

## **Statement of Accounts 2009/10**

# Birmingham City Council

Contents	Page
<a href="#"><u>FOREWORD TO THE ACCOUNTS</u></a> .....	3
<a href="#"><u>ANNUAL GOOD GOVERNANCE STATEMENT 2009/2010</u></a> .....	8
<a href="#"><u>STATEMENT OF RESPONSIBILITIES</u></a> .....	15
<a href="#"><u>STATEMENT OF ACCOUNTING POLICIES</u></a> .....	16
<a href="#"><u>INCOME AND EXPENDITURE ACCOUNT</u></a> .....	29
<a href="#"><u>STATEMENT OF MOVEMENT ON THE GENERAL FUND</u></a> .....	29
<a href="#"><u>STATEMENT OF RECOGNISED GAINS AND LOSSES</u></a> .....	31
<a href="#"><u>BALANCE SHEET</u></a> .....	32
<a href="#"><u>CASH FLOW STATEMENT</u></a> .....	34
<a href="#"><u>NOTES TO THE CORE FINANCIAL STATEMENTS</u></a> .....	35
<a href="#"><u>HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT</u></a> .....	72
<a href="#"><u>STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE</u></a> .....	73
<a href="#"><u>COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT</u></a> .....	74
<a href="#"><u>GROUP INCOME AND EXPENDITURE ACCOUNT</u></a> .....	75
<a href="#"><u>RECONCILIATION OF THE SINGLE ENTITY DEFICIT FOR THE YEAR TO THE GROUP DEFICIT</u></a> .....	76
<a href="#"><u>STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES</u></a> .....	76
<a href="#"><u>GROUP BALANCE SHEET</u></a> .....	77
<a href="#"><u>GROUP CASH FLOW STATEMENT</u></a> .....	78
<a href="#"><u>NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS</u></a> .....	79
<a href="#"><u>INDEPENDENT AUDITORS REPORT</u></a> .....	87
<a href="#"><u>GLOSSARY</u></a> .....	91

# Foreword to the Accounts

## Background

**These accounts set out the financial results of Council activities for the year ended 31 March 2010 and have been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom – Statement of Recommended Practice 2009 (the SORP).**

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 a true and fair view of 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 2009/10 amounted to £1,626.3 m (after departmental income and movements to and from reserves) and was financed by Area Based Grant of £104.3m, Government Revenue Support Grant of £123.8m, PFI Grant of £8.7m, Redistributed Non-Domestic Rates of £536.3m and demands on the Collection Fund of £328.2m. This left a technical deficit of £525.0m 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** – 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 £525.0m. 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 £515.3m. The outcome is the decrease in the general fund balances for the year of £9.7m.

The balance of the general fund reserve as at 31 March 2010 was £11.4m.

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

The statement reveals a decrease in net worth of £885.8m and includes the deficit on the Income and Expenditure Account, a surplus on revaluation of fixed assets, actuarial losses recognised on the pension fund, and a surplus arising on revaluation of available for sale financial assets.

**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 2010.

The balance sheet total is £1,542.2m, which represents the net worth of the Council.

The Fixed Assets have a net book value of £5,977.1m. £2,081.2m 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 £5.1m.

**Housing Revenue Account (HRA)** – the HRA records the financial position of the Council's statutory obligation to account separately for the costs of its housing provision. The surplus on the housing revenue account is £16.2m (2008/09: deficit £463.2.0m). However, there is a net debit of £17.9m on the Statement of Movement of the Housing Revenue Account balance, so that the overall deficit is £1.8m. This figure is deducted from the balance brought forward of £3.4m, to leave a carry forward balance of £1.6m

**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 Council and the following precepting authorities:

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

The 2009 SORP requires a revised accounting treatment of council tax and NNDR income. Details of this are set out in the section on Changes in Accounting Treatment below.

The total net income from Council taxpayers in 2009/10 amounted to £275.7m

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 2009/10 amounted to £363.2m.

The surplus for the year on the fund was £4.7m, and the year end balance on the fund is £4.7m. This position is compared to the budgeted outturn figures in the table below:

	2009/10 Budgeted Outturn		2009/10 Actual Outturn	
	Total	Council Share	Total	Council Share
	£'000	£'000	£'000	£'000
In Year (Surplus)/Deficit	(3,027)	(2,678)	(4,736)	(4,197)
Additional Precept Expenditure (Per Prior Year Forecast)	0	0	0	0
<b>In Year Net (Surplus)/Deficit</b>	<b>(3,027)</b>	<b>(2,678)</b>	<b>(4,736)</b>	<b>(4,197)</b>
Prior Year Actual Surplus	27	29	27	29
<b>(Surplus)/Deficit C/F</b>	<b>(3,000)</b>	<b>(2,649)</b>	<b>(4,709)</b>	<b>(4,168)</b>

**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 2009 SORP the Council has adopted the following changes to its accounting policies:

Accruals of interest payable and receivable on financial liabilities and assets.

Clarification of when available for sale financial assets become impaired (this does not have any practical effect as the Council carries the assets at cost rather than fair value).

Private Finance Initiative and Similar Concession Arrangements. The accounting requirements for these are no longer based on UK GAAP but on International Financial Reporting Standards. Where assets are incorporated into contracts for service provision by external providers, the Council must now account for these assets on the Balance Sheet along with the liability for financing. These changes are retrospective so the comparator figures for 2008/09 have been amended.

## **Changes in Accounting Treatment**

The accounting treatment of both council tax and national non-domestic rates has been revised by the 2009 SORP.

### **Council Tax**

For 2009/10 the council tax income included in the Income and Expenditure Account for the year will be the accrued income. This contrasts with previous accounting requirements where the council tax income included in the Income and Expenditure Account represented the amounts required under regulation to be transferred from the Collection Fund to the General Fund. Under the new arrangements the difference between the income credited to the Income and Expenditure Account and the amount required under regulation to be credited to the General Fund is taken to a new collection fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

Since the Council is acting as an agent for the collection of council tax for the major preceptors there will be a debtor/creditor relationship between the Council and the major preceptors. As this change in accounting treatment is material the 2008/09 comparative figures have been restated.

### **National Non-Domestic Rates**

The 2009 SORP also confirms the collection of NNDR by the Council on behalf of the Government should be treated as an agency arrangement. The accounting implications of this are that the only income in respect of NNDR collected that should appear in the Income and Expenditure Account is the Cost of Collection Allowance. The Balance Sheet should not include any arrears of NNDR, impairment allowances for doubtful debts, and prepayments or overpayments. These are now consolidated into a debtor/creditor for amounts due from/to the Government. The only figures for NNDR appearing in the Cash Flow Statement are the Cost of Collection Allowance and amounts received towards the cost of recovering unpaid debt. All other NNDR income is included within the management of liquid resources. These changes are material and therefore the 2008/09 comparative figures have been restated.

## A Summary of the Council's Financial Performance for the Financial Year 2009/10

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.

<b>Committee/Portfolio</b>	<b>Revenue Outturn £'000</b>	<b>Capital Outturn £'000</b>
Leader	67,180	144,511
Deputy Leader	180,193	132,068
Adults & Communities	302,771	1,547
Children, Young People & Families	306,608	76,356
Equalities & Human Resources	9,056	238
Housing	14,560	149,597
Leisure, Sport & Culture	51,511	36,853
Local Services & Community Safety	83,063	1,262
Regeneration	16,671	12,120
Transportation & Street Services	97,596	84,800
Council Business Management	9,958	0
Planning Committee	5,104	1,013
Licensing Committee	247	0
Public Protection Committee	13,431	16
Constituencies	108,015	0
<b>Sub-total</b>	<b>1,265,964</b>	<b>640,381</b>
Capital Financing & Other Adjustments	(274,586)	0
Treasury Management	104,877	0
Contingencies	0	0
<b>Total</b>	<b>1,096,255</b>	<b>640,381</b>

### General Fund Reserves and Balances

Balances at the end of 2009/10 stand at £11.4m

### Capital Expenditure

Total expenditure on capital schemes in 2009/10 was £640.4m (2008/09: £656.5m). This compared to the revised capital budget of £780.9m. 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 2009/10. 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 11 to the Core Financial Statements.

### Financing

The proposed financing arrangements in respect of the 2009/10 capital expenditure are summarised below:

Financing method	£m
Borrowing	380.2
Grants and Contributions	222.0
Usable Capital Receipts	38.1
Revenue/Capital Fund	0.1
<b>Total financing</b>	<b>640.4</b>

## **Borrowing**

The Council's authorised limit for external debt in 2009/10 was £3,090m. The maximum external debt during the year amounted to £2,517m.

Full details regarding financing of capital expenditure and the acquisition and disposal of fixed assets are given in Notes 11 and 12 to the Core Financial Statements.

Other resources available to fund capital expenditure include: Capital receipts, Section 106 balances, Grants and Contributions, 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 Council Business Plan 2010+, approved by Council on 23 February 2010. This includes a Long Term Financial Strategy and Plan 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 2010/11 totals £1,013.3m. After allowing for the effects of inflation it has been possible to commit £67.5m to addressing key priorities and funding essential budget pressures, planned to rise to £105.2m by 2013/14. The main areas include investment in adults' care services (£27.5m growing to £46.5m), accommodating the costs of waste disposal, recycling and grounds maintenance (£2.9m growing to £8.5m), meeting the financing costs of the new Library of Birmingham (£1.4m growing to £5.9m), resourcing highways maintenance expenditure (£1.3m growing to £5.0m) and addressing the short-term trading position of the NEC.

## **Capital**

During 2009/10 services reviewed the ten year view of their capital investment needs, in the context of strategic corporate and service priorities and directions. The main areas are 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 approved capital expenditure programme from 2010/11 onwards totals £1,424.7m

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 2010/11 Revenue and Capital Budgets can be found within the Financial Plan 2010+ approved by Council on the 23 February 2010, via [www.birmingham.gov.uk](http://www.birmingham.gov.uk).

## **Other Matters**

### **Pension Liability**

There is currently a net shortfall that 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 £1,659.3m at 31 March 2010. 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 unique to Birmingham City Council; this is in common with the national position for pension funds.
- 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 3 to the Core Financial Statements.

**Annual Good Governance Statement 2009/2010**

**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 as part of the Council's Constitution on the web site. This statement explains how Birmingham City Council has complied with the code and addressed the key roles and principles in the CIPFA/SOLACE code. It 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 2010 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:

The Council's purpose and vision for Birmingham

- 3.1 The Council, working with strategic partners and local communities has established a Sustainable Community Strategy and 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.

We have had strong public, third sector, and business engagement in developing our sustainable community strategy which drives our Business 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 Business Plan includes the Council Plan, which is 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. Outcome based planning continued in 2009/10 and there was a focus on embedding this approach in all service areas. 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 includes detailed 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. 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.

#### 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 has, from May 2010, appointed a Cabinet Member with specific responsibility for Finance. This will strengthen the Executive focus on effective financial management and value for money. 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 role of the Audit Committee has been strengthened to include more active involvement in review of financial systems and procedures, closer liaison with the Audit Commission and responsibility for the approval of the annual accounts.
- 3.7 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 - Corporate Director of Governance

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.

- 3.8 Birmingham City Council has an established 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 is led by Overview and Scrutiny. A Third Sector Partnership Team was established in Chief Executives Directorate in September 2009

#### Values and standards of conduct and behaviour

- 3.9 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 arrangements 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

- 3.10 The Overview & 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 & 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 procedure for handling complaints, compliments, and comments Your Views which monitors formal contact with members of the public. Complaints are actively tracked through the process and independently reviewed. The information is regularly reported to Corporate Management Team and Members.
- 3.11 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.
- 3.12 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.
- 3.13 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.
- 3.14 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 Communications 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.

### Capacity and Capability

- 3.15 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.
- 3.16 The Council has introduced regular training opportunities for Members. There is a dedicated area of the intranet for Member issues and a newsletter, *City Councillor*, is produced and circulated by the 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 receive a 'Personal Pack' to encourage consideration, planning and undertaking of development and learning to become an effective and efficient elected representative. All training is prioritised to assist councillors in planning workloads, etc. In addition all Councillors will automatically have access via their PCs to 'The Modern Councillor' [Learning Pool] offering a range of learning and development modules designed for easy and quick access at the convenience of the Councillor.
- 3.17 A Personal Development and 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 and managing the Council's system of competence based pay progression.

### Engagement with Local People and Other Stakeholders

- 3.18 The Council engages in a wide range of consultation and engagement activities to inform service delivery and decision making. These are summarised in an annual statement and on-line consultation database. 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 meetings 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 and Risk Management's annual report, and also by comments made by the external auditors and other review agencies and inspectorates:

- 4.1 The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/Solace framework, "Delivering Good Governance in Local Government" and continues to learn from experiences and makes necessary changes to improve its local code of governance. The Council's review process uses the Key Roles and Core Principles included in this guidance and this Statement sets 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.
- 4.4 The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Corporate Director of Resources is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations (amendments) 2006. The internal audit provision is managed, independently, by the Assistant Director, Audit, and Risk Management and operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006.
- 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 Head Teachers, and Chairs of Governors as appropriate.
- 4.6 From the work undertaken by Birmingham Audit in 2009/10 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 management 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, which 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 2009/2010. 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 8 May 2008 - with the introduction

of three Standards Sub-Committees. The Standards Committee composition has also been increased to comply with the new legislative requirements. The relevant Complaints Form and other supporting information on the new Local Assessment regime are 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 Commission and officers, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

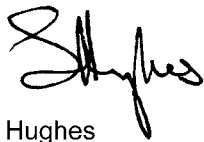
## **5. Significant Governance Issues**

- 5.1 The 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 In common with many other organisations the Council is having to respond to the impact of the global economic downturn. Local Government resources are severely constrained and demand for services continues to increase. The Council faces reducing Government grants, reducing capital receipts and lower income from services. In this context, the Council's Business Plan sets medium to long-term strategies for the management and development of its services, and a specific plan over a period of up to 10 years. This is constantly updated as new information becomes available and the impact of decisions can be assessed. By focusing on long-term, the Council is able to ensure that sustainable plans are put in place and the full on-going consequences of these taken into account, rather than just concentrating on short-term and, potentially sub-optimal solutions.
- 5.3 Achievement against the budget targets and delivery of efficiencies is regularly reported to Cabinet and Scrutiny. Directorates continue to monitor their financial and activity performance including the delivery of efficiency savings on a regular basis.
- 5.4 The current financial climate increases the importance of the Council's Business Transformation Programme in delivering service improvements and increasing efficiency. This consists 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.
- 5.5 In partnership with Service Birmingham, the Council's joint venture ICT and business change partners, the Council is reviewing these areas and bring significant investment and process and organisational change to the service delivery and management of these areas.
- 5.6 The overall Programme has now moved 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.
- 5.7 The Council has recognised compliance with new processes and procedures arising from transformation as a key risk. This compliance and further improvements required to other areas of the Council's internal controls were identified by internal and external audit as weaknesses in 2008/09. A programme of work was developed and these issues were managed proactively throughout 2009/10 to address these concerns. Further work in Directorates, by process owners and the Corporate Business Change team will continue these improvements and this will be monitored by internal audit. The Excellence in People Management and Customer First programmes have recently been implemented and their progress will be carefully monitored.
- 5.8 The Council's 2008/09 Statement of Accounts included an "except for" qualification from the Audit Commission in respect of the Council's fixed asset records. A programme involving reconciliation of property and finance information and review of processes the 2009/10 allowed the opening balances to be amended and improvements to be made to closedown processes and working papers. Further developments will be required as the Council moves towards implementing

International Financial Reporting Standards in the 2010/11 accounts.

