16 to 2019/20	40,288,751	55,110,022	95,398,773
2020/21 to 2024/25	45,583,024	56,354,458	101,937,482
2025/26 to 2029/30	51,573,007	57,762,424	109,335,431
2030/31 to 2034/35	44,562,490	47,049,269	91,611,759
2035/36 to 2039/40	34,533,905	34,920,000	69,453,905
Total	252,182,464	305,199,296	557,381,760

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 Council was awarded a PFI credit of £50.6m for the BSPL contract and £57.0m for the Transform Schools contract, which are forecast to generate grants of £241.1m over the same period.

Notes to Core Financial Statements

ii) Public Conveniences PFI

The 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 31 March 2009 there were 21 conveniences provided under the contract. 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
2009/10	525
2010/11 to 2014/15	2,827
2015/16 to 2019/20	3,199
2020/21 to 2021/22	1,394

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

15. Business Improvement District

At the end of 2008/09 the City had four Business Improvement Districts (BIDs) in operation, established in accordance with the Business Improvement District Regulations 2004. Under the scheme local businesses within distinct districts pay a levy, collected by the Council and paid over to each BID Management Company, which is used to fund additional services and environmental improvements. Any non collection of levies is a charge to the BID Company and not to the Council.

In line with SORP guidance the Council has determined that it acts as agent to the BID authorities and therefore neither the proceeds of the levy nor the payment to the BID Company are shown in the Council's accounts.

BID schemes operate for a period of five years and information in respect of the four schemes in operation at the end of 2008/09 can be seen below:

Broad Street BID, established in August 2005. The amount billed in 2008/09 was £357k.

Retail Birmingham BID, established in April 2007. The amount billed in 2008/09 was £542k.

Erdington Town Centre Partnership BID, established in July 2007. The amount billed in 2008/09 was £96k.

Kings Heath Town Centre Partnership BID, established in October 2008. The amount billed in 2008/09 was £119k.

Notes to Core Financial Statements

16. Dedicated Schools Grant

The Council's expenditure on schools is funded by a grant from the Department of Children, Schools and Families (DCSF). 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 (ISB) 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 2008/09.

	Central Expenditure £'000	Individual School Budget £'000	Total £'000
Final DSG for 2008/09	58,955	688,654	747,609
Brought forward from 2007/08			
Carry forward to 2009/10 agreed in advance	730	0	730
	0	0	0
Agreed budgeted distribution in 2008/09	59,685	688,654	748,339
Actual central expenditure	59,235	0	59,235
Actual ISB deployed to schools	0	688,654	688,654
Local authority contribution for 2008/09	0	0	0
Carry forward to 2009/10*	450	0	450

* Note: In 2007/08 only the in-year balance was reported (2008: £9,637k), which complied with Department for Children, Schools and Families requirements at the time. For 2008/09 these requirements have changed and the statement above is now compliant with the CIPFA Code of Practice.

Notes to Core Financial Statements

17. Capital Expenditure

The Council's capital expenditure on an accruals basis, including amounts owing but not paid in 2008/09, analysed between types of asset, is summarised below. This also includes revenue expenditure funded from capital under statute.

Capital Expenditure Type of Asset	2007/08 £m	2008/09 £m	Capital Financing Source	2007/08 £m	2008/09 £m
Other Land & Buildings	127.0	138.6	Borrowing	52.8	54.2
Vehicles & Equipment	13.0	24.7	Prudential Borrowing	326.2	408.0
Investment Properties	0.2	92.3	Capital Receipts	56.1	0.3
Infrastructure	39.1	21.1	Grants & Contributions	148.7	161.0
Community Assets	6.6	4.8	Revenue	0.3	0.0
Council Dwellings	106.3	126.0	Operating Leasing	0.6	0.0
Intangible Assets	12.7	9.0			
Total Capital Expenditure re Fixed Assets	304.9	416.5			
Revenue Expenditure Funded from Capital Under Statute	279.2	201.5			
Operating Leasing	0.6	0.0			
Acquisition of Share Capital	0.0	5.5			
Total Capital Expenditure	584.7	623.5	Total	584.7	623.5

Notes to Core Financial Statements

18. Movements in Fixed Assets

Operational Assets	Council Dwellings & Garages	Other Land & Buildings	Vehicles Plant & Equipment	Infra-structure Assets	Intangible Assets	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2008	2,721.5	2,710.5	71.7	784.4	20.6	6,308.7
Additions	126.0	91.9	24.3	3.4	5.9	251.5
Transfers	0.0	22.0	0.0	1.1	0.0	23.1
Disposals	(14.5)	(18.4)	0.0	0.0	0.0	(32.9)
Adjustments for depreciation on revalued assets	(239.5)	(60.2)	0	0	0	(299.7)
Impairment charge for the year	(584.5)	(118.4)	0.0	0.0	0.0	(702.9)
Revaluations	35.1	91.7	0.0	0.0	0.0	126.8
At 31 March 2009	2,044.1	2,719.1	96.0	788.9	26.5	5,674.6
Depreciation & Impairment						
At 1 April 2008	(239.5)	(183.9)	(44.0)	(347.9)	(1.6)	(816.9)
Depreciation Charge for the Year	(41.0)	(76.4)	(7.1)	(27.8)	(1.6)	(153.9)
Write back of Accumulated depreciation brought forward on assets revalued	239.5	60.2	0.0	0.0	0.0	299.7
Depreciation on assets disposed of	0.0	1.7	0.0	0.0	0.0	1.7
At 31 March 2009	(41.0)	(198.4)	(51.1)	(375.7)	(3.2)	(669.4)
Net Book Value	2,003.1	2,520.7	44.9	413.2	23.3	5,005.2
At 31 March Net Book Value						
At 1 April	2,482.0	2,526.6	27.7	436.5	19.0	5,491.8

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

A detailed review of property values was carried out in 2008-09. A total of 195 properties valued in 2007-08 and 2008-09 were reviewed for impairment. These were properly valued according to the Depreciated Replacement Cost method where residential land values form part of the valuation and some investment properties. The total impairment charge was £117.0m. A review was also carried out of dwellings within the Housing Revenue Account which resulted in the Net Book Value of these being written down by £369.2 million.

Notes to Core Financial Statements

Non-Operational Assets	Surplus Properties £m	Investment Properties £m	Community Assets £m	Assets Under Construction £m	Total £m
Cost or value at 1 April 2008	150.1	248.5	105.6	34.4	538.6
Additions	0.0	1.1	4.7	160.4	166.2
Transfers	0.0	0.0	2.5	(25.6)	(23.1)
Disposals	(9.0)	(0.9)	0.0	0.0	(9.9)
Impairment					
Charge for the year	(15.9)	(1.8)	0.0	0.0	(17.7)
Revaluations	22.8	8.2	0.0	0.0	31.0
Net Book Value at 31 March 2009	148.0	255.1	112.8	169.2	685.1
Net Book Value at 1st April 2008	150.1	248.5	105.6	34.4	538.6

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 Member of the Royal Institution of Chartered Surveyors (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 1 April 2008. 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.

The economic crisis has had a considerable effect on property values. To assess the effect of this on the Council, additional valuation work was commissioned. This measured the change in value between the 1 April 2008 and 31 March 2009. A desktop review was undertaken of the valuations of a selection of properties revalued in 2007/08 and 2008/09, which were considered most likely to have had suffered reductions in value.

Operational Assets (Housing):

The entire housing stock was valued as at 1 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 1 April 2008 by Peter Jones MRICS and his staff in accordance with the ODPM guidance. A further review will be undertaken for 1 April 2009.

The Valuer was also asked to assess the impact of the recession on the value of the housing stock. He reported that, whilst there probably had been an impact, he was unable to quantify it owing to a lack of market evidence.

Notes to Core Financial Statements

Infrastructure and Community Assets:

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

Community assets were previously valued at a nominal £1 each. For 2008/09 these assets are valued at historical cost and a prior year adjustment has also been made to add expenditure in relation to previous years.

Intangible assets:

Intangible assets are shown at cost.