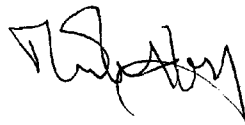
- 5.9 An Equality Standard Peer Challenge in March 2009 resulted in the Council being confirmed as a Level 3 authority and benchmarked as 'achieving' under the new Equality Framework for Local Government. Work has been initiated to take on board the requirements around the new Equality Framework which replaced the Standard in April 2009. 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. The "Duty to Involve" is now an integral link of the revised impact assessment process and will also be a contributor to the Council's approach to community cohesion and engagement.
- 5.10 From 7 June 2010 the Council has entered into a PFI project for Highways Management and Maintenance. The first 5 years of the contract will be the Core Investment Period, which aims to refurbish and bring the highways network up to a benchmark standard.
- 5.11 The Council has worked with the previous Department for Children, Schools and Families (DCSF) now renamed Department for Education and the Government Office for the West Midlands, to action a specific transformation plan to manage and deliver improvement in children's social care and safeguarding, in the light of an improvement notice which ceased in March 2010. The Council has now appointed an Executive Member for Children's Social Care who will assist and support the Cabinet Member for Children, Young People, and Families in continuing these improvements.
- 5.12 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.
- 5.13 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.
- 5.14 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 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 Resource's 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 Audit Committee on 29 June 2010. I certify that the Statement of Accounts presents a true and fair view of the financial position of Birmingham City Council at 31 March 2010 and its income and expenditure for the year ended 31 March 2010.



**Paul Dransfield**  
**Corporate Director of Resources**  
**21 October 2010**

I confirm that these accounts were approved by the Audit Committee of Birmingham City Council on 29 June 2010. Signed on behalf of Birmingham City Council:



**Cllr David Radcliffe**

Chairman of the meeting of the Audit 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 2009/10 and show its position as at 31 March 2010.
- 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 2009. 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. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.
- 1.3 The SORP has made some changes to the following policies:
  - Financial Liabilities (item 8)
  - Financial Assets (item 9)
  - Private Finance Initiative and similar concession arrangements (item 14)

In addition, there have been changes to the accounting treatment of council tax and national non-domestic rates, and additional policy notes 22 and 23 have been added highlighting these changes.

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

## **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. Usual examples of this include the making of improvement grants to private properties, however, the major component of this expenditure in 2009/10 related to settlement of equal pay claims. 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.

## **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](http://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](http://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 2010, with results implemented from 1 April 2011. 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 2010 of £2,502.6m which represented 61.2% of the value of liabilities. Liabilities are discounted to their value at current prices using a discount rate of 5.6%

#### **Pensions Reserve**

- 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 increased during the year from £1,068.9m to £1,659.3m This change is highlighted in further detail within the pensions note to the Core Financial Statements, under 'Scheme History' and represents an increase in the present value of the scheme liabilities of £1,211.2m offset by an increase in the fair value of the scheme assets amounting to £620.8m. 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'.
- 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 3 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 plus accrued interest, with the interest charges payable for the year being taken to Income and Expenditure Account.

### Interest Charges

8.2 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.

8.3 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.

## 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 plus accrued interest, with the interest income receivable for the year being taken to Income and Expenditure Account. However, the Council has made a number of loans to voluntary organisations at less than market rates i.e. 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 Birmingham Airport. In theory the 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.

The shares held by the seven West Midland Districts in the assets in Birmingham Airport are currently shown at historic cost. Work was undertaken in August 2010 to restate this at fair value. The valuation of the shares will be incorporated into each of the seven West Midland District Accounts.

### 9.3 Interest Charges

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

## 10. Government Grants and Contributions (Revenue)

10.1 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, along with other non specific Government grants such as Area Based Grant.

## 11. Grants and Contributions (Capital)

11.1 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.

## 12. Value Added Tax

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

## 13. Fixed Assets

### Intangible Fixed Assets

13.1 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

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

### Asset Categories

13.3 Fixed assets are categorised as follows:

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

### Recognition of Fixed Assets

- 13.4 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**

- 13.5 Assets are initially measured at cost, comprising all expenditure directly attributable to bringing the asset into working condition for its intended use.
- 13.6 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.
- 13.7 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.
- 13.8 Infrastructure assets are included on the balance sheet at historical cost less depreciation.
- 13.9 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 these assets to be valued at historical cost, however prior to 2009/10 the Council held these assets at a nominal £1 as at April 1 1994, but with effect from 2009/10 expenditure on community assets is debited to the assets concerned.

### **Revaluation Cycle**

- 13.10 When an asset is included in the balance sheet at Market Value, Existing Use Value, and Depreciated Replacement Cost, it is formally revalued 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.
- 13.11 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. The next full revaluation will take place in 2010/11.

### **Housing Stock Revaluation**

- 13.12 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 2009/10 this valuation was updated using a desktop methodology.

## Disposals

13.13 Income from the disposal of Fixed Assets is ultimately credited to the Usable Capital Receipts Reserve, after being accounted for through the Income and Expenditure Account on an accruals basis. The difference between the sale proceeds and the carrying value in the balance sheet is credited or debited 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 (up to 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 Usable 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.

13.14 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.

## Depreciation

13.15 **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.

13.16 **Other Land and Buildings** – In line with the requirements of FRS15, freehold buildings are depreciated over their estimated useful life on a straight line basis. 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.

13.17 **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.

13.18 **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

13.19 **Community Assets** – These assets are held at historic cost.

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

### 13.21 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 it is 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.

### 13.22 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 is adjusted for accounting purposes, to that of the shortest lived major component identified in the condition survey.

13.23 Whilst the asset lives for individual assets may vary, the useful economic lives used for calculating depreciation against each asset class are generally as shown in the following table:

Asset Class Name	Useful Lives (in years)
Buildings	50
Infrastructure	10, 20, 25 and 40 as shown above
Vehicles	between 5 and 7
Plant and Equipment	between 5 and 40
Intangible Assets	5

## 14. Private Finance Initiative (PFI) and Similar Concession Arrangements

### 14.1 Concession Agreements

Concession agreements are fixed assets embedded within contracts and other arrangements where, in substance, the Council purchases the asset through payments made that are part of a series of annual service charges. SORP 2009 requires the Council to account for these transactions as set out below. The arrangements are also retrospective to prior accounting periods.

### 14.2 Concession Agreement Assets

The concession agreement assets are recognised as fixed assets when they come into use. The assets are measured initially at fair value as required by SORP 2009 and IAS 17. Subsequently, the assets are measured at fair value, which is kept up to date in accordance with the Council's approach for each relevant class of asset as determined by SORP 2009.

### 14.3 Concession Agreement Liability

A concession agreement liability is recognised at the same time as the concession agreement assets are recognised. It is measured initially at the same amount as the fair value of the concession agreement assets and is subsequently measured as a finance lease liability in accordance with SORP 2009 and IAS 17.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, and is charged to External Interest Charges in the Income and Expenditure Account. The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term. The element of the annual unitary payment increase due to indexation is not allocated to the finance lease payments. This element is instead treated as contingent rent and is expensed as incurred.

### 14.4 Lifecycle Costs

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet the Council's criteria for capital expenditure. They are capitalised at

the time they are provided by the operator and are measured initially at their fair value. The element of the annual unitary payment allocated to the lifecycle replacement is predetermined for each year of the contract from the operator's planned programme of lifecycle replacement. Where the lifecycle component is provided earlier or later than expected, a short term finance lease liability or prepayment is recognised respectively. Where the fair value of the lifecycle component is less than the amount determined in the contract, the difference is recognised as an expense when the replacement is provided. If the fair value is greater than the amount determined in the contract, the difference is treated as a 'free' asset and a deferred income balance is recognised. The deferred income is released to the Income and Expenditure Account over the shorter of the remaining contract period or the useful economic life of the replacement component.

- 14.5 Assets contributed by the Council to the Operator for use in the Scheme  
Assets contributed for use in the scheme continue to be recognised as fixed assets in the Council's Balance Sheet. Other assets contributed (e.g. cash payments, surplus property etc.) by the Council to the Operator before the asset is brought into use, which are intended to defray the Operator's capital costs, are recognised initially as prepayments during the construction phase of the contract. Subsequently, when the asset is made available to the Council, the prepayment is treated as an initial payment towards the finance lease liability and is set against the carrying value of the liability.

## **15. Investment in Companies and Other Entities**

- 15.1 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.

## **16. Stocks and Work in Progress**

- 16.1 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.
- 16.2 The amount at which contract work in progress is included in the balance sheet is cost plus any attributable profit, less any foreseeable losses.

## **17. Provisions**

- 17.1 Provisions are made where an event has taken place that gives the Council an obligation which 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 which 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 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.

## **18. Reserves**

- 18.1 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. Certain reserves that appear in the Balance Sheet are for the purposes of managing the accounting process and therefore do not represent usable resources for the Council.



- 18.2 Details of reserves held at 31 March 2010 are shown in the notes supporting the Balance Sheet.
- 18.3 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.

## 19. Post Balance Sheet Events

- 19.1 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.

## 20. Group Accounts

- 20.1 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. The National Exhibition Centre (Developments) Plc was an associate up to 26 March 2010 and has been consolidated on a net equity basis until that date. From 26 March 2010 the National Exhibition Centre (Developments) Plc is regarded as a subsidiary and has been consolidated on a line by line basis.

- 20.2 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.

- 20.3 Joint Arrangements which are not Entities (JANEs)

The Council has entered into Pooled Funding arrangements with Primary Care Trusts as disclosed in Note 6. In line with FRS9 only the Council's portion of the expenditure and income relating to this arrangement is included in the Net Cost of Services.

## 21. Business Improvement District

- 21.1 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.
- 21.2 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.

## 22. Council Tax

- 22.1 Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and national non-domestic rates. The funds' key features relevant to the accounting for council tax in the core financial statements are:

- In its capacity as a billing authority the Council acts as an agent, collecting and distributing council tax on behalf of the major preceptors (West Midlands Fire and Rescue Authority and West Midlands Police Authority) and itself.
- While the council tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out to the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus the Council's share of any surplus on the Collection Fund for the previous year or less the Council's share of any deficit on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with GAAP.

### 22.2 Accounting for Council Tax in the Core Financial Statements

Up to 2008/09 the SORP required the council tax income included in the Income and Expenditure Account to be the amount that was required under regulation to be transferred from the Collection Fund to the General Fund. For 2009/10 the council tax income included in the Income and

Expenditure Account shall be the accrued income for the year. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

Since the collection of council tax is in substance an agency arrangement, the cash collected by the Council belongs proportionately to itself and the major preceptors. There will therefore be a debtor/creditor position between the Council and the major preceptors since the cash paid to the latter in the year will not be equal to their share of the total cash collected. If the net cash paid to the major preceptors in the year is more than their proportionate share of the cash collected the Council will recognise a debit adjustment for the amount overpaid. Conversely, if the cash paid to the major preceptors in the year is less than their proportionate share of the amount collected then the Council will recognise a credit adjustment for the amount underpaid.

The Council's Cash Flow Statement shall include in 'Revenue Activities' cash flows only its own share of the council tax collected during the year, and the amount included for precepts paid shall exclude amounts paid to the major preceptors. The difference between the major preceptors' share of the cash collected and that paid to them as precepts and settlement of the previous year's surplus or deficit on the Collection Fund shall be included as a net increase/decrease in other liquid resources.

### **22.3 Accounting for Residual Community Charge**

Any residual community charge income adjustments are also required to be included in the Collection Fund and these are borne wholly by the Council and excluded from any calculation of the Collection Fund surplus or deficit. Any community charge adjustment for the year is taken to the Income and Expenditure Account, and the difference between this and the amount required by regulation to be taken to the General Fund shall be taken to the Collection Fund Adjustment Account.

### **22.4 Prior Year Adjustments**

The change in accounting policy for council tax and residual community charge requires prior year adjustments to the 2008/09 corresponding amounts. In the Income and Expenditure Account the amount shown will be the 2008/09 accrued amount in line with the requirements of the 2009 SORP. In addition, the Statement of the Movement on the General Fund Balance will be restated, with the change in the Income and Expenditure Account surplus/deficit for the year being exactly matched by the inclusion of an additional reconciling item in respect of the transfer to or from the Collection Fund Adjustment Account.

In the Council's restated Balance Sheet for 2008/09, the part of the council tax debtor and creditor balances and impairment allowances for doubtful debts attributable to the major preceptors shall be derecognised. In its restated Balance Sheet for 2008/09 the Council will recognise a creditor for council tax income collected on behalf of major preceptors but yet to be paid over to them, or a debtor for amounts overpaid to the major preceptors.

In the restated 2008/09 Cash Flow Statement the Council will exclude from 'Revenue Activities' major preceptors precept payments and any amounts paid to, or received from, major preceptors in respect of previous year's Collection Fund surplus or deficit. The Cash Flow Statement will include only the Council's own share of council tax debtors or creditors net cash received in the year. The difference between the major preceptors share of the net cash collected, and the amount paid over to them under regulation will be shown as a net increase/decrease in liquid resources.

## **23. National Non-Domestic Rates**

- 23.1 The Council collects national non-domestic rates on an agency basis on behalf of the Government. The cost of collection allowance is the Council's income and appears in the Income and Expenditure Account. NNDR debtor and creditor balances and impairment allowances for doubtful debts are not assets and liabilities of the Council and therefore should not appear in the Council's Balance Sheet.

Cash collected from NNDR taxpayers, net of the cost of collection allowance, belongs to the Government, and any amounts yet to be paid to the government at the Balance Sheet date should

appear on the Balance Sheet as a creditor. Similarly, if payments to the Government exceed the cash collected then the excess should appear in the Balance Sheet as a debtor.

NNDR collected by the Council is not a revenue activity of the Council and should not therefore appear in the Council's Cash Flow Statement, except for that part retained as the cost of collection allowance. Similarly cash paid to the Government in respect of NNDR should not appear in the Cash Flow Statement. However, costs added to NNDR in respect of recovery action shall be treated as the Council's income.

### **23.2 Prior Year Adjustments**

The requirements of the 2009 SORP differ from those of previous years and therefore the Council will have had to restate both the 2008/09 Balance Sheet and Cash Flow Statement. In the Balance Sheet the following items have been derecognised:

- NNDR creditor and debtor balances
- Impairment allowances for doubtful debts
- The NNDR 3/notified amount of under or over payments to the national pool for 2008/09

In their place a creditor or debtor should appear for under or over payments to the government in respect of NNDR.