20. Land, Buildings and Other Assets

31 March 2008	Property Assets (major categories)	31 March 2009
65,807	Council Dwellings	65,081
413	Investment Properties (note **)	408
440	Schools & Nurseries	367
75	Other Education Establishments	10
139	Office & Administrative Premises	62
39	Social Services Properties	119
39	Libraries	36
12	Museums & Art Galleries	12
57	Swimming Pools, Leisure Centres & Sports Stadia	29
89	Public Halls & Community Centres	49
308	Parks	301
30	Depots	30
65	Public Car Parks	65
3	Markets	4
2,502	Kilometres of Roads	2,507
13	Cemeteries and Crematoria	13

(note **: figure for 2008 Investment Properties has been amended from the 2007/08 accounts (6500).
The previous figure related to individual leases rather than properties)

Notes to Core Financial Statements

21. Commitments under Capital Contracts

The Council has to plan its capital spending in advance of work proceeding. Thus, at 31 March 2009 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:

	2009/10	2010/11	2011/12 and subsequent years	Total (£m)
	£m	£m	£m	£m
CYP&F				
Coppice /Langley Co-location	2.5	0.0	0.0	2.5
Yardley Green Primary School	6.5	0.5	0.0	7.0
Eastside Academy	12.5	10.0	0.0	22.5
Economic Development				
Northfield Environmental Improvements	0.9	0.3	0.0	1.2
Joint Venture AWM (Venture East)	2.1	2.3	0.0	4.4
Transport				
Selly Oak New Road	0.9	0.8	0.1	1.8
New Street Gateway	45.1	30.0	198.7	273.8
Total	70.5	43.9	198.8	313.2

22. Leasing

During 2008/09, the Council paid £0.006m (2008: £0.1m) in finance lease rentals and £2.6m (2008: £3.2m) in operating lease rentals.

As at 31 March 2009, the Council has a commitment to meet the following rental charges on both finance and operating leases, which consist entirely of vehicles, plant and equipment.

	Finance Leases £m	Operating Leases £m
2009/10	0.1	1.5
2010/11	0.1	0.6
2011/12	0.1	0.2
Total	0.3	2.3

Rentals payable on operating leases in 2009/10 on leases maturing in:

	Rentals Payable £m
2009/10	0.9
2010/11	0.4
2011/12	0.2
Thereafter	0.0
Total	1.5

Notes to Core Financial Statements

23. Segmental Analysis of Net Assets

The Council had net assets of £2,313.1m as at 31 March 2009 of which £1,210.6m related to the General Fund and £1,102.5m to the HRA.

24. Investments

31 March 2008		31 March 2009
£m		£m
	Long Term Investments	
411.5	Unlisted Investments intended to be held for the medium or long term at cost or valuation*	367.0
	Short Term Investments	
245.6	Temporary Money Market Deposits and Section 106 Monies	171.7
657.1	Total Investments	538.7

*This figure includes an investment of £296.5m in National Exhibition Centre Finance Plc

The Council is continuing to guarantee repayment of the full amount on the principal of and interest accruing on The National Exhibition Centre (Developments) Plc loan stocks ([Note 39](#)). The 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 Council.

25. Long Term Debtors

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

31 March 2008		31 March 2009
£m		£m
0.6	Mortgages:- Former Council House Tenants	0.5
3.0	Birmingham Technology Group*	17.6
1.3	Employee Loans	1.5
1.0	National Exhibition Centre (Developments) Plc	0.9
0.4	Learning & Skills Council	0.3
16.2	Millennium Point	15.8
0.8	Think Tank	1.0
0	PFI Residual Interest	2.2
7.8	Deferred Capital Receipts	6.5
0.3	Other Long Term Debtors	0.2
31.4	Total Long Term Debtors	46.5

* During 2008/09, the Council re-financed the Birmingham Technology Group through a loan of £17.7m, which enabled the repayment of external debt and interests of £14.7m and the City Council £3.0m. Subsequently, the company structure has been simplified and the City Council now has 100% control.

Notes to Core Financial Statements

26. Stocks and Stores

An analysis of stocks and stores is shown:

31 March 2008		31 March 2009
£'000		£'000
111	Chief Executive Services	51
271	Children, Young People and Families	238
1,666	Development Directorate	2,015
913	NEC	856
2,961	Total	3,160

Note: Development and Culture figures aggregate Local Service, Transportation and Libraries and Museums as shown in last years accounts. Last year also showed Other, which has been split this year into Chief Executives and Children's, Young People and Families.

27. Landfill Allowances

2008-09 was the last year of the first Landfill Allowances Trading Scheme period. Any unused allowances at the year end had no value to the Council and their value was written down to nil by means of an impairment charged to the relevant service revenue account.

28. Debtors

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

31 March 2008		31 March 2009
£m	Sums due from:	£m
70.4	Council Tax Payers	78.2
38.5	Business Rate Payers	57.4
24.9	Residential & Commercial Rents	26.9
51.1	Government Departments	62.3
140.9	Others	151.0
325.8		375.8
(61.1)	Provision for Bad Debts	(69.3)
264.7	Total Debtors	306.5

29. Cash

Of the total cash held by the Council, £34.7m was held by schools operating their own bank accounts under schemes of delegated financial management.

Notes to Core Financial Statements

30. Financial Instruments

Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2008 £m	31 March 2009 £m	31 March 2008 £m	31 March 2009 £m
Financial liabilities at amortised cost:				
Public Works Loans Board	(1,565.5)	(1,676.9)	-	-
Listed bonds	(380.4)	(377.1)		
Other market loans	(50.6)	(90.9)	(118.4)	(274.6)
Former County Council debt	(70.0)	(68.2)	(1.5)	(1.7)
Other financial liabilities	(2.8)	(3.1)	(0.1)	(0.1)
Creditors			(478.2)	(446.7)
Total financial liabilities	(2,069.3)	(2,216.2)	(598.2)	(723.1)
Loans and receivables:				
Money Market Funds	-	-	116.0	24.0
Other market investments	76.5	36.8	108.7	131.2
NEC (Finance) plc bonds	307.2	296.5		
Other loans and receivables	17.6	16.4	28.3	37.9
Debtors			264.7	306.5
Total loans and receivables	401.3	349.7	517.7	499.6
Available for sale	-	-	-	-
Unquoted equity investments at cost	26.8	32.9	-	-
Total financial assets	428.1	382.6	517.7	499.6

Notes to Core Financial Statements

Income, expenditure, gains and losses on financial instruments

The amounts recognised in the Income and Expenditure Account, General Fund and Statement of Total Recognised Gains and Losses in relation to financial instruments are made up as follows:

	Financial Liabilities		Financial Assets				Total	
	Measured at Amortised Cost		Loans and Receivables		Available for Sale Assets		31 March	
	2008	2009	2008	2009	2008	2009	2008	2009
	£m	£m	£m	£m	£m	£m	£m	£m
Interest Income/Expense	102.6	124.3	(1.5)	(34.8)	0.0	0.0	(1.5)	(34.8)
Losses on Derecognition	(51.7)	0.0	(117.3)					
Losses on Restatement	(0.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Amounts for the Year	154.8	124.3	(118.8)	(34.8)	0.0	0.0	(118.8)	(34.8)
Adjustment in the Statement of Movement on the Housing Revenue Account Balance	(8.9)	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment in the Statement of Movement on the General Fund Balance	(28.9)	0.9	(28.6)	(10.7)	0.0	0.0	(28.6)	(10.7)
Net Amounts Affecting Balances	117.0	127.5	(147.4)	(45.5)	0.0	0.0	(147.4)	(45.5)

Fair value of financial instruments

Financial liabilities and loans and receivables are carried in the balance sheet at amortised cost. Their fair value can be assessed using the present value of future cashflows discounted at market rates or estimated market rates. The fair value of liabilities is higher than the carrying amount due to fixed rate loans taken when interest rates were higher than the prevailing interest rates at the balance sheet date.

	31 March 2008 £m	31 March 2009 £m
Financial Liabilities at Amortised Cost:		
Public Work Loans Board	(1,890.8)	(2,035.9)
Listed Bonds	(356.4)	(356.6)
Other Market Loans	(196.3)	(397.8)
Former County Council Debt	(71.5)	(69.9)
Other Financial Liabilities	(2.9)	(3.2)
Creditors	(478.2)	(446.7)
Total Financial Liabilities	(2,996.1)	(3,310.1)
Loans and Receivables:		
Money Market Funds	116.0	24.0
Other Market Investments (ie Treas.)	185.3	168.0
NEC Finance Plc Bonds	307.9	356.6
Other Loans and Receivables	58.2	57.7
Debtors	264.7	306.5
Total Loans and Receivables	932.1	912.8
Available For Sale	0.0	0.0
Unquoted Equity Investments at Costs	26.8	32.9
Total Financial Assets	958.9	945.7

Notes to Core Financial Statements

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

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

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

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

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

These risks are managed by a central Treasury Management Team in accordance with policies and approvals set by the Council in its annual Budget Report, Treasury Management Strategy and Treasury Management Practices in particular. The Council complies with CIPFA's Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities, both of which regulate the use of financial instruments and establish a treasury risk management framework.

Credit risk:

The Council makes investments for treasury management reasons when the Council has temporarily surplus cash due to positive cashflow or borrowing activity. These investments are subject to credit rating and diversification safeguards as follows:

Investments:	Lending limit	FITCH individual and support rating	FITCH short term rating
Banks and Building Societies	£25m	A1, A2, A/B1	F1
Banks and Building Societies	£20m	A/B2, B1	F1
Banks and Building Societies	£15m	A3, B2, B3, B/C1	F1
Money Market Funds	£40m	The highest possible rating only	
Local Authorities	£25m	N/A	N/A
UK Government	None	N/A	N/A

The Council also uses information from a variety of other sources in reaching a view about the suitability of particular investments. A particularly cautious approach was taken during the exceptionally difficult banking market conditions of 2008/09. No treasury investments were impaired or in arrears of payments due to the Council at 31 March 2009.

The Council also makes a variety of investments in support of its service objectives. These investments are not subject to the above credit quality requirements, but are individually appraised and approved in relation to their support for service outcomes as well as their financial consequences and risks.

Liquidity risk:

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

Market risk:

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

Notes to Core Financial Statements

Sensitivity to 1% increase in interest rates at 31 March 2009:

	£m
Increase in Interest Payable (1)	0.2
Increase in Interest Receivable (1)	(0.2)
Increase in Government Grant Receivable	(0.1)
Impact on Income and Expenditure Account	(0.1)
Impact on Recharges to the HRA	0.1
Impact on General Fund	(0.1)
Increase in Fair Value of Financial Liabilities (2)	(280.9)
Increase in Fair Value of Loans and Receivables (2)	21.5
Increase in Value of Available for Sale Investments	0.0

Methods and assumptions used in preparing the sensitivity analysis:

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

Note ⁽¹⁾: applied to short term and variable rate instruments

Note ⁽²⁾: this has no impact on the Statement of Total Recognised Gains and Losses

Maturity analysis of financial liabilities:

	Loans and Receivables		Financial Liabilities	
	31 March 2008 £m	31 March 2009 £m	31 March 2008 £m	31 March 2009 £m
Less than One Year – debtors and creditors	264.7	306.5	(478.2)	(446.7)
Less than One Year – other financial instruments	253.0	193.5	(120.0)	(276.6)
Between One and Two Years	1.6	37.4	(32.2)	(12.0)
Between Two and Five Years	78.3	1.7	(22.0)	(110.9)
Between Five and Ten Years	202.7	299.2	(174.8)	(214.9)
Between Ten and Twenty Years	8.1	8.6	(292.5)	(302.5)
Between Twenty and Forty Years	3.5	2.4	(923.9)	(941.3)
Over Forty Years	0.0	0.0	(623.9)	(634.4)
Equity investments with indeterminate maturity	26.8	32.9	0.0	0.0
Total Financial Liabilities	838.7	882.2	(2,667.5)	(2,939.3)

The Council uses borrowing to fund long term capital investment. Most borrowing is taken on a long term fixed interest rate, to reduce interest cost volatility to the revenue account. The maximum amount of liabilities maturing or at risk of maturing in any year is the amount of creditors and other financial liabilities maturing in less than one year, as shown above.

Equity Price risk:

The Council's holdings of shares are summarised in [Note 43](#) these are all unquoted shares held primarily to support service objectives rather than as financial investments. The financial value of these shares will vary according to general market conditions and the particular circumstances of the share issuers. Active prices for these investments are not available.

Foreign exchange risk:

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

Notes to Core Financial Statements

31. Creditors

An analysis of creditors is shown below:

31 March 2008 £m		31 March 2009 £m
84.7	General Creditors	56.4
60.3	Central Government	38.3
31.2	HM Collector of Taxes (Income Tax & National Insurance)	33.8
61.9	Receipts in Advance	60.4
63.1	Amounts Owed to and on behalf of Employees	62.9
31.8	Collection Fund	34.7
134.7	Other	152.8
467.7	Total Creditors	439.3

The figure of £62.9m relating to Amounts Owed to and on behalf of Employees includes accrued pension contributions payable to the LGPS and Teachers Pension Scheme administrators amounting to £7.6m and £8.3m respectively.

32. 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 March 2008 £m		31 March 2009 £m
71.5	Debt taken over from the former West Midlands County Council	69.9
2.9	Walsall Waste Disposal	3.0
36.8	Schools PFI	36.1
0.3	Other	0.1
111.5	Total Deferred Liabilities	109.1

33. Government Grants Deferred

This account holds the various Government Capital Grants and contributions from private developers. These will be amortised to revenue over the life of the relevant assets in accordance with the depreciation schedule. During the year grants totalling £64.3m (2008: £73.7m) were used to finance the acquisition of fixed assets and taken to the Government Grants Deferred account. A balance of £350.8m brought forward at 1 April 2007 which could not be allocated to individual assets, has been written off as a prior year adjustment through the balance sheet.

Notes to Core Financial Statements

34. Provisions

	31 March 2008 £m	Increase in Year £m	Applied in Year £m	31 March 2009 £m
The National Exhibition Centre Limited Loan Debt	32.2	1.9	0	34.1
Other	15.7	0.0	(2.5)	13.2
	47.9	1.9	(2.5)	47.3

In addition to the provision detailed in the table above, which relates to the £73m loan stock referred to in [Note 42](#), the Council is also guaranteeing repayment of the full amount on the principal of and interest accruing on the National Exhibition Centre Limited loan stocks raised for the construction of the International Convention Centre, the National Indoor Arena, and Hall 10 at the NEC. At 31 March 2009 the amount of the loan guaranteed was £200m (2008: £200m). Since the Council has acquired the loan stocks in exchange for new Council bonds maturing in 2030, the Council no longer requires any provision to repay the loan stock.

35. Revaluation Reserve

The Revaluation Reserve contains the contra entries from the revaluation of the Council's fixed assets since 1 April 2007. It is also debited with amounts of impairment to the extent that these are matched by revaluation gains in earlier years. The movements on reserve are summarised in the table below.

Revaluation Reserve	2008/09 £m
Opening Balance	(261.2)
Revaluations of Fixed Assets	(139.0)
Depreciation of Revalued Amounts	7.9
Economic Downturn Impairment of Land & Buildings	66.1
Impairment of Council Dwellings	126.0
Closing Balance	(200.2)

The balance on this reserve does not constitute resources available to finance capital expenditure.

Notes to Core Financial Statements

36. Capital Adjustment Account

This new account contains the balances previously held on the Capital Financing Account and Fixed Asset Restatement Account. The movements in year relate to the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. The movements on the Capital Adjustment Account are shown below:

	2008/09
	£m
Opening Balance	(3,711.5)
Financing of Capital Expenditure	
Use of Capital Receipts	(0.3)
Use of Major Repairs Reserve	41.0
Minimum Revenue Provision	(67.5)
Voluntary Revenue Provision	(2.8)
Revenue Expenditure Funded from Capital Under Statute – Expenditure	201.5
Revenue Expenditure Funded from Capital Under Statute – Income	(38.5)
Impairment of HRA Fixed Assets	369.2
Impairment of Fixed Assets due to Economic Downturn	47.5
Impairment of Fixed Assets	93.1
	(3,068.3)
Depreciation	111.5
Depreciation of Revalued Amounts	(7.9)
Transfer from Major Repairs Reserve	(41.0)
PFI Residual Interest	(2.2)
Write Down of Deferred Grant	(2.2)
Write Down of Debentures	10.7
Grants not Funding Assets	(17.1)
Disposal of Fixed Assets	41.8
	(2,974.7)

The balance on this reserve mostly does not constitute resources available to finance capital expenditure.