## Income and Expenditure Account

Restated		2009/10		
Net		Gross		Net
Expenditure		Expenditure	Income	Expenditure
£'000		£'000	£'000	£'000
342,354	Adult Social Care	485,649	(125,045)	360,604
17,656	Central Services to the Public	128,139	(114,577)	13,562
445,631	Children's and Education Services	1,793,339	(1,216,275)	577,064
1,572	Court Services	1,941	(355)	1,587
268,046	Cultural, Environmental & Planning Services	474,331	(171,367)	302,965
105,650	Highways, Roads & Transport	179,090	(79,471)	99,619
55,916	Housing General Fund Services	589,560	(547,168)	42,391
418,620	Housing Revenue Account	180,554	(240,015)	(59,461)
17,497	Corporate & Democratic Core	85,223	(45,694)	39,529
(9,875)	Non Distributed Costs	6,474	0	6,474
<b>1,663,067</b>	<b>Net Cost of Services</b>	<b>3,924,301</b>	<b>(2,539,967)</b>	<b>1,384,334</b>
78	Parish Precept			86
(17,241)	Surplus on Trading Undertakings	<u>Note 1</u>		(19,442)
28,439	Levies	<u>Note 8</u>		23,271
7,917	Contribution of Housing Capital	<u>Note 8</u>		5,929
138,597	Receipts to Government Pool			138,783
51,586	Interest Payable and Similar Charges			138,783
(12,339)	Pensions Interest Cost & Expected Return on Pensions Assets	<u>Note 3</u>		85,592
(35,469)	(Gains)/ Losses on the disposal of Fixed Assets			26,496
	Interest & Investment Income			(18,789)
<b>1,824,635</b>	<b>Net Operating Expenditure</b>			<b>1,626,260</b>
	<b>Sources of Finance</b>			
	Area Based Grant	<u>Note 37</u>		(113,011)
(179,065)	Revenue Support Grant	<u>Note 37</u>		(123,783)
(561,425)	Non Domestic Rates Redistribution			(536,291)
(314,341)	Council Tax			(323,960)
(4,851)	Council share of Collection Fund Surplus			(4,197)
<b>764,952</b>	<b>Deficit for Year</b>			<b>525,018</b>

## Statement of Movement on the General Fund Balance

BIRMINGHAM CITY COUNCIL STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE	Restated 2008/09 £'000	2009/10 £'000
(Surplus) / deficit for the year on the Income & Expenditure Account	764,952	525,018
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year (see note on next page)	(758,069)	(515,324)
<b>(Increase)/Decrease In General Fund Balance for the year</b>	<b>6,883</b>	<b>9,695</b>
General Fund Balance brought forward	(28,000)	(21,117)
<b>General Fund Balance carried forward</b>	<b>(21,117)</b>	<b>(11,422)</b>

## Statement of Movement on the General Fund Balance

Note of Reconciling Items for the Statement of Movement on the General Fund Balance	Restated 2008/09 £'000	2009/10 £'000
<b>Amounts included in the Income and Expenditure Account but required by Statute to be excluded when determining the movement on the General Fund Balance for the year</b>		
Depreciation and impairment of fixed assets	(630,057)	(309,421)
Revenue expenditure funded from capital under statute	(163,030)	(221,818)
Government grant deferred amortisation	0	6,255
Net charges made for retirement benefits in accordance with FRS 17	(60,171)	(50,180)
Net gain on sale of fixed assets	12,339	(26,496)
Capital Receipts not related to derecognition of fixed assets	0	32,009
Other Government Grants	17,106	2,005
Appropriations re restatement of financial instruments	(10,670)	(11,106)
<b>Amounts not included in the Income and Expenditure Account but required by Statute to be included when determining the movement on the General Fund Balance for the year</b>		
Minimum Revenue Provision for capital financing	71,282	89,427
Voluntary Revenue Provision	2,814	0
Capital expenditure charged in-year to the General Fund Balance	5	0
Transfer from Usable Capital Receipts to meet payments to the Housing Pool	(7,917)	(5,929)
Appropriations re repayment of long term debtors	(167)	264
Appropriations re repayment of long term liabilities	1,654	0
Appropriations re write-off of debt redemption premiums	3,125	2,611
<b>Transfers to or from the General Fund that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>		
Collection Fund	(1,652)	4,197
HRA Balances	(121)	(1,760)
Schools Balances	899	(222)
Major Repairs Reserve	0	25,000
Other Earmarked Reserves	6,492	(50,160)
<b>Net additional amount required to be credited to the General Fund Balance for the year</b>	<b>(758,069)</b>	<b>(515,324)</b>

## Statement of Recognised Gains and Losses

	Restated 2008/09 £'000	2009/10 £'000
Deficit for the year on the Income & Expenditure Account	764,952	525,018
(Surplus) / Deficit arising on revaluation of fixed assets	52,928	(138,083)
Actuarial (gains) / losses on pension fund assets and liabilities	(132,006)	540,179
(Surplus)/Deficit arising on revaluation of available for sale financial assets (see Note 1 to the Balance Sheet)		(41,298)
<b>Total Recognised (Gains) and Losses for the Year</b>	<b>685,874</b>	<b>885,816</b>
<b>Balance Sheet Movement*</b>	<b>(685,874)</b>	<b>(885,816)</b>

### \* Prior Year Adjustments

- The 2009 SORP requires a revised accounting treatment of council tax income. The revised treatment reflects the agency arrangement between the Council and the major preceptors, and this means that there is a debtor/creditor position between the Council and the major preceptors, such that both debtors and creditors have been reduced by £18.8m. As this is a material change, the comparator figures for the previous year have had to be adjusted. Full details of the movements on the 2008/09 Balance Sheet figures are provided in Note 16 to the Supplementary Statements.
- Arising from the audit of the 2008/09 Statement of Accounts the Council undertook major work to reconcile financial and property records of fixed assets. Major adjustments were made to the opening balance sheet as a result of:
  - Derecognition of Foundation Schools (although these were subsequently returned to the balance sheet as Concession Agreements – see 3 below)
  - Impairment of Community Asset expenditure prior to 2002 which could not be identified to individual assets (£23.0m)
  - Other adjustments £21.8m
- The 2009 SORP required local authorities to account for Concession Agreements. These are fixed assets embedded within contracts and other arrangements where, in substance, the Council purchases the asset through payments made that are part of a series of annual service charges. Changes to the opening balance sheet of £435.8m have been made to reflect this.
- The 2009 SORP brought about a change in the classification of accrued interest relating to long term financial instruments. In 2008/09 such accrued interest was treated as part of the long term amounts outstanding. In order to provide an accurate comparison the 2008/09 figures shown have been adjusted to conform with the current 2009 SORP by reducing Long Term Borrowing and increasing Short Term Borrowing by £41.7m, and reducing Long Term Investments and increasing Other Investments by £1.8m.
- As disclosed in note 32i the Council is guaranteeing payment of loan stock on National Exhibition Centre (Developments) PLC. The Council is holding an amount (£14.0m at 31/3/10) against this guarantee and has previously accounted for this as a Provision. Having reviewed FRS12, and after discussion with the District Auditor, it has been determined that this sum is more correctly accounted for as an Earmarked Reserve. A prior period adjustment reducing provisions and increasing reserves by £24.2m has been made.

The table below summarises the impact on the Council's Net Worth of the above changes.

Ref above	Description	Amount £'000
	<b>Net worth at 31/3/09 included in the Balance Sheet in the Council's 2008/09 audited accounts.</b>	<b>(2,313,134)</b>
1	Council Tax debtors and creditors	0
2	Reconciliation of fixed assets	10,491
3	Concession Agreements	(101,183)
4	Financial Instruments	0
5	NEC loan guarantee	(24,186)
6	<b>Net worth at 31/3/09 included in the Balance Sheet in the Council's 2009/10 accounts.</b>	<b>(2,428,012)</b>

# Balance Sheet

Restated as at 31 March 2009		Note	As at 31 March 2010	
£'000			£'000	£'000
	<b>Fixed Assets</b>			
17,504	<b>Intangible Fixed Assets</b>	11 to 16	18,396	
	<b>Tangible Fixed Assets:</b>			
	<b>Operational Assets</b>			
2,003,114	Council Dwellings & Garages	11 to 16	2,081,171	
2,664,452	Other Land & Buildings	11 to 16	2,637,809	
103,487	Vehicles, Plant, Furniture & Equipment	11 to 16	106,705	
416,329	Infrastructure Assets	11 to 16	432,031	
93,674	Community Assets	11 to 16	97,095	
	<b>Non-operational Assets</b>			
177,802	Assets under Construction	11 to 16	210,555	
405,677	Investments & Surplus Properties	11 to 16	393,302	
<b>5,882,039</b>	<b>Total Fixed Assets</b>			<b>5,977,064</b>
365,189	Long Term Investments	18	361,282	
44,392	Long Term Debtors	19	43,265	
<b>409,581</b>				<b>404,547</b>
				<b>6,381,611</b>
<b>6,291,621</b>	<b>Total Long Term Assets</b>			
	<b>Current Assets</b>			
173,517	Other Investments	18	89,809	
3,160	Stocks & Work in Progress	20	2,312	
287,735	Debtors	21	298,224	
71,829	Cash in Hand	22	68,416	
<b>536,241</b>				<b>458,761</b>
<b>6,827,862</b>	<b>Total Assets</b>			<b>6,840,372</b>
	<b>Current Liabilities</b>			
(316,326)	Short-term Borrowing	23	(177,876)	
(420,712)	Creditors	24	(468,981)	
(72,138)	Cash Overdrawn	22	(63,659)	
(29,389)	Capital Contributions Unapplied	46	(27,086)	
<b>(838,565)</b>			<b>(737,602)</b>	
<b>5,989,297</b>	<b>Total Assets less Current Liabilities</b>			<b>6,102,770</b>
	<b>Long-term Liabilities</b>			
(2,246,897)	Long-term Borrowing	23	(2,396,390)	
(1,068,943)	Liability Related to Defined Benefit Pension Scheme	3	(1,659,302)	
(73,867)	Deferred Liabilities	25	(71,615)	
(128,345)	Government Grants Deferred	26	(224,057)	
(20,132)	Government Grants Unapplied		(25,000)	
(23,100)	Provisions	27	(184,209)	
<b>2,428,012</b>	<b>Total Assets less Liabilities</b>	17		<b>1,542,197</b>



## Balance Sheet (continued)

Restated as at 31 March £'000		Note	As at 31 March 2010	
			£'000	£'000
	<b>Financed by:</b>			
180,127	Revaluation Reserve	28	303,096	
3,086,406	Capital Adjustment Account	29	2,676,075	
(34,761)	Financial Instruments Adjustment Account		(32,146)	
0	Available for Sale Financial Instruments Reserve (note 1)		41,298	
(29)	Collection Fund Adjustment Account	45	4,168	
(1,068,943)	Pensions Reserve	3	(1,659,302)	
51,552	Usable Capital Receipts Reserve	30	58,757	
6,538	Deferred Capital Receipts		4,806	
21,117	General Fund Balance	31	11,422	
3,351	HRA Balance	31	1,591	
182,654	Earmarked Reserves	30	132,432	
0	Housing Major Repairs Reserve	30	0	
<b>2,428,012</b>	<b>Total Net Worth</b>			<b>1,542,197</b>

Note 1: "Available for Sale" is a technical term required by the SORP. It does not indicate the Council's intention to dispose of these instruments.

# Cash Flow Statement

Restated 2008/09 £'000		2009/10	
		£'000	£'000
<b>(212,922)</b>	<b>Net Cash Flow From Revenue Activities (Note 40)</b>		<b>(245,472)</b>
	<b>Returns on Investments and Servicing of Finance</b>		
	<i>Cash Outflows:</i>		
156,310	Interest Paid	138,783	
	<i>Cash Inflows:</i>		
(41,870)	Interest Received	(18,789)	
<b>114,440</b>			<b>119,994</b>
	<b>Capital Activities</b>		
	<i>Cash Outflows:</i>		
416,500	Purchase of Fixed Assets	352,800	
6,963	Purchase of Long Term Investments	0	
215,075	Other Capital Cash Payments	221,818	
<b>638,538</b>			<b>574,618</b>
	<i>Cash Inflows:</i>		
(55,358)	Sale of Fixed Assets	(88,000)	
(27,825)	Capital Contributions Received	0	
0	Sale or Repayment of long Term Investments	(45,205)	
0	Sale of Short Term Investments	(83,708)	
(158,578)	Capital Grants Received (Note 44)	(231,300)	
<b>(241,761)</b>			<b>(448,213)</b>
<b>298,295</b>	<b>Net Cash Outflow/ (Inflow) before Financing</b>		<b>927</b>
	<b>Management of Liquid Resources</b>		
	Net Increase/ (Decrease) in Short Term Deposits	5,050	
	<b>Financing</b>		
	<i>Cash Outflows:</i>		
1,867,395	Repayments of Amounts Borrowed	138,450	
	<i>Cash Inflows:</i>		
(2,165,888)	New Loans Raised – Long Term	(149,493)	
<b>(298,493)</b>			<b>(5,993)</b>
<b>(198)</b>	<b>Net (Increase)/ Decrease in Cash</b>		<b>(5,066)</b>

# Notes to the Core Financial Statements

## 1. Trading Services

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

2008/09 (Profit)/Loss £m	Trading activity (see brief descriptions below)	Turnover £m	2009/10 Expenditure £m	(Profit)/Loss £m
(0.1)	Highways & Sewers	(6.8)	6.5	(0.3)
1.5	Property Services	(8.1)	10.5	2.4
(1.0)	Legal Services	(12.0)	10.5	(1.5)
(1.2)	Markets	(7.8)	6.4	(1.4)
0.2	Non-Schools Cleaning	(3.7)	3.7	0
0.0	Catering	(2.1)	2.0	(0.1)
0.0	Street Lighting	(3.5)	3.5	0
(0.4)	Vehicle Maintenance	(5.0)	4.6	(0.4)
0.0	Education Catering	(31.5)	30.6	(0.9)
(0.2)	Education Staff Agency	(4.7)	4.7	0
(1.2)	Trade Refuse	(6.3)	5.2	(1.1)
(14.6)	Urban Design	(67.1)	52.0	(15.1)
0.2	Grounds Maintenance	(8.0)	7.7	(0.3)
0.0	Education Cleaning	(8.4)	8.1	(0.3)
(0.3)	Design & Print	(3.1)	3.1	0
0.1	Meals Direct	(2.4)	2.4	0
(0.3)	Birmingham City Laboratories	(2.4)	2.3	(0.1)
0.0	Landscape Practice	(1.4)	1.2	(0.2)
0.0	Community Day Nurseries	(1.7)	1.6	(0.1)
0.1	Other Trading Activities	(3.3)	3.3	0
<b>(17.2)</b>		<b>(189.3)</b>	<b>169.9</b>	<b>(19.4)</b>

### Details of Trading Undertakings

#### Highways and Sewers

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

#### Property Services

Birmingham Property Services (BPS) is the largest in-house local authority Property Consultancy. BPS provide an integrated professional property service to the 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 Council, its Departments and the citizens of Birmingham.

#### Markets

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

#### Non-Schools Cleaning

Birmingham City Cleaning currently undertakes cleaning business worth approximately £4.0m and covers some 316 locations employing a team of 311 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; Sixth Form Pre Paid Service; Water Facilities; Tuck Shops.