Notes to Core Financial Statements

37. Earmarked Reserves

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

	31 March 2008 £m	Movement in year £m	31 March 2009 £m
Sums set aside to Finance Capital Expenditure	24.5	(19.8)	4.7
Reserves for Budgets Delegated to Schools	65.5	0.9	66.4
Service Development Reserve	4.5	0.3	4.8
Treasury Management Reserve	13.9	3.3	17.2
Area Based Grant	0.0	26.6	26.6
Car Parking VAT Reserve	11.4	(11.4)	0.0
PFI Schools Reserve	8.7	(5.5)	3.2
Insurance Reserve	17.2	2.1	19.3
Other	5.4	10.9	16.3
	151.1	7.4	158.5
Usable Capital Receipts	6.6	45.8	52.4
Capital Contributions Unapplied	29.7	(0.3)	29.4
Housing Major Repairs Reserve	0.0	0.0	0.0
	187.4	52.9	240.3

The reserve in respect of budgets delegated to schools is a net figure held by schools at 31 March 2009 and is an earmarked reserve that must in totality be available for schools' use.

Earmarked reserves are available to fund capital or revenue expenditure, following approval by the Cabinet. Expenditure is charged to the revenue or capital account when it is incurred and is financed by an appropriation from the reserve to the Consolidated Revenue Account.

The Housing Major Repairs Reserve is a reserve to which is credited the Major Repairs Allowance which may be applied to the financing of housing repair work. £41.0m was received during the year. All of this was applied to the funding of Housing capital expenditure leaving a nil balance.

38. Balances on Revenue Accounts and the Collection Fund

	31 March 2008 £m	Movement in year £m	31 March 2009 £m
General Fund	28.0	(6.9)	21.1
HRA	3.5	(0.1)	3.4
Collection Fund	1.6	(1.6)	0.0
	33.1	(8.6)	24.5

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.

Notes to Core Financial Statements

39. Contingent Liabilities

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

- i. The 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 NEC. The amount of the loan guaranteed is £73m (2008: £73m), due in 2027.
- ii. The 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. The Council has quantified this potential liability at 31 March 2009 of £ 413.0m and future commitments of £71.3m. To minimise the impact of these possible liabilities the Council has introduced various controls and mechanisms such as legal agreements, charges on assets and detailed expenditure verification and monitoring procedures.
- iii. The Council's final Housing Benefit claim for 2007/08 is still being considered by the Department of Work and Pensions. There may be a clawback of subsidy from the 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.
- iv. 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 2008/09 the Council paid £49.2m to employees as a consequence of this (2008: £115m). Further payments are planned in 2009/10 but the extent of these cannot be quantified at present. No provision has been made in the balance sheet for the 2009/10 or any future potential liabilities.
- v. The Council is currently facing litigation in respect of claims under the the Trade Union and Labour Relations Consolidation Act 1992, Section 188-190 and the Employment Rights Act 1996 relating to the possibility of protective awards and unfair dismissal arising from the implementation of the pay and grading review. The level of possible payment cannot be quantified at present.
- vi. The Council may have a Pension Liability relating to employees who transferred under a TUPE arrangement to a contractor who has lost a subsequent re-tendering of the contract by the Council. In such circumstances the deferred liabilities of employees who left the Pension Fund during the time of the contract may revert to the Council, and if this is the case these would be recovered through future Employer's contribution rates.

Notes to Core Financial Statements

40. Insurance

The Council maintains an Insurance Reserve ([Note 37](#)) to assist in managing claims falling against negotiated policy excesses. The policy excesses, which change from time to time, are for the major risks (2008/09 policy year):

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

The balance on the reserve is £19.3m (2007/08 £17.2m) as shown in the table at [Note 37](#).

Municipal Mutual Insurance Co Ltd (MMI), through which the 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 Council and others will be called upon to reimburse the company with a proportion (up to 100%) of its claims settled since 1 October 1993. Claims settled since 1 October 1993 total £2.42m.

The 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 Council will also be called upon to reimburse a proportion, along with the other West Midlands District Councils. Since 1 October 1993 claims settled total £0.8m.

41. Trust Funds

The 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 31 March 2009, based upon the figures within the table below, were £13.7m (2008: £13.6m). In addition, the Council held £2.2m (2008: £2.0m) of Social Services Clients' Funds. The trust funds and clients' funds do not represent assets of the 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 Council acts as sole trustee:

	Opening Balance	Income	Expenditure	Closing Balance
	£'000	£'000	£'000	£'000
Alderson. To let dwelling houses to ex-servicemen and other persons in need.	154.1	48.2	(14.4)	187.9
Bodenham Trust - for children with special educational needs	585.8	27.2	(116.5)	496.5
Centre for the Child - to promote the education of children & their carers	150.2	10.7	(27.7)	133.2
Charles Baker Trust - for the elderly and disabled	225.4	12.7	(1.6)	236.5
Clara Martineau Trust - For children with special educational needs	3,015.3	134.8	(765.1)	2,385.0
Cropwood Estate – management of the estate	269.9	14.6	(0.0)	284.5
Francis Lyn Betteridge Memorial Trust- for the relief of needy children	122.8	1.7	(121.9)	2.6
Girls Night Shelter for women and girls in need or distress	323.9	18.0	(0.7)	341.2
Holinsworth Fund - to further the work of voluntary hospitals	155.7	6.9	(31.9)	130.7
Museum & Art Gallery Development Trust - enhancement of city museums	201.3	353.1	0.0	554.4
The Elford Trust - healthy recreation for Birmingham citizens	2,301.0	981.1	(70.5)	3,211.6
The Harriet Louisa Loxton Charity - For the aged and infirm	1,415.9	489.3	(702.9)	1,202.3
The Lord Mayor's Charity Appeal - For charitable purposes	230.7	139.1	(171.0)	198.8
Highbury Trust – to use the bequest for the benefit of the citizens of Birmingham	4,000.0	196.0	(196.0)	4,000.0
Other	437.9	20.7	(97.0)	361.6
	13,589.9	2,454.1	(2,317.2)	13,726.8

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
Alderson. To let dwelling houses to ex-servicemen and other persons in need.	146.3	7.8	154.1
Bodenham Trust - for children with special educational needs	13.8	482.7	496.5
Centre for the Child - to Promote the education of Children & Their Carers	133.3	0.0	133.3
Charles Baker Trust - for the elderly and disabled	64.0	161.4	225.4
Clara Martineau Trust - for children with special educational needs	153.5	2,231.5	2,385.0
Cropwood Estate	58.5	226.0	284.5
Francis Lyn Betteridge Memorial Trust	0	2.6	2.6
Girls Night Shelter for women and girls in need or distress	248.9	75.0	323.9
Holinsworth Fund - to further the work of voluntary hospitals	137.6	18.1	155.7
Museum & Art Gallery Development Trust - Enhancement of city museums	217.1	337.2	554.3
The Elford Trust - Healthy Recreation for Birmingham Citizens	2,901.8	309.9	3,211.7
The Harriet Louisa Loxton Charity - for the aged and infirm	1,046.5	155.8	1,202.3
The Lord Mayor's Charity Appeal - For charitable purposes	23.4	207.3	230.7
Highbury Trust- to use the bequest for the benefit of the citizens of Birmingham	4,000.0	0	4,000.0
	9,144.7	4,215.3	13,360.0

Notes to Core Financial Statements

42 Associated and Subsidiary Companies

The Council maintains involvement with a number of associated and subsidiary companies where the assets and liabilities of these companies are not included in the Council's core financial statements. In accordance with the SORP (Code of Practice on Local Authority Accounting in the UK) group financial statements have been prepared at pages 73 to 76. [Note 39](#) further discloses major contingent liabilities in relation to some of these companies.

The investments that have been consolidated into the BCC group financial statements are listed below.

i. The National Exhibition Centre Limited – Draft NEC group accounts

The Council holds 5,000 £1 shares (50%) in the company, the purpose of which is to manage and operate the National Exhibition Centre, the International Convention Centre, the National Indoor Arena and the LG Arena. At 31 March 2009, the Council was guaranteeing loans of £200m (2008: £200.0m) to the company.

The Group made a profit after tax of £2,558k during the year to 31 March 2009 (2008: profit of £2,077k). The Group's net liabilities at 31 March 2009 amounted to £23,829k (2008: £29,797k). 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 The National Exhibition Centre Limited activities.

Birmingham City Council provides financial support and guarantees that the group will be able to meet its debts as they fall due, and provides annual revenue grants to fund any revenue deficits. During 2008/09, the Council made reimbursements totalling £17,208k to the Company The National Exhibition Centre Limited, (2008: £19,106k).

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

ii. 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 by the company which is guaranteed by the Council. The Council owns 450 of 1,000 ordinary shares of £1 each and 50,000 of 100,000 preference shares of £1 each in the company. The Council has loan notes totalling £850k in the company and has agreed to make available additional loans of £3.1m should the Company require further funds. The loss before and after tax for the year to 31 March 2009 amounted to £14k (2008: £14k). The net liabilities at 31 March 2009 amounted to £1,298k (2008: £1,284k).

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

iii. Service Birmingham Ltd – Audited accounts for the year ended 31 December 2008

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

Trading commenced on the 1 April 2006, with the principal activity being the provision of ICT and business transformation outsourcing services to the Council. The profit after tax for the year ended 31 December 2008 amounted to £5.9m (2007: £5.2m) and the net assets at 31 December 2008 amounted to £13.1m (2007: £7.2m).

The draft results for the 3 months ended 31 March 2009 showed a profit before tax of £1.5m and the net assets at that time amounted to £14.6m (2008: £9.9m).

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

Notes to Core Financial Statements

iv. Birmingham Technology Group (BTG)

The Birmingham Technology Group of companies aims to promote, encourage and secure the development and management of a science park in Birmingham. BCC holds a debenture over the property of the group as security for its financial guarantees. As referred to in [Note 25](#) the restructure and refinancing of BTG resulted in the Council being the sole member of Birmingham Technology Limited (BTL); which is a company limited by guarantee. The Council is also entitled to appoint up to seven members of the company and five of the nine voting directors. Furthermore, additional control by the Council is exercised by its 71% share of directors voting rights. BTL has loans outstanding (inclusive of two deferred interest and capital repayments) from the Council as at 31st March 2009 of £18.06m (30th June 2007: £2.96m). The Council's direct interest in Birmingham Technology (Property) Limited (a subsidiary company of BTL) is 1,250 £1 ordinary shares (a 12.5% interest that has fallen from last years 25% share). The Council also directly holds 500 £1 ordinary shares (9.1%) in Birmingham Technology (Venture Capital) Limited.

The BCC Group Accounts for last year included BTP as an Associate company as a result of its 25% shareholding. However, as this interest has now fallen to 12.5% and on grounds of materiality it is deemed to be more appropriate to now treat this as a long term investment. The estimated impact on the consolidation statements is to reduce the BCC group deficit by £161k and to reduce the BCC group net assets by £217k.

The investments that have not been consolidated into the group financial statements are listed below.

In addition to the Council's major investments in the associated and subsidiary companies detailed above, the Council maintains an involvement in a number of other associate and subsidiary companies set out below. Of the companies listed below, the Council only holds a shareholding in Birmingham Research Park Ltd. The Council holds 237,160 £1 ordinary shares (49%) in Birmingham Research Park Ltd and 100% of the shares in George Higginson and Son Ltd.

BXL Services Limited, Birmingham Asian Resource Centre, Birmingham Business Support Centre Limited, Birmingham Carnival 2000 Limited, Birmingham Conservation Trust, Birmingham Conservation Trust (Trading) Limited, Birmingham Economic Development Partnership Limited, Birmingham Hippodrome Theatre Trust Limited, Birmingham Research and Development Limited, Birmingham Research Park Limited, Birmingham Venture Capital Limited, Birmingham Wheels Limited, Chinese Community Centre, Creative Advantage West Midlands Limited, East Birmingham and North Solihull Regeneration Zone Limited, Ex-Cathedra Limited, Gallery 37 Foundation, George Higginson and Son Limited, Local Leagues Limited, Marketing Birmingham, Matchbox Enterprises Limited, Millennium Point Trust, National Exhibition Centre Finance PLC, NEC Pension Trustee Company, Optima Community Association, Performances (Birmingham) Ltd, Performances Birmingham (Enterprises) Ltd, Rover Community Action Trust, The Academy of Youth Limited, The Birmingham Centre for Manufacturing Limited.

Copies of all Company Accounts can be obtained from the Directorate of Resources

Telephone 0121 303 3938

Notes to Core Financial Statements

43. 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 324m ordinary shares of 1p each (Birmingham Council owns 18.7% i.e. 60,535,200 shares). 48.25% ordinary shares are held by Airport Group Investments Ltd which is owned by the Ontario Teachers Pension Plan and Victorian Funds Management Corporation and the remaining 2.75% shares are held by an Employee Share Trust. The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

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

The BAH Group Accounts incorporate Birmingham International Airport Ltd, Euro-Hub (Birmingham) Ltd, Birmingham Airport Developments Ltd, First Castle Developments Ltd, Birmingham Airport (Finance) PLC and BHX Fire and Rescue Limited.

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

The group performance is as follows:

Year to 31 March 2008		Year to 31 March 2009
£m		£m
19.7	Net Profit before Tax	15.7
22.9	Net Profit after Tax	9.9
263.1	Net Assets including pension liability at 31 March	259.5
2.5	Council Dividend Income	2.0

44. Area Based Grant

From 2008/09 the Local Area Agreement Grant has been replaced by the Area Based Grant. This is a non-ring fenced grant, which can be used to support Local Area Agreement targets and forms part of the general grant.

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 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.

Notes to Core Financial Statements

46. Post Balance Sheet Events

At the time of finalising the Statement of Accounts there are no matters to disclose.

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

	2007/08 £m	2008/09 £m
(Surplus)/Deficit on Income & Expenditure Account	426.6	757.2
(Surplus)/Deficit on Collection Fund	3.0	1.9
	429.6	759.1
Provisions set aside	(14.3)	0
	415.3	759.1
Items Included Under Another Classification:		
Interest Paid	(113.7)	(128.8)
Interest Received	38.3	35.4
Capital Financing Costs	(47.8)	(189.2)
PFI Grant	5.2	0
Adjust for Non-Cash Items	(401.7)	(698.7)
Items on an Accrual Basis:		
Movement in Stock	(0.2)	0.2
Movement in Debtors	(18.3)	36.1
Movement in Creditors	(55.1)	(14.1)
	(178.0)	(200.0)

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

	Long Term Loans £'000	Loans Maturing In 12 months £'000	Other L/T Creditors £'000	Investments £'000	Cash Overdrawn/ (In Hand) £'000	Net Debt £'000
31 March 2008	1,996,561	118,416	111,467	(245,637)	527	1,981,334
31 March 2009	2,144,990	274,648	109,096	(171,707)	329	2,357,356
Movement in Year	148,429	156,232	(2,371)	73,930	(198)	376,022

Made up of movements in:

Cash	(198)
Borrowings	304,661
Investments	73,930
Repayment of Deferred Liabilities	(2,371)
	376,022

Notes to Core Financial Statements

49. Analysis of changes in net debt

	31 March 2008 £'000	Cash Flow £'000	31 March 2009 £'000
Cash Overdrawn/(In Hand)	527	(198)	329
Due within One Year	118,416	156,232	274,648
Due after One Year	1,996,561	148,429	2,144,990
Investments	(245,637)	73,930	(171,707)
Deferred Liabilities	111,467	(2,371)	109,096
Total	1,981,334	376,022	2,357,356

50. Analysis of changes in cash and cash equivalents during the year

	2007/08 £'000	2008/09 £'000	Change In Year £'000
Temporary Investments & Short Term Deposits	245,637	171,707	(73,930)
Cash	69,040	71,829	2,789
Bank overdraft	(69,567)	(72,158)	(2,591)
Increase/(Decrease) in year	245,110	171,378	(73,732)

51. Other Government Grants

The categories of Government Grants are shown below. The Cash Flow Statement shows the capital grants received and the revenue grants are included in the Net Cash Flow From Revenue Activities.