## **Education Staff Agency**

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

## **Trade Refuse**

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

## **Urban Design**

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

## **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 1,300 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 Council.

### **DSD Trading Community Day Nurseries**

There are 868 places for Birmingham children in 23 Community Day Nurseries, managed and maintained by Children, Young People, and Families. The nurseries are open 52 weeks of the year and cater for children from 6 weeks old. DSD provide all the catering and cleaning services at these units.

### **Others**

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

## **2. Minimum Revenue Provision**

The Local Government Act 2003 requires the 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, revenue provision 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 2009/10 was £89.4m. This includes some capital resources as well as revenue provision. 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 revenue provision, 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. 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.

### **Local Government Pension Scheme**

- i. The Council's employer's contribution for the year 2009/10 was £100.8m (2008/09: £87.2m) based on an employer's contribution rate of 15.5% (2008/09: 14.7%).
- ii. The cost of awarding discretionary additional benefits and their associated inflation proofing is borne separately by the Council. Expenditure in 2009/10 was £5.7m (representing 0.9% of members' aggregated pensionable pay).
- iii. In the Actuarial Valuation as at 31 March 2007 82% of past service liabilities were funded. A further full valuation was undertaken as at 31 March 2010, the results of which will be implemented from 1 April 2011. However, at the time of publishing this Statement the results of the 2010 valuation were not available. An employer's contribution rate was set for the Council of 15.5% for the year from 1 April 2009 to 31 March 2010. 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 2009/10 was £54.5m, 14.1% of pensionable pay, (2008/09: £53.0m, 14.1% of pensionable pay).
- ii. In addition, £6.7m (2008/09: £6.5m) 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.

### Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Statement of Movement on the General Fund Balance.

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	
2008/09	2009/10	Income and Expenditure Account	2008/09	2009/10
£m	£m		£m	£m
		<b>Net Cost of Service</b>		
106.5	70.5	Current Service Cost	0	0
0.5	0.8	Past Service Cost	0.1	0.1
0.1	5.6	Curtailments	0	0
0	0	Settlements	0	0
		<b>Net Operating Expenditure</b>		
209.1	205.0	Interest Cost	4.2	4.2
(161.8)	(123.6)	Expected Return on Scheme Assets	0	0
<b>154.4</b>	<b>158.4</b>	<b>Net Charge to Income and Expenditure Account</b>	<b>4.3</b>	<b>4.3</b>
		<b>Statement of Movement on the General Fund Balance</b>		
(61.4)	(51.9)	Reversal of Net Charges Made for Retirement Benefits in Accordance with FRS17	1.4	1.6
<b>93.0</b>	<b>106.5</b>	<b>Actual Amount Charged Against General Fund Balance for Pensions in Year</b>	<b>5.7</b>	<b>5.9</b>

In addition to the recognised gains and losses shown above within the Income and expenditure account, actuarial losses of £540.2m (2008/09; actuarial gains of £132.0m) 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 £516.5m.

### Assets and liabilities in relation to retirement benefits

The following is a reconciliation of the movement within the schemes liabilities for 2009/10:

	Local Government Pension Scheme				Unfunded Teachers Pension Scheme		Total	
	2008/09 Unfunded	2008/09 Funded	2009/10 Unfunded	2009/10 Funded	2008/09	2009/10	2008/09	2009/10
	£m	£m	£m	£m	£m	£m	£m	£m
Obligations as at 1 April	(86.3)	(3,323.9)	(73.3)	(2,815.9)	(72.6)	(61.5)	(3,482.8)	(2,950.7)
Current Service Cost	0	(106.5)	0	(70.5)	0	0	(106.5)	(70.5)
Past Service Cost	0	(0.5)	0	(0.8)	(0.1)	(0.1)	(0.6)	(0.9)
Curtailments	0	(0.1)	0	(5.6)	0	0	(0.1)	(5.6)
Interest on Pension Liabilities	(5.1)	(204.1)	(5.0)	(200.1)	(4.3)	(4.2)	(213.5)	(209.2)
Actuarial Gains/(Losses) on Liabilities	12.5	756.2	(14.5)	(978.2)	9.8	(11.1)	778.5	(1,003.8)
Benefits/Transfers Paid	5.6	101.3	5.7	107.0	5.7	5.9	112.6	118.6
Member Contributions	0	(38.3)	0	(39.8)	0	0	(38.3)	(39.8)
<b>Obligations as at 31 March</b>	<b>(73.3)</b>	<b>(2,815.9)</b>	<b>(87.1)</b>	<b>(4,003.9)</b>	<b>(61.5)</b>	<b>(70.9)</b>	<b>(2,950.7)</b>	<b>(4,161.9)</b>

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 positive £587.2m (2008/09: negative £484.6m).

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	
	2008/09 Unfunded	2008/09 Funded	2009/10 Unfunded	2009/10 Funded	2008/09	2009/10	2008/09	2009/10
	£m	£m	£m	£m	£m	£m	£m	£m
Fair Value of Assets as at 1 April	0	2,342.1	0	1,881.8	0	0	2,342.1	1,881.8
Employer Contributions	5.6	87.3	5.7	100.8	5.7	5.9	98.6	112.4
Expected Return on Assets	0.0	161.8	0	123.6	0	0	161.8	123.6
Actuarial Gains/(Losses) on Assets	0	(646.4)	0	463.6	0	0	(646.4)	463.6
Benefits/Transfers Paid	(5.6)	(101.3)	(5.7)	(107.0)	(5.7)	(5.9)	(112.6)	(118.6)
Member Contributions	0	38.3	0	39.8	0	0	38.3	39.8
<b>Fair Value of Scheme Assets as at 31 March</b>	<b>0</b>	<b>1,881.8</b>	<b>0</b>	<b>2,502.6</b>	<b>0</b>	<b>0</b>	<b>1,881.8</b>	<b>2,502.6</b>

### Scheme history

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

	2005/06 *	2006/07 Restated	2007/08 Restated	2008/09	2009/10
	£m	£m	£m	£m	£m
<b>Present Value of Scheme Liabilities:</b>					
LGPS	(3,043.1)	(3,080.6)	(3,410.2)	(2,889.2)	(4,091.0)
Unfunded Teachers Scheme	(69.1)	(66.1)	(72.6)	(61.5)	(70.9)
<b>Total Present Value of Scheme Liabilities</b>	<b>(3,112.2)</b>	<b>(3,146.7)</b>	<b>(3,482.8)</b>	<b>(2,950.7)</b>	<b>(4,161.9)</b>
Fair value of Scheme Assets in LGPS:	2,161.4	2,339.9	2,342.0	1,881.8	2,502.6
<b>Surplus/Deficit in the Scheme:</b>					
LGPS	(881.7)	(740.7)	(1,068.2)	(1,007.4)	(1,588.4)
Unfunded Teachers Scheme	(69.1)	(66.1)	(72.6)	(61.5)	(70.9)
<b>Total</b>	<b>(950.8)</b>	<b>(806.8)</b>	<b>(1,140.8)</b>	<b>(1,068.9)</b>	<b>(1,659.3)</b>

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

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The total liability of £1,659.3m 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 2010/11 by the Council is £105.2m.



### 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	
	2008/09	2009/10	2008/09	2009/10
	%	%	%	%
Rate of Inflation	3.3	3.3	3.3	3.2
Rate of Increase in Salaries	5.1	5.1	N/A	N/A
Rate of Increase in Pensions	3.3	3.3	3.3	3.2
Discount Rate	7.1	5.6	7.1	5.5
<b>Mortality Assumptions</b>				
Longevity at 65 for current pensioners				
- Men	21.2	21.2	21.2	21.2
- Women	24.0	24.1	24.0	24.1
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.

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	
	2008/09	2009/10
	%	%
<b>Expected rate of return on assets</b>		
- Equities	7.5	7.5
- Government Bonds	4.0	4.5
- Other Bonds	6.0	5.2
- Property	6.5	6.5
- Cash / Liquidity	0.5	0.5
- Other	7.5	7.5
<b>Asset Value by Investment Categories</b>		
- Equities	55.7	53.7
- Government Bonds	12.4	7.9
- Other Bonds	4.1	6.0
- Property	7.3	7.2
- Cash / Liquidity	4.0	1.4
- Other	16.5	23.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### History of experience gains and losses

The actuarial gains identified as movements on the pensions reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010:

Gains / Losses	2005/06	2006/07	2007/08	2008/09	2009/10
	%	Restated %	Restated %	%	%
<b>Difference between actual and expected return on assets:</b> LGPS	14.8	0.9	(8.1)	(34.4)	18.5
<b>Experience gains and losses on liabilities:</b> LGPS	2.2	0	(1.8)	0	0
Unfunded Teachers Pension Scheme	3.0	0	0	0	0

### 4. Officers Emoluments and Members Allowances

The number of employees, whose remuneration excluding employer superannuation contributions was £50,000 or more, in bands of £5,000 was:

Number of Employees 2008/09		Number of Employees 2009/10	
403	£50,000 - £54,999	443	
243	£55,000 - £59,999	283	
129	£60,000 - £64,999	159	
84	£65,000 - £69,999	101	
45	£70,000 - £74,999	34	
30	£75,000 - £79,999	36	
20	£80,000 - £84,999	33	
11	£85,000 - £89,999	20	
17	£90,000 - £94,999	22	
3	£95,000 - £99,999	4	
5	£100,000 - £104,999	5	
0	£105,000 - £109,999	1	
1	£110,000 - £114,999	0	
1	£115,000 - £119,999	1	
1	£120,000 - £124,999	0	
0	£125,000 - £129,999	0	
0	£130,000 - £134,999	0	
0	£135,000 - £139,999	0	
4	£140,000 - £144,999	4	
0	£145,000 - £149,999	1	
0	£150,000 - £154,999	0	
0	£155,000 - £159,999	0	
1	£205,000 - £209,999	1	
<b>998</b>	<b>Total</b>	<b>1,148</b>	

The increase in numbers is due primarily to the effect of the annual pay award together with progression up incremental pay scales. Details of the allowances paid to each member are available on the Council's website.

## Disclosure of Remuneration for Senior Employees

The table sets out the remuneration for the Council's Corporate Management Team

Post Holder Information	2008/09			2009/10		
	Salary £	Pension Contributions £	Total Including Pension Contributions £	Salary £	Pension Contributions £	Total Including Pension Contributions £
Chief Executive - Stephen Hughes	191,253	26,236	217,489	204,810	28,287	233,097
Strategic Director (Housing and Constituencies)	141,519	20,803	162,322	143,251	22,204	165,455
Acting Strategic Director (Development)	116,382	17,108	133,490	0	0	0
Strategic Director (Environment and Culture)	0	0	0	146,837	22,760	169,597
Director of Planning and Regeneration	120,093	17,199	137,292	59,076	8,916	67,992
Strategic Director (CYPF)	141,519	20,803	162,322	143,251	22,204	165,455
Strategic Director (Adults and Communities)	141,519	20,803	162,322	143,251	22,204	165,455
Corporate Director of Resources	140,681	20,680	161,361	140,798	21,824	162,622
Head of Policy and Performance	87,251	12,819	100,070	89,988	13,948	103,936
Director of Public Affairs and Communications	89,238	13,118	102,356	92,400	14,322	106,722
Director of Human Resources	98,132	14,425	112,557	105,300	16,321	121,621
Corporate Director of Business Change	92,037	13,529	105,566	92,114	14,278	106,392
Corporate Director of Governance	110,275	16,210	126,485	115,017	17,827	132,844
Director of Scrutiny	97,607	14,348	111,955	97,688	15,142	112,830

Allowances paid to Members of the Council in 2009/10 totalled £3.1m (2008/09: £3.0m). These figures include national insurance and superannuation.

## 5. Related Party Transactions

The Council has interests in a number of companies as detailed in Note 35. The Council also paid grants to a range of organisations, including voluntary organisations, where these grants were the main source of funding for them. The following transactions are considered material:

<b>Payments</b>	<b>£m</b>
BXL Services	0.9
Birmingham Wheels Ltd	0.1
Chinese Community Centre - Birmingham	0.1
Marketing Birmingham Partnership	6.4
Performances Birmingham	2.6
Service Birmingham Ltd	176.4
The National Exhibition Centre Limited	2.2
<b>Total</b>	<b>188.7</b>
<b>Receipts</b>	<b>£m</b>
Aston Science Park Ltd	(0.4)
Birmingham Research Park Ltd	(0.1)
Marketing Birmingham Partnership	(0.1)
Optima Community Association	(0.5)
Service Birmingham Ltd	(16.8)
The National Exhibition Centre Finance Plc	(6.1)
<b>Total</b>	<b>(24.0)</b>

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 4 above.

## 6. 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 2009/10 was:**

	<b>Planned Spend £m</b>	<b>Actual Spend £m</b>	<b>Carry Forward £m</b>
<b>PCT'S Main Fund</b>			
Scheme:			
General Schemes	0.054	0.051	0.003
Telecare Development	0.005	0	0.005
<b>Total</b>	<b>0.059</b>	<b>0.051</b>	<b>0.008</b>
<b>Memorandum Carry forward</b>			
BEN PCT (38.07%)			0.003
South (34.3%)			0.003
HOB (27.63%)			0.002
			<b>0.008</b>
<b>Children's Equipment</b>			
HOB PCT	0.093	0.079	0.014
East and North Birmingham PCT	0.173	0.086	0.087
South PCT	0.030	0.006	0.024
Birmingham City Council	1.168	1.355	(0.187)
<b>Total</b>	<b>1.464</b>	<b>1.526</b>	<b>(0.062)</b>
<b>Memorandum Carry Forward of Children's element of contribution to pooled budget</b>			
East and North PCT 38.12%			0.014
South 34.31%			0.087
HOB 27.57%			0.024
Birmingham City Council			(0.187)
			<b>(0.062)</b>

## 7. Auditors Remuneration

The Council's appointed auditors are the Audit Commission. Payments to the auditors in 2009/10 totalled £1.2m (2008/09: £1.1m) of which £0.8m (2008/09: £0.8m) 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 £0.4m (2008/09: £0.3m) related to the audit of grant claims submitted to Central Government and the European Union.

## 8. Levies

The following levies were paid by the Council in 2009/10:

<b>Payments</b>	<b>£m 2008/09</b>	<b>£m 2009/10</b>
Passenger Transport Authority	28.1	22.9
Environment Agency	0.3	0.3
Housing Capital Receipts Pooling Payment to the Department for Communities and Local Government	7.9	5.9
<b>Total</b>	<b>36.3</b>	<b>29.1</b>

## 9. Private Finance Initiative and Similar Concession Arrangements

Included within concession arrangements are a number of agreements which constitute the purchase of assets on deemed credit terms. The deemed credit terms vary between arrangements. The main terms of the material arrangements are as follows:

Schools PFI are over 25 years with the annual payments uplifted by RPI.

The waste disposal arrangement payments are based on a fixed tonnage of waste plus charges for incremental disposals. The payments are uplifted annually in line with RPI

The Voluntary Arrangement schools assets and associated deemed liability represent the land and buildings provided for the City's use from various religious and charitable groups. Any increases in payments are determined by the Secretary of State for Schools.

The Foundation schools deemed liability was extinguished by the transfer of assets to the foundation from the Council at the inception of the arrangement

All assets are accounted for on the same basis as similar assets where the Council holds the freehold title. The assets are detailed in the note below

The table below shows future payments due under concession arrangements, excluding future increases, for the next 30 years. It is possible for the Voluntary Arrangement School agreements to exceed 90 years, but the disclosure of such additional periods has not been made.

	<b>Total</b>	<b>Interest</b>	<b>Liability</b>	<b>Services</b>
	<b>£m</b>	<b>£m</b>	<b>Movement</b>	<b>£m</b>
			<b>£m</b>	
Within 1 year	<b>48.12</b>	9.65	5.05	33.42
Between 2 and 5 years	<b>198.05</b>	34.33	20.83	142.89
Between 6 and 10 years	<b>198.43</b>	39.56	24.73	134.14
Between 11 and 15 years	<b>86.82</b>	31.34	16.12	39.35
Between 16 and 20 years	<b>89.34</b>	23.70	24.10	41.53
Between 21 and 25 years	<b>65.07</b>	12.65	24.18	28.22
Between 26 and 30 years	<b>49.19</b>	5.15	25.17	18.87

The amounts due under concession agreements are as follows:

	2008/09 £m	2009/10 £m
<b>Opening Liability</b>	<b>114.21</b>	<b>143.59</b>
Interest	8.99	9.85
Repayment	(12.45)	(14.46)
Lifecycle costs	32.84	1.20
<b>Closing Liability</b>	<b>143.59</b>	<b>140.18</b>

The value of assets held under concession agreements are as follows:

	Land £m	Buildings £m	Plant £'m	Total £m
<b>Opening position at 1/4/08</b>	<b>0</b>	<b>355.18</b>	<b>61.31</b>	<b>416.49</b>
Additions	0	32.84	0	32.84
Depreciation charged	0	(4.98)	(2.11)	(7.09)
<b>Position at 31/3/09</b>	<b>0</b>	<b>383.04</b>	<b>59.20</b>	<b>442.24</b>
Additions	0	1.20	0	1.20
Impairment on recognition	0	(44.34)	0	(44.34)
Depreciation charged	0	(6.04)	(2.11)	(8.15)
<b>Closing position at 31/3/10</b>	<b>0</b>	<b>333.86</b>	<b>57.09</b>	<b>390.95</b>

The concession agreement liability maturity is as follows:

	2008/09 £m	2009/10 £m
Payments due within 1 year	14.46	14.89
Payments due up to 5 years	58.94	58.42
Payments due in more than 5 years	280.62	266.24
Total Payments Due	354.01	339.55
Interest	(166.25)	(156.40)
Future Expenditure	(44.18)	(42.98)
<b>Total Liability</b>	<b>143.59</b>	<b>140.18</b>

The liability due is as follows:

	2008/09 £m	2009/10 £m
Due within 1 year	3.41	5.05
Due up to 5 years	18.93	20.83
Due in more than 5 years	121.25	114.30
<b>Total Liability</b>	<b>143.59</b>	<b>140.18</b>

## 10. 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). During 2009/10 the Council received £768.2m in respect of 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 under spending 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 2009/10.

	Central Expenditure £m	Individual School Budget £m	Total £m
Final DSG for 2009/10	64.5	703.7	768.2
Brought forward from 2008/09	0.4	0	0.4
Carry forward to 2009/10 agreed in advance			0
Agreed budgeted distribution in 2009/10	<b>64.9</b>	<b>703.7</b>	<b>768.6</b>
Actual central expenditure	<b>(65.1)</b>	<b>0</b>	<b>(65.1)</b>
Actual ISB deployed to schools	<b>0</b>	<b>(703.7)</b>	<b>(703.7)</b>
Local authority contribution for 2009/10	<b>0</b>	<b>0</b>	<b>0</b>
Carry forward to 2010/11	<b>(0.2)</b>	<b>0</b>	<b>(0.2)</b>

## 11. Capital Expenditure

The Council's capital expenditure on an accruals basis, including amounts owing but not paid in 2009/10, analysed between types of asset, is summarised below. This also includes revenue expenditure funded from capital under statute.

Capital Expenditure Type of Asset	Restated 2008/09 £m	2009/10 £m	Capital Financing Source	Restated 2008/09 £m	2009/10 £m
Other Land & Buildings	171.6	171.3	Borrowing	87.2	48.9
Vehicles & Equipment	24.7	17.9	Prudential Borrowing	408.0	331.3
Investment Properties	92.3	0	Capital Receipts	0.3	38.1
Infrastructure	21.1	29.5	Grants & Contributions	161.0	222.0
Community Assets	4.8	4.4	Revenue	0	0.1
Council Dwellings	126.0	122.9			
Intangible Assets	9.0	5.5			
<b>Total Capital Expenditure re Fixed Assets</b>	<b>449.5</b>	<b>351.5</b>			
Gross Revenue Expenditure Funded from Capital Under Statute	201.5	285.2			
Acquisition of Share Capital	5.5	3.7			
<b>Total Capital Expenditure</b>	<b>656.5</b>	<b>640.4</b>	<b>Total</b>	<b>656.5</b>	<b>640.4</b>



## 12. Movements in Fixed Assets

Operational Assets	Council Dwellings & Garages	Other Land & Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Intangible Assets	Community Assets	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Cost or Valuation</b>							
<b>Restated Balance at 1 April 2009</b>	<b>2044.1</b>	<b>2,845.0</b>	<b>156.7</b>	<b>792.0</b>	<b>20.7</b>	<b>93.6</b>	<b>5,952.1</b>
Additions in Year	122.9	93.3	17.9	29.5	5.5	4.4	273.5
Disposals	(10.8)	(26.5)	0	0	0	(0.7)	(38.0)
Transfers	0	27.4	1.5	14.9	0.5	(1.9)	42.4
Impairments	(122.9)	(180.8)	0	0	0	0	(303.7)
Revaluations	129.6	138.7	0	0	0	1.7	270.0
Adjustments for depreciation on revalued	(40.7)	(47.1)	0	0	0	0	(87.8)
<b>At 31 March 2010</b>	<b>2,122.2</b>	<b>2,850.0</b>	<b>176.1</b>	<b>836.4</b>	<b>26.7</b>	<b>97.1</b>	<b>6,108.5</b>
<b>Depreciation &amp; Impairment</b>							
Restated Balance at 1 <sup>st</sup> April 2009	(41.0)	(180.5)	(53.2)	(375.7)	(3.2)	0	(653.6)
Depreciation Charge for the Year	(40.7)	(79.2)	(16.2)	(28.7)	(5.1)	0	(169.9)
Depreciation on Disposals	0	0.4	0	0	0	0	0.4
Adjustments for depreciation on revalued assets	40.7	47.1	0	0	0	0	87.8
<b>At 31 March 2010</b>	<b>(41.0)</b>	<b>(212.2)</b>	<b>(69.4)</b>	<b>(404.4)</b>	<b>(8.3)</b>	<b>0</b>	<b>(735.3)</b>
<b>Net Book Value At 31 March 2010</b>	<b>2,081.2</b>	<b>2,637.8</b>	<b>106.7</b>	<b>432.0</b>	<b>18.4</b>	<b>97.1</b>	<b>5373.2</b>
<b>Net Book Value At 1 April</b>	<b>2,003.1</b>	<b>2,664.5</b>	<b>103.5</b>	<b>416.3</b>	<b>17.5</b>	<b>93.6</b>	<b>5,298.5</b>

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

<b>Non-Operational Assets</b>	<b>Surplus Properties</b>	<b>Investment Properties</b>	<b>Assets Under Construction</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost or value at 1 April 2009</b>				
<b>Restated Balance at 1 April 2009</b>	<b>148.9</b>	<b>256.7</b>	<b>177.8</b>	<b>583.4</b>
Additions	0	0	78.0	<b>78.0</b>
Disposals	(6.0)	0	0	<b>(6.0)</b>
Transfers	1.8	1.0	(45.2)	<b>(42.4)</b>
Revaluations	(1.7)	(7.4)	0	<b>(9.1)</b>
<b>Net Book Value at 31 March 2010</b>	<b>143.0</b>	<b>250.3</b>	<b>210.6</b>	<b>603.9</b>
<b>Net Book Value at 1 April 2009</b>	<b>148.9</b>	<b>256.7</b>	<b>177.8</b>	<b>583.4</b>

### **13. 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 2009. 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 potential for impairment arising from the current economic climate is kept constantly under review during valuation exercises.

#### **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 Department of Communities and Local Government '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.

#### **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 are valued at historic cost.

#### **Intangible assets:**

Intangible assets are shown at cost.

## 14. Land, Buildings and Other Assets

31 March 2009	Property Assets (major categories)	31 March 2010
65,081	Council Dwellings	64,682
495	Investment Properties	495
388	Schools & Nurseries	388
122	Schools provided under Concession Arrangements	122
50	Other Education Establishments	50
123	Office & Administrative Premises	123
172	Social Services Properties	172
82	Libraries	82
15	Museums & Art Galleries	15
83	Swimming Pools, Leisure Centres & Sports Stadia	83
102	Public Halls & Community Centres	102
451	Parks	451
69	Depots	69
50	Public Car Parks	50
5	Markets	5
2,507	Kilometres of Roads	2,507
26	Cemeteries and Crematoria	26
1	Waste Disposal Complex	1
32	Surplus Properties	32

## 15. Commitments under Capital Contracts

The Council has to plan its capital spending in advance of work proceeding. Thus, at 31 March 2010 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:

	2010/11 (£m)	2011/12 (£m)	Subsequent Years £m	Total (£m)
Concession Agreement Lifecycle	0	0	42.6	<b>42.6</b>
Summerhill Terrace Refurbishment	3.0	0	0	<b>3.0</b>
Council House and Extension Roof and Wall Repairs	1.7	1.0	0	<b>2.7</b>
Voice Over IP Telephony Services	1.4	0	0	<b>1.4</b>
Yardley Green New Primary School	6.0	0	0	<b>6.0</b>
Eastside Academy	10.0	0	0	<b>10.0</b>
Midland Arts Centre Redevelopment	6.0	0	0	<b>6.0</b>
Birmingham New Library	39.8	70.9	59.9	<b>170.6</b>
Harborne Pool	6.4	5.0	2.0	<b>13.4</b>
Millennium Point Multi Storey Car Park	6.7	0	0	<b>6.7</b>
Selly Oak New Road Phase 2	1.8	0.4	0	<b>2.2</b>
New Build Council Housing Phase 1	14.1	0	0	<b>14.1</b>
New Build Council Housing Phase 2	12.5	0	0	<b>12.5</b>
NEC Refinancing – Visitors Improvement Programme	4.9	0	0	<b>4.9</b>
<b>Total</b>	<b>114.3</b>	<b>77.3</b>	<b>104.5</b>	<b>296.1</b>

## 16. Leasing

During 2009/10, the Council paid £0.007m (2008/09: £0.006m) in finance lease rentals and £1.400m (2008/09 £2.600m) in operating lease rentals.

As at 31 March 2010, the Council has a commitment to meet the following rental charges with the lessors shown below on both finance and operating leases, which consist entirely of vehicles, plant, and equipment.

	<b>Finance Leases £m</b>	<b>Operating Leases £m</b>	<b>Lessor</b>	<b>£'m</b>
			Barclays	.07
			Bank of Scotland	0.4
2010/11	0.1	0.8	CHG	.04
2011/12	0.1	0.3	Siemens	.07
2012/13	0.1	0.2	Sovereign Finance	0.8
<b>Total</b>	<b>0.3</b>	<b>1.3</b>		<b>1.38</b>

The Council has no finance leases in respect of vehicles, plant, and equipment that are still in primary rental. As the principal value of the assets has been fully repaid all payments on finance leases are treated as interest.

Rentals payable on operating leases in 2010/11 on leases maturing in:

<b>Year</b>	<b>Rentals Payable £m</b>
2010/11	0.8
2011/12 to 2016/17	0.6
Thereafter	0
<b>Total</b>	<b>1.4</b>

## 17. Segmental Analysis of Net Assets

The Council had net assets of £1,542.2m as at 31 March 2010 of which £1,086.2 related to the General Fund and £501.4 to the HRA.

## 18. Investments

<b>31 March 2009 £m</b>		<b>31 March 2010 £m</b>
	<b>Long Term Investments</b>	
365.2	Unlisted Investments intended to be held for the medium or long term at cost or valuation*	361.3
	<b>Short Term Investments</b>	
173.5	Temporary Money Market Deposits and Section 106 Monies	89.8
<b>538.7</b>	<b>Total Investments</b>	<b>451.1</b>

\*This figure includes an investment of £285.3m 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 32). 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. Following the revaluation in August 2010, the value of Birmingham Airport is increased by £41m.

## 19. Long Term Debtors

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

<b>Restated 31 March 2009 £m</b>		<b>31 March 2010 £m</b>
0.5	Mortgages:- Former Council House Tenants	0.4
17.6	Birmingham Technology Group	17.3
1.5	Employee Loans	1.7
0.9	National Exhibition Centre (Developments) Plc	1.3
0.3	Learning & Skills Council	0
16.8	Millennium Point and Think Tank	15.4
6.5	Deferred Capital Receipts	4.8
0	Warwickshire County Cricket Club	1.6
0.3	Other Long Term Debtors	0.8
<b>44.4</b>	<b>Total Long Term Debtors</b>	<b>43.3</b>

## 20. Stocks and Stores

An analysis of stocks and stores is shown:

<b>31 March 2009 £m</b>		<b>31 March 2010 £m</b>
0.2	Children, Young People and Families	0.3
2.0	Development Directorate	2.0
0.9	NEC	0
<b>3.1</b>	<b>Total</b>	<b>2.3</b>

Note: Development Directorate figures aggregate Local Service, Transportation and Libraries and Museums

## 21 .Debtors

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

<b>Restated 31 March 2009 £m</b>		<b>31 March 2010 £m</b>
	Sums due from:	
69.0	Council Tax Payers	75.5
24.3	Central Government Debtor	61.1
4.3	Major Precepting Authorities	4.6
26.9	Residential & Commercial Rents	22.3
62.3	Government Departments	53.9
151.0	Others	136.7
<b>337.8</b>		<b>354.1</b>
(50.1)	Provision for Bad Debts	(55.9)
<b>287.7</b>	<b>Total Debtors</b>	<b>298.2</b>

## 22. Cash

Of the total cash held by the Council, £33.9m was held by schools operating their own bank accounts under schemes of delegated financial management.