	2007/08 £m	2008/09 £m
Revenue		
Housing Subsidy	1.5	0.0
NRF	20.4	0.0
Rent Allowances	150.1	163.2
Council Tax Benefit	84.9	88.2
European Regional Development Fund	0.0	2.1
Single Regeneration Budget	9.1	0.0
Education Grants	943.0	1,037.3
PFI Grant	5.2	4.2
Other	192.6	399.8
	1,406.8	1,694.8
Capital		
SRB	6.5	0.0
Education Capital Grants	29.7	41.4
Other	103.0	117.2
	139.2	158.6

Housing Revenue Account Income and Expenditure Account

2007/08 £'000		2008/09 £'000
	Income	
(196,066)	Dwellings Rents (Gross)	(198,610)
(5,179)	Non Dwellings Rents	(6,337)
(21,552)	Charges for Services & Facilities	(20,593)
(1,350)	HRA Subsidy Receivable	0
0	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP	0
(224,147)	Total Income	(225,540)
	Expenditure	
73,553	Repairs & Maintenance	67,965
56,695	Supervision & Management	59,211
6,062	Rent, Rates, Taxes and Other Charges	4,744
0	Negative HRA Subsidy Payable	9,097
0	Negative HRA Subsidy transferable to the General Fund under transitional arrangements	0
40,108	Depreciation & Impairment Charge	41,010
0	Impairment due to economic downturn	369,243
166	Debt Management Costs	121
5,674	Provision for Bad or Doubtful Debts	3,508
0	Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	0
182,258	Total Expenditure	554,899
	Sub-Total	
(41,889)	Net Cost of HRA Services as included in the whole Authority Income and Expenditure Account	329,359
39,287	Interest Payable & Similar Charges	38,681
2,441	Amortisation of Premiums and Discounts	2,269
(221)	Interest and Investment Income	(370)
15	Pension Interest Cost & Expected Return on Pension Assets	1,893
(367)	(Surplus) or Deficit for the Year on HRA Services	371,832

Statement of Movement on the Housing Revenue Account Balance

2007/08 £'000		2008/09 £'000
(367)	(Surplus)/Deficit for the year on the HRA Income and Expenditure Account	371,832
0	Impairment due to economic downturn	(369,243)
(341)	Appropriation to/(from) Pension Reserves	(2,468)
300	Capital Expenditure funded by HRA	0
(3,064)	HRA Balance Brought Forward	(3,472)
(3,472)	HRA Balance Carried Forward	(3,351)

Collection Fund Income and Expenditure Account

2007/08 £'000		Note ¹	2008/09 £'000	£'000
Income				
Council Tax:				
258,757	Income	<u>12</u>		(273,496)
0	Council Tax written back			(1,094)
Transfers from General Fund:				
(83,273)	Council Tax Benefit			(88,217)
(1,909)	Decrease in provision for bad debts	<u>15</u>		0
(343,939)				(362,807)
Business Ratepayers:				
(339,479)	Income collectable	<u>13</u>		(360,833)
Community Charge:				
(1)	Income collected resulting in a reduction to provision for bad debts			0
(339,480)				(360,833)
Contribution towards previous year's Deficit:				
0	Birmingham Council	<u>14</u>		0
0	West Midlands Fire & Rescue Authority			0
0	West Midlands Police Authority			0
0	Total Income			723,640
Expenditure				
Demands on the Collection Fund:				
304,060	Birmingham Council	<u>14</u>		314,263
72	Frankley in Birmingham Parish			78
12,835	West Midlands Fire & Rescue Authority			13,402
26,425	West Midlands Police Authority			27,739
343,392				355,482
Contribution towards previous year's Deficit:				
0	Birmingham Council			6,503
0	West Midlands Fire & Rescue Authority			280
0	West Midlands Police Authority			568
0				7,351
Council Tax:				
0	Increase in Provision for Bad Debts	<u>15</u>		1,839
3,550	Debts written off			0
Business Rates:				
337,512	Payment to National Pool			358,871
1,968	Cost of Collection Allowance			1,962
343,030				362,672
686,422	Total Expenditure			725,505
3,003	(Surplus)/Deficit For the Year			1,865
(4,841)	(Surplus) Brought Forward			(1,838)
(1,838)	(Surplus)/Deficit Carried Forward			27

Note¹: These notes provide further contextual background rather than detailed explanation of the figures.

Group Income and Expenditure Account

2007/08 £'000		2008/09 £'000	£'000
351,576	Adult Social Care	342,354	
17,208	Central Services to the Public	17,656	
385,986	Children's and Education Services	449,981	
1,471	Court Services	1,572	
238,865	Cultural, Environmental & Planning Services	239,867	
91,987	Highways, Roads & Transport	105,650	
24,690	Housing Services	474,536	
17,906	Corporate & Democratic Core	17,497	
41,554	Non Distributed Costs	(9,875)	
1,171,243	Net Cost of Services		1,639,238
(50,604)	Share of (Income) of Joint Ventures	(51,934)	
47,991	Share of Expenditure of Joint Ventures	49,492	
(2,613)	Share of (Surplus)/Deficit of Joint Ventures		(2,442)
(2,300)	Share of (Surplus)/Deficit of Associates		(2,617)
1,166,330	Group Net Cost of Services		1,634,179
72	Parish Precept		78
(14,008)	(Surpluses)/Deficits on Trading Undertakings		(17,241)
24,293	Levies		28,439
25,983	Contribution of Housing Capital Receipts to Government Pool		7,917
40,656	Premiums on Premature Debt Redemption		0
136,943	External Interest Charges		153,241
6,940	Pensions Interest Cost and expected return on pensions assets		52,322
(38,458)	(Gains)/Losses on Disposal of Fixed Assets		(12,339)
(30,113)	Interest & Investment Income		(35,707)
3	Corporation Tax Payable by Subsidiary		23
0	Share of Interest Payable by Joint Ventures		0
809	Share of Tax Payable by Joint Ventures		711
2,685	Share of Interest Payable by Associates		2,629
(48)	Share of Tax Payable by Associates		0
(696)	Profit on Discontinued Operations		0
1,039	Minority Interest Share of Surplus/(Deficit) of Subsidiaries		1,279
1,322,430	Net Operating (Income)/Expenditure		1,815,531
(898,728)	Income From Taxpayers/Government Grants		(1,061,334)
423,702	(Surplus)/Deficit for Year		754,197

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

	2007/08 £'000	2008/9 £'000
(Surplus)/Deficit on the Income & Expenditure Account for the year	426,615	757,201
Adjustments for Transaction with other Group Entities	0	0
Deficit on the Group Income & Expenditure Account Attributable to the Council	426,615	757,201
(Surplus)/Deficit Attributable to:		
Joint Ventures	(1,803)	(1,731)
Associates	(71)	6
Subsidiaries	(1,039)	(1,279)
Deficit on the Group Income and Expenditure Account	423,702	754,197

Statement of Group Total Recognised Gains and Losses

	2007/08	2008/9
	£'000	£'000
(Surplus)/Deficit on Group Income & Expenditure Account for the year	423,702	754,197
(Surplus)/Deficit arising on revaluation of fixed assets	(335,682)	46,672
Actuarial (Gains)/ Losses on pension fund assets and liabilities	297,197	(135,392)
(Surplus) on Collection Fund Attributable to Council	2,666	1,652
Other General Fund movements	(1,976)	(9,807)
Total Recognised (Gains) and Losses for the Year	385,907	657,322
Balance Sheet Movement	385,907	657,322

Group Balance Sheet

31 March 2008 £'000		31 March 2009 £'000	£'000
6,777,209	Fixed Assets		6,437,538
31,385	Long Term Debtors		46,516
	Long Term Investments:		
	Investment in Joint Ventures:		
15,259	Share of Gross Assets	18,937	
(12,145)	Share of Gross Liabilities	(14,317)	
3,114		4,620	
105,732	Other Investments	69,949	
108,846	Total Long Term Investments		74,569
6,917,440	Total Long Term Assets		6,558,623
600,100	Current Assets		578,118
(703,383)	Current Liabilities		(836,030)
6,814,157	Total Assets Less Current Liabilities		6,300,711
(3,408,459)	Long Term Liabilities		(3,552,335)
3,405,698	Total Assets Less Liabilities		2,748,376
3,125,339	Reserves		2,468,022
17,577	General Fund Balances		13,233
5,095	Other Balances		3,322
3,148,011	Group Balances and Reserves		2,484,577
257,687	Minority Interests		263,799
3,405,698	Total Balances and Reserves		2,748,376