## 23. Financial Instruments

### Categories of Financial Instruments

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

	Long term		Current	
	Restated 31 March 2009 £m	31 March 2010 £m	Restated 31 March 2009 £m	31 March 2010 £m
<b>Financial liabilities at amortised cost:</b>				
Public Works Loans Board	(1,656.4)	(1,787.4)	(20.5)	(31.2)
Listed bonds	(356.8)	(353.5)	(20.3)	(20.2)
Other market loans	(90.0)	(120.4)	(275.5)	(121.4)
Former County Council debt	(68.2)	(66.3)	(1.7)	(1.9)
Concession Arrangement Liabilities	(140.2)	(135.1)	(3.4)	(5.1)
Other financial liabilities	(3.1)	(2.8)	(0.1)	(0.5)
Creditors	0	0	(332.5)	(362.5)
Cash Overdrawn	0	0	(72.1)	(63.7)
<b>Total financial liabilities</b>	<b>(2,314.7)</b>	<b>(2,465.5)</b>	<b>(726.1)</b>	<b>(606.5)</b>
<b>Loans and receivables:</b>				
Money Market Funds	0	0	24.0	28.9
Other market investments	35.0	0	133.0	46.8
Other loans and receivables	16.4	17.0	38.0	35.6
Debtors	0	0	177.9	159.0
Cash in Hand	0	0	71.8	68.4
<b>Total loans and receivables</b>	<b>51.4</b>	<b>17.0</b>	<b>444.7</b>	<b>338.7</b>
Available for sale	0	67.0	0	0
Unquoted equity investments at cost	33.7	9.0	0	0
<b>Total financial assets</b>	<b>85.1</b>	<b>93.0</b>	<b>444.7</b>	<b>338.7</b>

This analysis of Financial Instruments relate to the Balance Sheet as follows:

	Restated 31 March 2009	31 March 2010
<b>Liabilities</b>		
Balance Sheet:		
Long Term Borrowing	(2,246.9)	(2,396.4)
Short Term Borrowing	(316.3)	(177.8)
Deferred Liabilities	(73.0)	(71.6)
Creditors	(420.7)	(469.0)
Cash Overdrawn	(72.1)	(63.7)
Less creditors that are a legal obligation and not a Financial Instrument	88.2	106.5
	<b>(3040.8)</b>	<b>(3072.0)</b>

Financial Instrument Analysis		
Long Term	(2,314.7)	(2,465.5)
Current	(726.1)	(606.5)
	<b>(3040.8)</b>	<b>(3072.0)</b>
<b>Assets</b>		
Balance Sheet:		
Long Term Investments	365.2	361.3
Other Investments	173.5	89.8
Long Term Debtors	44.4	43.3
Debtors	287.7	298.2
Cash in Hand	71.8	68.4
	942.6	861.0
Less excluded from Financial Instruments		
NEC Finance Bonds excluded on consolidation	296.5	285.3
Deferred Capital Receipts	6.5	4.8
Debtors that are legal obligations	159.9	195.1
Provision for Bad Debts	(50.1)	(55.9)
	412.8	429.3
	<b>529.8</b>	<b>431.7</b>
Financial Instrument Analysis		
Long Term	85.1	93.0
Current	444.7	338.7
	<b>529.8</b>	<b>431.7</b>

#### Income and Expenditure Account - 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					
	Measured at Amortised Cost		Loans and Receivables		Available for Sale Assets		Total	
	31 March		31 March		31 March		31 March	
	2009	2010	2009	2010	2009	2010	2009	2010
	£m	£m	£m	£m	£m	£m	£m	£m
Interest Income /Expense	124.3	128.9	(34.8)	(20.4)	0	0	(34.8)	(20.4)
Losses on Derecognition	0	0	0	0	0	0	0	0
Losses on Restatement	0	0.7	0	0	0	0	0	0
<b>Net Amounts for the Year</b>	<b>124.3</b>	<b>129.6</b>	<b>(34.8)</b>	<b>(20.4)</b>	<b>0</b>	<b>0</b>	<b>(34.8)</b>	<b>(20.4)</b>
Adjustment in the Statement of Movement on the HRA Balance	2.3	1.8	0	0	0	0	0	0
Adjustment in the Statement of Movement on the General Fund Balance	0.9	0.1	(10.7)	(11.8)	0	0	(10.7)	(11.8)
<b>Net Amounts Affecting Balances</b>	<b>127.5</b>	<b>131.5</b>	<b>(45.5)</b>	<b>(32.2)</b>	<b>0</b>	<b>0</b>	<b>(45.5)</b>	<b>(32.2)</b>

## 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.

	<b>Restated 31 March 2009 £m</b>	<b>31 March 2010 £m</b>
<b>Financial Liabilities at Amortised Cost:</b>		
Public Work Loans Board	(2,035.9)	(2,090.8)
Listed Bonds	(356.6)	(266.8)
Other Market Loans	(397.8)	(261.9)
Former County Council Debt	(69.9)	(68.2)
Other Financial Liabilities	(3.2)	(3.3)
Concession Agreement Liabilities	(143.6)	(140.2)
Cash Overdrawn	(72.1)	(63.7)
Creditors	(332.5)	(362.5)
<b>Total Financial Liabilities</b>	<b>(3,411.6)</b>	<b>(3,257.4)</b>
<b>Loans and Receivables:</b>		
Money Market Funds	24.0	28.9
Other Market Investments (i.e. Treas.)	168.0	46.8
Other Loans and Receivables	54.4	52.6
Cash in Hand	71.8	68.4
Debtors	177.9	159.0
<b>Total Loans and Receivables</b>	<b>496.1</b>	<b>355.7</b>
Available For Sale	0	67.0
Unquoted Equity Investments at Costs	33.7	9.0
<b>Total Financial Assets</b>	<b>529.8</b>	<b>431.7</b>

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

The 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. Overall these procedures require the Council to manage risk in the following ways:

- a. by formally adopting the requirements of the Code of Practice
- b. by approving annually in advance prudential indicators for the following three years limiting the Council's overall borrowing, its maximum exposure to fixed and variable rates, and the maturity structure of its debt.
- c. by approving an investment strategy for the forthcoming year in setting out its criteria for both investing and selecting investment counterparties in compliance with the government guidance.

Credit risk:



The Council makes investments for treasury management purposes 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:

<b>Investments:</b>	<b>Lending limit</b>	<b>FITCH individual and support rating</b>	<b>FITCH short term rating</b>
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 2009/10. No treasury investments were impaired or in arrears of payments due to the Council at 31 March 2010.

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.

**Sensitivity to 1% increase in interest rates at 31 March 2010:**

	<b>£m</b>
Increase in Interest Payable (1)	0.1
Increase in Interest Receivable (1)	(0.4)
Increase in Government Grant Receivable	0
Impact on Income and Expenditure Account	(0.3)
Impact on Recharges to the HRA	0
Impact on General Fund	(0.3)
Increase in Fair Value of Financial Liabilities (2)	(355.5)
Increase in Fair Value of Loans and Receivables (2)	18.7
Increase in Value of Available for Sale Investments	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 <sup>(1)</sup>: applied to short term and variable rate instruments

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

## Maturity analysis of financial liabilities:

	Loans and Receivables		Financial Liabilities	
	Restated 31 March 2009 £m	31 March 2010 £m	Restated 31 March 2009 £m	31 March 2010 £m
Less than One Year - Cash	71.8	68.4	(72.1)	(63.7)
Less than One Year – debtors and creditors	177.9	159.0	(332.5)	(362.5)
Less than One Year – other financial instruments	195.0	111.3	(321.5)	(180.3)
Between One and Two Years	35.6	0.6	(15.4)	(7.3)
Between Two and Five Years	1.7	1.6	(124.8)	(257.4)
Between Five and Ten Years	3.1	3.0	(239.3)	(293.9)
Between Ten and Twenty Years	8.6	9.5	(336.4)	(319.1)
Between Twenty and Forty Years	2.4	2.3	(971.8)	(1011.1)
Over Forty Years	0	0	(627.0)	(576.7)
Equity investments with indeterminate maturity	33.7	76.0	0	0
<b>Total Financial Liabilities</b>	<b>529.8</b>	<b>431.7</b>	<b>(3,040.8)</b>	<b>(3,072.0)</b>

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 36 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.

The Financial Instruments Adjustment Account Reserve accounts for the difference between the Code of Practice on Local Authority Accounting (SORP) and any statutory guidance. In 2009/10 the movement on this reserve was £2.6m (2008/09 £3.1m) relating to the premia and discounts on loans arising from rescheduling that had previously been written off.

## 24. Creditors

An analysis of creditors is shown below:

Restated 31 March 2009 £m		31 March 2010 £m
56.4	General Creditors	66.1
38.3	Central Government	67.8
33.8	HM Collector of Taxes (Income Tax & National Insurance)	28.8
60.4	Receipts in Advance	141.4
62.9	Amounts Owed to and on behalf of Employees	20.4
15.9	Collection Fund	11.3
153.0	Other Creditors	133.2
<b>420.7</b>	<b>Total Creditors</b>	<b>469.0</b>

The figure of £129.0m relating to Amounts Owed to and on behalf of Employees includes accrued pension contributions payable to the Local Government Pension Scheme (£8.8m) and the Teachers Pension Scheme (£7.7m).

## 25. 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:

Restated 31 March 2009 £m		31 March 2010 £m
69.9	Debt taken over from the former West Midlands County Council	68.2
3.0	Walsall Waste Disposal	2.9
0.1	Other	0.5
<b>73.0</b>	<b>Total Deferred Liabilities</b>	<b>71.6</b>

In previous years liabilities under the first Public Finance Initiative scheme for schools were included; however, these are now excluded as the assets are on the Council's Balance Sheet in accordance with the adoption of IFRIC 12 (Concession Agreements). See Accounting Policies section 14.

## 26. 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 £165.9m (2008/09: £64.3m) were used to finance the acquisition of fixed assets and taken to the government Grants Deferred Account. Grants received in 2007/08 and 2008/09 were amortised in line with the assets financed. A charge of £6.3m (2008/09: £3.1m) was made to the Income & Expenditure Account.

## 27. Provisions

	31 March 2009 £m	Increase in Year £m	Applied in Year £m	31 March 2010 £m
The National Exhibition Centre Limited Loan Debt	9.9	0	5.8	4.1
Equal Pay	0	168.1	0	168.1
Other	13.2	1.5	2.7	12.0
	<b>23.1</b>	<b>169.6</b>	<b>8.5</b>	<b>184.2</b>

The NEC provision detailed in the table above, relates to the amortised premium received for the guarantee of the £73m loan stock referred to in Note 35,

In addition, the Council is 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 2010 the amount of the loan guaranteed was £200m (2008/09: £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.

A new provision for Equal Pay has been established. For details of this refer to Note 32 (iv).

## 28. Revaluation Reserve

The Revaluation Reserve contains the contra entries from the revaluation of the Council's fixed assets since 1 April 2007. Its purpose is to record unrealised net gains from valuations. The balance on the reserve represents the amount by which the current value of fixed assets carried on the Balance Sheet is greater than the depreciated historic cost. 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	2009/10 £m
<b>Opening Balance</b>	<b>(180.1)</b>
Revaluations of Fixed Assets (HRA)	(129.7)
Impairment of HRA Fixed Assets expenditure	122.9
Revaluations of Fixed Assets (General Fund)	(131.3)
Depreciation of Revalued Amounts	15.1
<b>Closing Balance</b>	<b>(303.1)</b>

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

## 29. Capital Adjustment Account

This 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 balance on this account is not mostly available to finance capital expenditure. The movements on the Capital Adjustment Account are shown below:

	2009/10 £m
<b>Opening Balance</b>	<b>(3,086.4)</b>
Financing of Capital Expenditure	
Revenue	(0.1)
Use of Capital Receipts	(38.1)
Use of Major Repairs Reserve	(65.7)
Transfer from Movement on General Balance	
Minimum Revenue Provision	(89.5)
Revenue Expenditure Funded from Capital Under Statute - Expenditure	285.2
Revenue Expenditure Funded from Capital Under Statute - Income	(63.4)
Depreciation of fixed Assets	128.8
Impairment of General Fund Assets	180.9
Other Movements	
PFI/NEC	10.8
Deferred Grant Amortisation	(8.3)
HRA Disposals and Demolitions	10.8
GF Disposals and Demolitions	33.2
Depreciation on Revalued Assets	(15.1)
HRA depreciation	40.7
<b>Closing Balance</b>	<b>(2,676.2)</b>

### 30. Earmarked Reserves

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

	Restated 31 March 2009 £m	Movement in year £m	31 March 2010 £m
Sums set aside to Finance Capital Expenditure	4.7	(4.2)	0.5
Reserves for Budgets Delegated to Schools	64.8	(0.2)	64.6
Treasury Management & Business Continuity	47.4	(36.5)	10.9
Area Based Grant	26.6	4.8	31.4
Insurance Reserve	19.3	(9.3)	10.0
Other	19.9	(4.9)	15.0
	<b>182.7</b>	<b>(50.3)</b>	<b>132.4</b>
Usable Capital Receipts	51.6	7.2	<b>58.8</b>
Housing Major Repairs Reserve	0	0	0
	<b>234.3</b>	<b>(43.1)</b>	<b>191.2</b>

The reserve in respect of budgets delegated to schools is a net figure held by schools at 31 March 2010 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.

### 31. Balances on Revenue Accounts

	31 March 2009 £m	Movement in year £m	31 March 2010 £m
General Fund	21.1	(9.7)	11.4
HRA	3.4	(1.8)	1.6
	<b>24.5</b>	<b>(11.5)</b>	<b>13.0</b>

### 32. 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 (2008/09: £73m), due in 2027.
- ii. The Council has an Accountable Body role for a range of grant funding regimes including New Deal for Communities and European Funding. This role can be project specific, e.g. New Street Gateway, 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, e.g. Aston Pride. Under this role there is a potential liability to the Council arising from non-delivery of outputs, ineligible expenditure, or disposal of assets. The Council has quantified this potential liability at 31 March 2010 of £ 539.6m and future commitments of £193.4m. 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 2008/09 is still being considered by the Department of Work and Pensions. There may be 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. Payments are envisaged in future years but the extent of these cannot be quantified at present. A provision of £168.1m has been made on the balance sheet for any future potential liabilities.
- v. The Council is currently facing litigation in respect of claims under the Trade Union and Labour Relations Consolidation Act 1992, Section 188-190 and the Employment Rights Act 1996 relating to the possibility of 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. The Council is still awaiting a final response from the West Midlands Pension Fund on this issue. It is possible that there may be an adjustment to the Council's employer pension contribution rate in future years but this cannot be confirmed until all of the actuarial assessments have been completed by the Pension Fund. Pending a complete response from the Pension Fund.

### **33. Insurance**

The Council maintains an Insurance Reserve to assist in managing claims falling against negotiated policy excesses. The policy excesses, which change from time to time, are for the major risks (2009/10 policy year):

Fire & terrorism:	£2.000m per claim
Employers Liability:	£0.500m per claim
Public Liability:	£0.150m per claim
Motor Vehicle:	£0.050m per claim up to £1.000m in aggregate p.a.

The balance on the reserve is £10.0m (2008/09: £19.3m) as shown in the table at Note 30.

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 £2.4m.

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

### **34. 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 2010, based upon the figures within the table below, were £14.3m (2008/09: £13.7m). In addition, the Council held £2.4m (2008/09: £2.2m) 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.