Group Cash Flow Statement

2007/08 £'m		2008/09 £'m	2008/09 £'m
(190.8)	Net Cash (Inflow)/Outflow from Revenue Activities (Note 18)		(223.0)
	Returns on Investments & Servicing of Finance		
	Cash Outflows:		
138.5	Interest Paid	171.6	
	Cash Inflows:		
(38.9)	Interest Received	(42.2)	
99.6			129.4
(91.2)			(93.6)
	Capital Expenditure & Financial Investment		
	Cash Outflows:		
287.1	Purchase of Fixed Assets		417.9
76.6	Purchase of Long Term Investments		7.0
297.1	Other Capital Cash Payments		215.1
	Cash Inflows:		
(71.5)	Sale of Fixed Assets		(63.4)
(1.7)	Capital Contributions Received		(27.8)
(139.2)	Capital Grants Received		(158.6)
448.4			390.2
357.2	Net Cash (Inflow)/Outflow Before Financing		296.6
	Management of Liquid Resources		
	Cash (Inflows)/Outflows		
92.6	Net Increase/(Decrease) in Short Term Deposits		
	Financing		
	Cash Outflows:		
187.6	Repayments of Amounts Borrowed	1,863.6	
	Cash Inflows:		
(616.7)	New Loans Raised – Long Term	(2,165.9)	
(336.5)			(302.3)
20.7	Net (Increase)/Decrease in Cash		(5.7)

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	15,858	11,464	4,535	31,857
Housing & Bungalows	3,779	8,708	20,737	33,224
Housing Stock at 31 March 2009	19,637	20,172	25,272	65,081

The changes in the property numbers is analysed below:

	2007/08	2008/09
Stock at 1 April	66,870	65,807
Sales	(515)	(167)
Demolitions/Transfers	(548)	(559)
Stock at 31st March	65,807	65,081

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.

The Balance Sheet values of HRA fixed assets are as follows:

	1 April 2008 £m	March 2009 £m
Council Dwellings	2,482	2,003
Other Land & Buildings	32	32
Total Operational Assets	2,514	2,035
Non Operational Assets	98	98
Total	2,612	2,133

The change reflects properties lost through sales, demolitions, acquisitions and revaluation of Beacon Values and depreciation. £126.0 m was spent on HRA dwellings during the year but impaired as not adding value to the dwellings. This impairment was charged to the Revaluation Reserve and did not, therefore, represent a charge to the HRA. The HRA has been charged with a loss of £2.1m in respect of Right To Buy sales.

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

2. Value of dwellings on vacant possession

- (a) The vacant possession value of dwellings within the authority's HRA, valued in accordance with the Guidance, as at 1 April 2009 is £4,853.6m.
- (b) The difference between the above figure and the £2,003.1m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the ODPM's stock valuation model.

Notes to Supplementary Financial Statements

3. Deferred charges

Revenue Expenditure Funded from Capital Under Statute is a reflection of capital expenditure that does not result in an asset, of which there are none in the financial year 2008/09.

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. As disclosed in Supplementary [Note 1](#) an impairment of £126.0 m was made to the carrying value of HRA dwellings to reflect the fact that this expenditure did not add equivalent value. This impairment was not charged to the HRA.

A detailed review of property values was carried out in 2008-09 as a consequence of the economic downturn. This included a review of the values of dwellings within the Housing Revenue Account which resulted in the Net Book Value of these being written down by £369.2 million. This represented an overall reduction of 15% of the Net Book Value at 31st March 2009 a figure derived by the valuer from an analysis of a range of relevant indices.

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:

	2007/08 £'000	2008/09 £'000
Opening Balance on the Major Repairs Reserve on 1 April	0	0
The Amount transferred to the Major Repairs Reserve during the year	40,274	41,010
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	(40,274)	(41,010)
The Balance on the Major Repairs Reserve on 31 March	0	0

6. Housing Revenue Account Subsidy

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

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 2007/08 is:

	2007/08 £'000	2008/09 £'000
HRA Element	38,924	50,107
Major Repairs Allowance	(40,274)	(41,010)
Total	(1,350)	9,097

7. Capital Expenditure on HRA Assets

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

	2007/08 £'000	2008/09 £'000
Supported Borrowing (Regional Housing Executive)	10,703	10,703
Prudential Borrowing	26,121	54,145
Useable Capital Receipts (Right to Buy/Land)	22,207	10,693
Major Repairs Reserve	40,274	41,010
Revenue Contributions	300	0
Other Resources	8,265	9,423
Total	107,870	125,974

8. Depreciation Charges

The total charge for depreciation for the land, houses and other property within the Authority's HRA is £41.0m (2008: £40.3m). The principle adopted by the Authority follows guidance from DCLG that the major repairs allowance is a satisfactory proxy as this is based on maintaining properties in their present condition.

	2007/08 £'000	2008/09 £'000
Dwellings	40,274	41,010
Other Land, Buildings and Garages	0	0
Operational Total	40,274	41,010
Non Operational	0	0
Total Depreciation	40,274	41,010

9. Contribution from Pension Reserve

The Income and Expenditure Account includes pension costs calculated in accordance with FRS17 as described in detail in [Note 6](#) to the Core Financial Statements. To ensure that these costs do not affect the level of HRA balances and Council house rents, an appropriation is made from the Pensions Reserve so that the movement in balances only reflects the actual employer's pension contribution.

Notes to Supplementary Financial Statements

10. Rent Arrears

Rent arrears from current tenants at 31 March 2009 totalled £11.2m (2008: £12.9m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £12.8m at 31 March 2009 (2008: £11.5m).

A provision for bad debts has been made to meet possible future write offs of rent and other services/leaseholder/benefit overpayments. The provision was £18.2m at 31 March 2009 (2008: £18.9m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

	2007/08 £'000	2008/09 £'000
Current Tenants	12,934	11,202
Housing Benefit Overpayment	6,836	7,700
Other Debt (Services/Leaseholders)	4,700	5,088
Total	24,470	23,990
Provision for Debts	18,818	18,200

11. Revenue Contribution to Capital

A nil revenue contribution to capital expenditure was made in 2008/09 (2008: £0.3m). This is identified in [Note 7](#).

12. Contribution from Council Taxpayers

Band	No. of Properties	Ratio	Band D Equivalent Dwellings
AR	367	5/9	204
A	127,112	6/9	84,742
B	105,188	7/9	81,813
C	65,959	8/9	57,742
D	31,083	1	31,083
E	17,657	11/9	21,581
F	7,653	13/9	11,055
G	5,202	15/9	8,669
H	694	18/9	1,388
Total	359,915		298,277
Less: adjustment for collection rate			(5,966)
			292,311

Notes to Supplementary Financial Statements

Band	No. of Properties	Ratio	Band D Equivalent Dwellings
AR	3	5/9	2
A	1,264	6/9	843
B	1,432	7/9	1,114
C	95	8/9	84
D	54	1	54
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

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

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

Notes to Supplementary Financial Statements

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 (46.2p for 2008/09 : 44.4p for 2007/08). The total non-domestic rateable value at 31 March 2009 was £934.0m (2008: £942.0m). 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 2008/09 are analysed as follows:

2007/08		2008/09
£'000		£'000
471,213	Contribution to the NNDR pool: Non-Domestic Rates	507,586
(2,106)	Less: Transitional Relief Adjustments	(401)
(131,595)	Less: Allowances & Adjustments	(148,314)
337,512	Net Contribution to NNDR pool	358,871
345,187	Amount actually paid during the year	372,614
(7,675)	Payment to/ (refund due from) pool	(13,743)
337,512		358,871
	Redistribution from the NNDR pool:	
502,957	Net income to Council	561,425

14. Precept Payments

The preceptors on the Collection Fund are the 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 2008/09, there was a net write back of £1.1m in respect of Council Tax, which was a direct result of prior years credits previously excluded from the Collection Fund income, being written back to the fund, (2008: £3.6m write off). This represented 0.27% of the amount of Council Tax due as at 1 April 2008 including amounts brought forward from earlier years (2008: 0.93%).

Unpaid NNDR of £0.7m was written off (2008: £0.7m net write back). This represented 0.19% of NNDR due as at 1 April 2008 including amounts brought forward from earlier years, (2008: (0.19%).

Notes to Supplementary Financial Statements

16. Note to the Group Accounts

The Authority's Group Financial Statements on pages 73-76 include the financial results of the NEC Group, NEC (Developments) Plc and Service Birmingham Ltd. As referred to in [Note 42](#) a departure from last year is the non-consolidation of Birmingham Technology Property Ltd. The Group Financial Statements have been prepared in accordance with FRS 2 (Accounting for Subsidiary Undertakings) and FRS 9 (Associates and Joint Ventures) and comply with the SORP (Code of Practice on Local Authority Accounting in the UK 2008).

The Council has a 50% interest in the National Exhibition Centre Limited (the company) making up the National Exhibition Centre Limited 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 NEC Group made a post tax profit of £2.6m in the year ended 31 March 2009, (2008: £2.1m). The Group Balance Sheet has been produced by consolidating the assets and liabilities of the Council with those of the National Exhibition Centre Limited Group on a line by line basis. The major effects of this is an increase in long term liabilities from £3,528.5m (2008 re-stated: £3,378.6m) to £3,552.3m (2008 re-stated: £ 3,408.5m), an increase in fixed assets from £5,690.4m (2008 re-stated: £6,030.5m) to £6,437.5m (2008 re-stated: £6,777.2m), a reduction in long term investments from £367.0m (2008 re-stated: £411.5m) to £69.9m (2008 re-stated: £105.7m) and an increase in group reserves from £2,288.7m (2008 re-stated: £2,959.8m) to £2,468.0m (2008 re-stated: £3,125.3m). Further details relating to the re-statement of the previous years figures are disclosed at the foot of the Council's STRGL at [page 30](#). In addition, a further amendment has been made in respect of the Council's long-term investment in the NEC as disclosed in [Note 24](#) to the Council's core statements.

The Council also holds a 45% stake in the National Exhibition Centre (Developments) Plc and a 31.58% stake in Service Birmingham Ltd (a joint venture between the Council and Capita Business Services Ltd).

The Group Income and Expenditure Account shows the Council's share of the combined surplus in 2008/09 while the Group Balance Sheet includes the Council's share of the combined accumulated net assets. The National Exhibition Centre (Developments) Plc has been consolidated as an associate and accounted for on an equity basis while Service Birmingham Ltd has been consolidated as a joint venture and accounted for on a gross equity basis.

The Council has also identified Birmingham Business Support Centre Limited and Creative Advantage West Midlands as subsidiaries and Birmingham Venture Capital Limited as an associate but has chosen not to consolidate on the grounds of materiality.

Further details on the Council's relationship to the companies identified above may be found in [Note 42](#) to the Core Financial Statements.

The accounts of the National Exhibition Centre Limited Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, International Financial Reporting Council interpretations of these standards and the provisions of company law. The accounts of the 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 National Exhibition Centre Limited Group. A number of consolidation adjustments were therefore made to the accounts of the National Exhibition Centre Limited Group to align accounting policies prior to consolidation. The Land and Building fixed assets of the National Exhibition Centre Limited Group were restated at March 2007 valuations in accordance with Local Authority Accounting Practice. The valuation in the Group Balance Sheet is £744.0m rather than the valuation of £192.6m in the National Exhibition Centre Limited Group Balance Sheet which was prepared on a depreciated historical cost basis.

The accounting year-end for Service Birmingham Ltd (December) is different to the Council and in accordance with FRS9 limited interim financial statements have been provided for use in preparing the Group Financial Statements.

Glossary

17. Note to the Group Balance Sheet

At 31 March 2009 the amount owed by the Council to the National Exhibition Centre Limited Group totalled £0.1m (2008: £1.9m) and amount owed by the National Exhibition Centre Limited Group to the Council totalled £5.6m (2008: £7.4m).

The amounts owed by the Council to the National Exhibition Centre Limited Group comprise trading balances only. The amounts owed by the National Exhibition Centre Limited Group to the Council consist of trading balances of £5.6m 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.

2007/08 £'m		2008/09 £'m
	Surplus/Deficit:	
423.5	Deficit on Revenue Account	754.7
3.0	(Surplus)/Deficit On Collection Fund	1.9
426.5		756.6
	Add Back:	
(14.4)	Provisions Set Aside	(0.2)
412.1		756.4
	Items Included Under Other Classification:	
(138.5)	Interest Paid	(153.3)
38.8	Interest Received	35.6
(47.8)	Capital Financing Costs	(189.2)
5.2	PFI Grant	0.0
(400.6)	Non Cash Item Adjustments	(698.0)
(542.9)		(1004.9)
	Items On Accruals Basis	
(0.2)	Movement In Stock	0.2
(18.0)	Movement In Debtors	36.0
(41.8)	Movement In Creditors	(10.7)
(60.0)		25.5
(190.8)	Cash (Inflow)/Outflow from Revenue Activities	(223.0)

Glossary

3Cs

The Council has a well-established procedure for handling Complaints, Compliments and Comments (3Cs) which monitors formal contact with members of the public.

Accruals

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

Amortised Cost

Some financial assets and liabilities are carried at amortised cost, where part of their carrying amount in the balance sheet will be either written down or written up via the Income and Expenditure Account over the term of the instrument.

Balances

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

Beacon Properties

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

BEST

The Council has developed a comprehensive programme for embedding the values of the organisation; Belief, Excellence, Success and Trust (BEST).

Capital Adjustment Account

This new account contains the balances previously held on the Capital Financing Account and Fixed Asset Restatement Account. The movements in year relate to the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

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

No longer used, see Capital Adjustment Account.

Glossary

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 Council.

CIPFA SOLACE

The CIPFA/SOLACE Framework helps local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of public business.

Collection Fund

A fund administered by the 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 Council for work done, goods received or services rendered, but for which payment has not been made at the end of the year.

Depreciation

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

Debtors

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

Earmarked Reserve

A sum set aside for a specific purpose.

Effective Interest Rate

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Emoluments

Payments received in cash and benefits for employment.

Glossary

Existing Use Value

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

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arms length transaction less, where applicable, any grants receivable towards the purchase or the use of the asset.

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 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)

No longer used, see Capital Adjustment Account.

General Fund

The total services of the Council except for the HRA 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 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.

Glossary

Impairment

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

Infrastructure Assets

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

Investments

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the 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 in respect of which construction work and development have been completed, or which is held for its investment potential with rental income being negotiated at arms length.

Liabilities

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

Market Value

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

Materiality

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

Minimum Revenue Provision (MRP)

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

National Non-Domestic Rates (NDR)

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

Net Book Value

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

Glossary

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 Council on their behalf.

Prior Year Adjustments

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

Private Finance Initiative (PFI)

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

Provisions

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

Prudence

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

Related Party

There is a detailed definition of related parties in FRS8. For the Council's purposes, related parties are deemed to include the elected Members of the Council and their partners; the Chief Officers of the Council and the companies in which the Council has an interest.

Revenue Expenditure

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

Revenue Expenditure Funded from Capital Under Statute

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

Revenue Support Grant (RSG)

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

Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of Birmingham City Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Birmingham City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I 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 Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting 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 Authority (and Group) accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

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 Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. However, in respect of the following, the evidence available to me was limited because the Council was not able to demonstrate that it had maintained full and proper records of its assets:

- the existence, valuation, completeness and ownership of other land and buildings, surplus properties, investment properties and assets under construction shown in balance sheet
- the accuracy and value of the capital accounting transactions arising from any error in tangible fixed assets such as depreciation and asset impairments, on the various financial statements.

I was unable to obtain sufficient appropriate audit evidence regarding these items of account by using other audit procedures.

In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Qualified opinion arising from limitation of audit scope

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the completeness, existence, accuracy and value of tangible fixed assets, in my opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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 regularly to review the adequacy and effectiveness of these arrangements.

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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I was unable to obtain sufficient evidence that Birmingham City Council had the control environments fully embedded for its new financial systems to maintain a sound system of internal control. Due to delays in their production there is also presently insufficient evidence that the Council can produce financial statements that are free from material error.

Having regard to relevant criteria specified by the Audit Commission for principal local authorities, published by the Audit Commission in May 2008 and updated in February 2009, and the supporting guidance, 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 2009 except that it did not put in place adequate arrangements for:

- timely and reliable financial reporting that meets the needs of internal users, stakeholders and local people; and
- management of risks and maintaining a sound system of internal control.

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.



Mark Stocks

(Officer of the Audit Commission)

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9 February 2010