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

	<b>Opening Balance £m</b>	<b>Income £m</b>	<b>Expenditure £m</b>	<b>Closing Balance £m</b>
Alderson To let dwelling houses to ex-servicemen and other persons in need.	0.188	0.053	0.005	0.236
Bodenham Trust - For children with special educational needs	0.497	0.047	0.017	0.527
<b>Centre for the Child - To promote the education of children &amp; their carers</b>	0.133	0.002	0.034	0.101
<b>Charles Baker Trust - For the elderly and disabled</b>	0.237	0.009	0.002	0.244
Clara Martineau Trust - For children with special educational needs	2.385	0.784	0.099	3.070
<b>Cropwood Estate – management of the estate</b>	0.285	0.004	0.019	0.270
<b>Girls Night Shelter for women and girls in need or distress</b>	0.341	0.0	0.341	0.0
Holinsworth Fund - To further the work of voluntary hospitals	0.131	0.032	0.003	0.160
Museum & Art Gallery Development Trust - Enhancement of city museums	0.554	0.072	0	0.626
<b>The Elford Trust - Healthy recreation for Birmingham citizens</b>	3.212	0.048	0.114	3.146
<b>The Harriet Louisa Loxton Charity - For the aged and infirm</b>	1.202	0.262	0.019	1.445
The Lord Mayor's Charity Appeal - For charitable purposes	0.199	0.095	0.076	0.218
<b>Highbury Trust</b> To use the bequest for the benefit of the citizens of Birmingham	4.000	0.206	0.206	4.000
Other	0.364	0.084	0.195	0.253
<b>Total</b>	<b>13.728</b>	<b>1.696</b>	<b>1.128</b>	<b>14.296</b>

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

	<b>Restricted Funds Closing Balance £m</b>	<b>Unrestricted Funds Closing Balance £m</b>	<b>Total Closing Balance £m</b>
Alderson To let dwelling houses to ex-servicemen and other persons in need.	0.008	0.228	0.236
Bodenham Trust - For children with special educational needs	0.017	0.510	0.527
<b>Centre for the Child - To Promote the education of Children &amp; Their Carers</b>	0.101	0	0.101

<b>Charles Baker Trust - For the elderly and disabled</b>	0.064	0.180	0.244
Clara Martineau Trust - For children with special educational needs	0.172	2.898	3.070
<b>Cropwood Estate</b>	0.226	0.044	0.270
Holinsworth Fund - To further the work of voluntary hospitals	0.136	0.024	0.160
Museum & Art Gallery Development Trust - Enhancement of city museums	0.302	0.324	0.626
<b>The Elford Trust - Healthy Recreation for Birmingham Citizens</b>	2.873	0.273	3.146
<b>The Harriet Louisa Loxton Charity - For the aged and infirm</b>	0.124	1.321	1.445
The Lord Mayor's Charity Appeal - For charitable purposes	0.025	0.193	0.218
<b>Highbury Trust</b>	4.000	0	4.000
<b>Total</b>	<b>8.048</b>	<b>5.995</b>	<b>14.043</b>

### 35. 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 32 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 Company (The National Exhibition Centre Ltd) manages the National Exhibition Centre, the LG Arena, The International Conference Centre (ICC), and the National Indoor Area (NIA). Following the signing of a new management agreement with the Council on 11<sup>th</sup> December 2009, the National Exhibition Centre Ltd. Manages and operates the venues itself as principal and acts as an agent in the collection and activities associated with the collection of sums payable under leases granted by the Council at the venues and the management of capital works.

The Council owned 5,000 £1 shares (50%) of the Company's ordinary share capital up to 11<sup>th</sup> December 2009. On that date the Council acquired a further 5,000 'A' shares from the Birmingham Chamber of Commerce and Industry which results in the Council owning all of the Company's 'A' shares. The Birmingham Chamber of Commerce and Industry hold 1 'B' share in the Company. From 11 December 2010 the company is consolidated as a wholly owned subsidiary, and no minority interest is attached to Birmingham Chamber of Commerce and Industry as their share holding does not allow for any distributions from the company.

The Council guarantees the group's solvency and provides grant funding. At 31 March 2010, the Council was guaranteeing loans of £200 million (2008/09: £200 million) to the Company. During 2009/10 the Council made reimbursements totalling £15.621m to the Company (2008/09: £17.208m). The group made a profit after tax of £2.706m during the year to 31 March 2010 (2008/09: profit of £2.558m). The group's net liabilities at 31 March 2010 amounted to £39.959m (2008/09: £23.829m)

The National Exhibition Centre Ltd and its subsidiaries NEC Finance Plc, NEC Pension Trustee Company Ltd and NEC (Ireland) Ltd are controlled companies under the Local Authorities (Companies) Order 1995 (S.I 849). This means that a number of finance and property controls in relation to these company activities.



NEC Finance Plc was formed to raise capital through the issue of listed debenture stock to finance the construction of the ICC, the NIA and the expansion of the NEC through the construction of halls 9 to 12.

The main activity of the NEC Pension Trust Company is to act as a trustee to the National Exhibition Centre Ltd Executive Pension Fund.

NEC (Ireland) Ltd was formed to provide strategic and operational management consulting services to the Convention Centre Dublin.

There was no qualification on the audit opinion on the latest audited accounts of the group.

## **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 Company was originally formed between Birmingham City Council, Emap Limited (formerly Emap Business Communications Limited) and Birmingham Chamber of Commerce and Industry. In March 2010 the Council acquired the shares and outstanding loan stock previously held by Emap Limited. The Council now holds 875 of 1,000 ordinary shares of £1 each and all of the Company's 100,000 £1 preference shares. The Council has loan notes totalling £1.568m. The loan notes are repayable in instalments commencing on 31 March 2014. The Council has also 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 2010, amounted to £0.132m (2008/09: £0.014m). The net liabilities at 31 March 2010 amounted to £1.430m (2008/09: £1.298m).

The National Exhibition Centre (Developments) Limited is a controlled company under the Local Authorities (Companies) Order 1995 (S.I 849). This means that a number of finance and property controls apply in relation to the company activities.

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 2009**

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 2009 amounted to £4.3m (2008: £5.9m) and the net assets at 31 December 2009 amounted to £17.4m (2008: £13.1m).

The draft results for the 3 months ended 31 March 2010 showed a profit before tax of £1.7m and the net assets at that time amounted to £21.8m (2009: £14.6m).

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

## **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. The Council is 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 31 March 2009 of £18.06m (30 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 and George Higginson and Son 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.

**Birmingham Business Support Centre Ltd  
Birmingham Science Park Aston Ltd  
Birmingham Technology (Property) Ltd  
Birmingham Technology (Property One) Ltd  
Birmingham Technology Venture Capital Ltd  
Birmingham Venture Capital Ltd  
Creative Advantage West Midlands Ltd  
Gallery 37 Foundation  
George Higginson and Son Limited  
National Exhibition Centre Finance PLC  
National Exhibition Centre (Ireland) Ltd  
The National Exhibition Centre (Developments) PLC  
NEC Pension Trustee Company Ltd  
Performances Birmingham (Enterprises) Ltd  
Performances Birmingham Ltd  
Birmingham Academy Trading Ltd  
Birmingham Asian Resource Centre  
Birmingham Carnival 2000 Ltd  
Birmingham Conservation Trust  
Birmingham Conservation Trust (Trading) Ltd  
Birmingham Economic Development Partnership Ltd  
Birmingham Hippodrome Theatre Trust Ltd  
Birmingham Research and Development Ltd  
Birmingham Research Park Ltd  
Birmingham Wheels Ltd  
Chinese Community Centre - Birmingham  
Local Leagues Limited  
Marketing Birmingham  
Matchbox Enterprises Ltd  
Millennium Point Trust  
Optima Community Association  
Rover Community Action Trust  
Service Birmingham Ltd  
The Academy of Youth Ltd  
The Birmingham Centre for Manufacturing Ltd**

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

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

The seven West Midland Districts together own all £15.4m of BAH's 6.31% preference shares (The 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 2009		Year to 31 March 2010
£m		£m
15.7	Net Profit before Tax	4.3
9.9	Net Profit after Tax	0.6
259.5	Net Assets including pension liability at 31 March	257.0
2.0	Council Dividend Income	0.4

## 37. General Government Grants

Included within the Income and Expenditure Account, under the heading of General Government Grants, are the following non-specific grants:

2008/09		2009/10
£m		£m
78.2	Revenue Support Grant	123.8
92.2	Area Based Grant	104.3
8.7	PFI Grant	8.7
179.1	Total	236.8

## 38. 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. The Council's approach to the possible introduction of the Euro will be affected by any change in policy following the 2010 change of Government.

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.

### 39. Post Balance Sheet Events

- i. In his budget statement on 22 June, the Chancellor announced that the government would start to increase public service pensions in line with the consumer price index (CPI) rather than the retail price index (RPI), which has been the practice in the past. As a result, future pension increases under the West Midlands Pension Fund and the Teachers' Pension Scheme are expected to be slightly lower, on average, than would have been the case if this change had not been made. This change is estimated to reduce the FRS17 benefit obligations by between 5% and 8%. The precise financial effect will be taken into account in the FRS17 for the financial year ending 31 March 2011.
- ii. On 5th July the Education Secretary announced a curtailment of the Building Schools for the Future Programme. The Council, together with partners in the Local Education Partnership, had already made significant investment in aspects of the Programme which will not be continued. The extent of the Council's liabilities arising from this change were not available at the time the accounts were finalised and will be included in the 2010/11 accounts.
- iii. Birmingham City Council completed contractual discussions and put the necessary financial arrangements in place for the Birmingham Highways Management & Maintenance Private Finance Initiative (HMMPFI) with preferred bidders Amey in May 2010. The contract became operational on 7<sup>th</sup> June 2010.

The contract gives Amey responsibility for improving and maintaining 2,500km of the city's road network, nearly 100,000 street lights, as well as over 850 highway bridges, structures, and tunnels.

The 25 year, £2.7bn PFI for maintenance and management of Birmingham's highways is the UK's biggest local government highways sector PFI.

Services in the contract include:

- Investing to remove highway maintenance backlogs and raise standards;
- Upgrading the entire Street Lighting standard;
- Upgrading the Council's UTMC;
- Refurbishing the Council's tunnels;
- Maintaining all specified street furniture;
- Managing highway activity, such as inspections, assessments and utility works on the network;
- Performing on-going maintenance, to keep assets at the required standard; and
- Providing operational responsiveness for emergencies and activities such as winter gritting.

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

	Restated 2008/09 £m	2009/10 £m
(Surplus)/Deficit on Income & Expenditure Account	764.9	525.0
Provisions set aside	0	(161.1)
	<b>764.9</b>	<b>363.9</b>
Items Included Under Another Classification:		
Interest Paid	(138.6)	(138.8)
Interest Received	35.4	18.8
Capital Financing Costs	(189.2)	(221.8)
Adjust for Non-Cash Items	(705.4)	(228.9)
Items on an Accrual Basis:		
Movement in Stock	0.2	(0.8)
Movement in Debtors	33.9	10.5
Movement in Creditors	(14.1)	(48.3)
	<b>(212.9)</b>	<b>(245.5)</b>

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

	Long Term Loans	Loans Maturing in 12 Months	Other Long Term Creditors	Investments	Cash Overdrawn /(In Hand)	Net Debt
	£m	£m	£m	£m	£m	£m
<b>31 March 2009</b>	<b>2,246.9</b>	<b>316.3</b>	<b>73.0</b>	<b>(173.5)</b>	<b>0.3</b>	<b>2,463.0</b>
<b>31 March 2010</b>	<b>2,396.4</b>	<b>177.8</b>	<b>71.6</b>	<b>(89.8)</b>	<b>(4.8)</b>	<b>2,551.2</b>
<b>Movement in Year</b>	<b>149.5</b>	<b>(138.5)</b>	<b>(1.4)</b>	<b>83.7</b>	<b>(5.1)</b>	<b>88.2</b>
<b>Made up of Movements in:-</b>						
Cash						(5.1)
Borrowings						11.0
Investments						83.7
Repayment of Deferred Liabilities						(1.4)
						<b>88.2</b>

#### 42. Analysis of changes in net debt

	Restated 31 March 2009 £m	Cash Flow £m	31 March 2010 £m
Cash Overdrawn/(In Hand)	0.3	(5.1)	(4.8)
Due within One Year	316.3	(138.5)	177.8
Due after One Year	2,246.9	149.5	2396.4
Investments	(173.5)	83.7	(89.8)
Deferred Liabilities	73.0	(1.4)	71.6
<b>Total</b>	<b>2,463.0</b>	<b>88.2</b>	<b>2551.2</b>

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

	<b>Restated 2008/09 £m</b>	<b>2009/10 £m</b>	<b>Change In Year £m</b>
Temporary Investments & Short Term			
Deposits	173.5	89.8	<b>(83.7)</b>
Cash	71.8	68.4	<b>(3.4)</b>
Bank overdraft	(72.1)	(63.7)	<b>8.4</b>
<b>Increase/(Decrease) in year</b>	<b>173.2</b>	<b>94.5</b>	<b>(78.7)</b>

#### 44. 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.

	2008/09 £m	2009/10 £m
<b>Revenue</b>		
Housing Subsidy	0.0	7.8
Rent Allowances	163.2	252.3
Council Tax Benefit	88.2	98.9
European Regional Development Fund	2.1	0.8
Education Grants	1,037.3	1,041.2
PFI Grant	4.2	8.7
Other	399.8	406.4
	<b>1,694.8</b>	<b>1,816.1</b>
<b>Capital</b>		
Education Capital Grants	41.4	38.5
Other	117.2	167.8
	<b>158.6</b>	<b>206.3</b>

#### 45. Collection Fund Adjustment Account

This account has been introduced under the 2009 SORP in order to accommodate accounting for council tax on an accruals basis. The difference between the amount credited to the Income and Expenditure Account for the amount of council tax collected in the year, and the amount required to be credited to the General fund in the year under regulation, is reversed through the Statement of Movement on the General Fund Balance, and transferred to the Collection Fund Adjustment Account.

#### 46. Capital Contributions Unapplied

This consists of contributions received from developers in respect of S.106 agreements.

## Housing Revenue Account Income and Expenditure Account

Restated 2008/09 £'000		2009/10 £'000
	<b>Income</b>	
(198,610)	Dwellings Rents (Gross)	(203,314)
(6,337)	Non Dwellings Rents	(5,716)
(20,593)	Charges for Services & Facilities	(23,024)
0	HRA Subsidy Receivable	(7,799)
0	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP	0
<b>(225,540)</b>	<b>Total Income</b>	<b>(239,853)</b>
	<b>Expenditure</b>	
67,965	Repairs & Maintenance	66,323
59,211	Supervision & Management	65,750
4,744	Rent, Rates, Taxes and Other Charges	4,644
9,097	Negative HRA Subsidy Payable	0
0	Negative HRA Subsidy transferable to the General Fund under transitional arrangements	0
130,271	Depreciation & Impairment Charge	40,722
369,243	Impairment due to economic downturn	0
121	Debt Management Costs	118
3,508	Provision for Bad or Doubtful Debts	2,997
0	Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	0
<b>644,160</b>	<b>Total Expenditure</b>	<b>180,554</b>
<b>418,620</b>	<b>Sub-Total</b>	<b>(59,299)</b>
	<b>Net Cost of HRA Services as included in the whole Authority Income and Expenditure Account</b>	
38,681	Interest Payable & Similar Charges	32,560
2,269	Amortisation of Premiums and Discounts	1,773
(370)	Interest and Investment Income	(230)
2,146	(Gains)/ Losses on the disposal of Fixed Assets	3,995
1,893	Pension Interest Cost & Expected Return on Pension Assets	5,036
<b>463,239</b>	<b>(Surplus) or Deficit for the Year on HRA Services</b>	<b>(16,165)</b>



## Statement of Movement on the Housing Revenue Account Balance

<b>Restated 2008/09 £'000</b>		<b>2009/10 £'000</b>
463,239	(Surplus)/Deficit for the year on the HRA Income and Expenditure Account	(16,165)
(369,243)	Impairment due to economic downturn	0
(89,261)	Reversal of Impairment Charge	0
	Transfer to/(from) Major Repairs Reserve	25,000
(2,468)	Appropriation to/(from) Pension Reserves	(3,134)
(2,146)	(Gains)/ Losses on the disposal of Fixed Assets	(3,995)
0	Capital Expenditure funded by HRA	54
(3,472)	HRA Balance Brought Forward	(3,351)
<b>(3,351)</b>	<b>HRA Balance Carried Forward</b>	<b>(1,591)</b>

## Collection Fund Income and Expenditure Account

2008/09 £'000		Note 1	2009/10	
			£'000	£'000
	<b>Income</b>			
	Council Tax:			
(273,496)	Income	<u>12</u>	(275,681)	
(1,094)	Council Tax written back		(2,115)	
	Transfers from General Fund:			
(88,217)	Council Tax Benefit		(98,889)	
0	Decrease in provision for bad debts	<u>15</u>	0	
<b>(362,807)</b>				<b>(376,685)</b>
	Business Ratepayers:	<u>13</u>		
(360,833)	Income collectable		(363,192)	
	Community Charge:			
0	Income collected resulting in a reduction to provision for bad debts		(1)	
<b>(360,833)</b>				<b>(363,193)</b>
	Contribution towards previous year's Deficit:	<u>14</u>		
0	Birmingham City Council		0	
0	West Midlands Fire & Rescue Authority		0	
0	West Midlands Police Authority		0	
<b>0</b>				<b>0</b>
<b>(723,640)</b>	<b>Total Income</b>			<b>(739,878)</b>
	<b>Expenditure</b>			
	Demands on the Collection Fund:	<u>14</u>		
314,263	Birmingham City Council		323,874	
78	Frankley in Birmingham Parish		86	
13,402	West Midlands Fire & Rescue Authority		13,898	
27,739	West Midlands Police Authority		29,035	
<b>355,482</b>				<b>366,893</b>
	Contribution from previous year surplus:			
6,503	Birmingham City Council		0	
280	West Midlands Fire & Rescue Authority		0	
568	West Midlands Police Authority		0	
7,351				<b>0</b>
	Council Tax:			
1,839	Increase in Provision for Bad Debts	<u>15</u>	5,056	
0	Debts written off		0	
	Business Rates:			
358,871	Payment to National Pool		361,219	
1,962	Cost of Collection Allowance		1,974	
<b>362,672</b>				<b>368,249</b>
<b>725,505</b>	<b>Total Expenditure</b>			<b>735,142</b>
1,865	(Surplus) / Deficit For the Year			(4,736)
(1,838)	(Surplus) Brought Forward			27
<b>27</b>	<b>(Surplus) / Deficit Carried Forward</b>			<b>(4,709)</b>

## Group Income and Expenditure Account

Restated 2008/09 £'000		2009/10	
		£'000	£'000
342,354	Adult Social Care	360,604	
17,656	Central Services to the Public	13,562	
445,630	Children's and Education Services	577,064	
1,572	Court Services	1,587	
240,499	Cultural, Environmental & Planning Services	271,556	
105,650	Highways, Roads & Transport	99,619	
474,536	Housing Services	(17,070)	
17,497	Corporate & Democratic Core	39,529	
(9,875)	Non Distributed Costs	6,474	
<b>1,635,519</b>	<b>Net Cost of Services</b>		<b>1,352,925</b>
(51,934)	Share of (Income) of Joint Ventures	(56,492)	
49,492	Share of Expenditure of Joint Ventures	54,516	
<b>(2,442)</b>	Share of (Surplus)/Deficit of Joint Ventures		(1,976)
(2,617)	Share of (Surplus)/Deficit of Associates		(6)
<b>1,630,460</b>	<b>Group Net Cost of Services</b>		<b>1,350,943</b>
78	Parish Precept		86
(17,241)	(Surpluses)/Deficits on Trading Undertakings		(19,442)
28,439	Levies		23,271
7,917	Contribution of Housing Capital Receipts to Government Pool		5,929
163,059	External Interest Charges		165,658
52,322	Pensions Interest Cost and expected return on pensions assets		87,550
(12,339)	(Gains) / Losses on Disposal of Fixed Assets		26,496
(35,707)	Interest & Investment Income		(18,872)
23	Corporation Tax Payable by Subsidiary		19
0	Share of Interest Payable by Joint Ventures		0
711	Share of Tax Payable by Joint Ventures		568
2,629	Share of Interest Payable by Associates		0
0	Share of Tax Payable by Associates		0
0	Profit on Discontinued Operations		0
1,279	Minority Interest Share of Surplus/(Deficit) of Subsidiaries		945
<b>1,821,630</b>	<b>Net Operating (Income)/Expenditure</b>		<b>1,623,151</b>
<b>(1,059,682)</b>	<b>Income From Taxpayers/Government Grants</b>		<b>(1,101,242)</b>
<b>761,948</b>	<b>(Surplus) / Deficit for Year</b>		<b>521,909</b>

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

	Restated 2008/09 £'000	2009/10 £'000
(Surplus)/Deficit on the Income & Expenditure Account for the year	764,952	525,018
Adjustments for Transaction with other Group Entities	0	0
<b>Deficit on the Group Income &amp; Expenditure Account Attributable to the Council</b>	<b>764,952</b>	<b>525,018</b>
(Surplus)/Deficit Attributable to:		
Joint Ventures	(1,731)	(1,408)
Associates	6	
Subsidiaries	(1,279)	(1,701)
<b>Deficit on the Group Income and Expenditure Account</b>	<b>761,948</b>	<b>521,909</b>

## Statement of Group Total Recognised Gains and Losses

	Restated 2008/09 £'000	2009/10 £'000
(Surplus)/Deficit on Group Income & Expenditure Account for the year	761,948	521,909
(Surplus)/Deficit arising on revaluation of fixed assets	46,672	(230,588)
Actuarial (Gains)/ Losses on pension fund assets and liabilities	(135,392)	557,991
(Surplus)/Deficit on Collection Fund Attributable to Council		(41,298)
Other General Fund movements	(9,807)	2,941
<b>Total Recognised (Gains) and Losses for the Year</b>	<b>663,421</b>	<b>810,955</b>
<b>Balance Sheet Movement</b>	<b>(663,421)</b>	<b>(810,955)</b>

## Group Balance Sheet

Restated 31 March 2009 £'000		31 March 2010	
		£'000	£'000
6,628,314	Fixed Assets		6,882,174
44,378	Long Term Debtors		43,265
	Long Term Investments:		
	Investment in Joint Ventures:		
18,937	Share of Gross Assets	18,847	
(14,317)	Share of Gross Liabilities	(12,795)	
4,620		6,052	
68,139	Other Investments	63,196	
72,759	Total Long Term Investments		69,249
<b>6,745,451</b>	<b>Total Long Term Assets</b>		<b>6,994,689</b>
561,116	Current Assets		511,227
(859,057)	Current Liabilities		(785,069)
<b>6,447,510</b>	<b>Total Assets Less Current Liabilities</b>		<b>6,720,847</b>
(3,584,256)	Long Term Liabilities		(4,668,548)
<b>2,863,254</b>	<b>Total Assets Less Liabilities</b>		<b>2,052,299</b>
2,582,900	Reserves		1,746,757
13,233	General Fund Balances		(2,942)
3,322	Other Balances		4,168
2,599,455	<b>Group Balances and Reserves</b>		<b>1,747,982</b>
263,799	Minority Interests		798
0	Negative Goodwill		303,518
<b>2,863,254</b>	<b>Total Balances and Reserves</b>		<b>2,052,299</b>

## Group Cash Flow Statement

Restated 2008/09 £m		2009/10	2009/10
		£m	£m
(235.9)	<b>Net Cash (Inflow)/Outflow from Revenue Activities</b> (Note 19)		(256.4)
	<b>Returns on Investments &amp; Servicing of Finance</b>		
	<b>Cash Outflows:</b>		
180.7	Interest Paid	163.1	
	<b>Cash Inflows:</b>		
(42.2)	Interest Received	(18.9)	
<b>138.5</b>			<b>144.2</b>
(97.4)	<b>Capital Expenditure &amp; Financial Investment</b>		(112.2)
	<b>Cash Outflows:</b>		
417.9	Purchase of Fixed Assets	354.1	
7.0	Purchase of Long Term Investments	(27.8)	
215.1	Other Capital Cash Payments	222.2	
	<b>Cash Inflows:</b>		
(63.4)	Sale of Fixed Assets	(88.0)	
(27.8)	Capital Contributions Received	(128.9)	
(158.6)	Capital Grants Received	(231.3)	100.3
<b>390.2</b>			<b>(11.9)</b>
<b>292.8</b>	<b>Net Cash (Inflow)/Outflow Before Financing</b>		
	<b>Management of Liquid Resources</b>		
	<b>Cash (Inflows)/Outflows</b>		
0	Net Increase/(Decrease) in Short Term Deposits		5.1
	<b>Financing</b>		
	<b>Cash Outflows:</b>		
1,867.4	Repayments of Amounts Borrowed	138.5	
	<b>Cash Inflows:</b>		
(2,165.9)	New Loans Raised – Long Term	(149.4)	
<b>(298.5)</b>			<b>(10.9)</b>
<b>(5.7)</b>	<b>Net (Increase)/Decrease in Cash</b>		<b>(17.8)</b>

# Notes to the Supplementary Financial Statements

## 1. Housing Stock

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

	1 Bed	2 Bed	3 or More Bed	Total
Flats	15,805	11,387	4,425	31,617
Houses & Bungalows	3,788	8,671	20,606	33,065
<b>Housing Stock at 31 March 2010</b>	<b>19,593</b>	<b>20,058</b>	<b>25,031</b>	<b>64,682</b>

The changes in the property numbers is analysed below:

	2008/09	2009/10
Stock at 1 April	65,807	65,081
Sales	(167)	(135)
Demolitions/Transfers	(559)	(264)
<b>Stock at 31 March</b>	<b>65,081</b>	<b>64,682</b>

The housing stock, land and other property within the HRA are valued in line with the DCLG Guidance on Stock Valuation for Resource Accounting, published in July 2005. The basis of the valuation is in accordance with the Royal Institute of Chartered Surveyors using the Existing Use Value for social housing.

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

	Restated 1 April 2009 £m	31 March 2010 £m
Council Dwellings	2,003.0	2,122.0
Other Land & Buildings	10.4	8.9
<b>Total Operational Assets</b>	<b>2,013.4</b>	<b>2,130.9</b>
Non Operational Assets	46.7	40.7
<b>Total</b>	<b>2,060.1</b>	<b>2,171.6</b>

The change reflects properties lost through sales, demolitions, acquisitions, and revaluation of Beacon Values and depreciation. £123m was spent on HRA dwellings during the year but impaired as not adding value to the dwellings. This impairment was charged to the Capital Adjustment Account and did not, therefore, represent a charge to the HRA. The HRA has been charged with a gain of £2.8m 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

- The vacant possession value of dwellings within the authority's HRA, valued in accordance with the Guidance, as at 1 April 2009 is £4,262.4m
- The difference between the above figure and the figure of £2,122.0m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the DCLG's stock valuation model.

### 3. Revenue Expenditure Funded from Capital Under Statute

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 2009/10.

### 4. Impairment Charges

Impairment charges reflect a reduction in the value of fixed assets due to the economic environment or something that 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 £123m 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.

### 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 figure for 2009/10 includes an advance of £25.0m from the 2010/11 allocation that was agreed by the DCLG.

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

	2008/09 £m	2009/10 £m
<b>Opening Balance on the Major Repairs Reserve on 1 April</b>	0	0
The Amount transferred to the Major Repairs Reserve during the year	41.0	40.7
Transfer to Major Repairs Reserve from 2010/11 allocation	0	25.0
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	(41.0)	(65.7)
<b>The Balance on the Major Repairs Reserve on 31 March</b>	<b>0</b>	<b>0</b>

### 6. Housing Revenue Account Subsidy

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

An analysis of the HRA subsidy payable to the authority for this financial year and prior years in accordance with the regulations of the General Determination of Housing Revenue Account Subsidy 2009/10 is:

	2008/09 £m	2009/10 £m
HRA Element	50.1	57.9
Major Repairs Allowance	(41.0)	(65.7)
<b>Total</b>	<b>9.0</b>	<b>(7.8)</b>



## 7. Capital Expenditure on HRA Assets

The total expenditure for HRA assets in 2009/10 was £123m. This was funded from the following sources:

	2008/09 £m	2009/10 £m
Supported Borrowing (Regional Housing Executive)	10.7	10.7
Prudential Borrowing	54.2	33.3
Usable Capital Receipts (Right to Buy/Land)	10.7	7.0
Major Repairs Reserve	41.0	65.7
Revenue Contributions	0	0.1
Other Resources	9.4	6.2
<b>Total</b>	<b>126.0</b>	<b>123.0</b>

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £13.1m (land £4.3m, houses £8.8m). The values for 2008/09 were £21.2m (land £9.7m and houses £11.5m). The Government has introduced a capital receipts pooling framework and of these amounts £5.9m was paid to Central Government (2008/09: £7.9m).

## 8. Depreciation Charges

The total charge for depreciation for the land, houses, and other property within the Authority's HRA is £40.1m (2008/09: £41.0m). The principle adopted by the Authority follows guidance from DCLG that the major repairs allowance (excluding the bring-forward of 2010/11 MRA to 2009/10 of £25m) is a satisfactory proxy as this is based on maintaining properties in their present condition.

	2008/09 £m	2009/10 £m
Dwellings	41.0	40.7
Other Land, Buildings and Garages	0	0
<b>Operational Total</b>	<b>41.0</b>	<b>40.7</b>
Non Operational	0	0
<b>Total Depreciation</b>	<b>41.0</b>	<b>40.7</b>

## 9. Contribution from Pension Reserve

The Income and Expenditure Account includes pension costs calculated in accordance with FRS17 as described in detail in Note 3 to the Core Financial Statements. To ensure that these costs do not affect the level of HRA balances and Council house rents, an appropriation is made from the Pensions Reserve so that the movement in balances only reflects the actual employer's pension contribution.

## 10. Rent Arrears

Rent arrears from current tenants at 31 March 2010 totalled £8.6m (2008/09: £11.2m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £11.8m at 31 March 2010 (2008/09: £12.8m).

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 £15.4m at 31 March 2010 (2008/09: £18.2m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

	2008/09 £m	2009/10 £m
Current Tenants	11.2	8.6
Housing Benefit Overpayment	7.7	6.1
Other Debt (Services/Leaseholders)	5.1	5.7
<b>Total</b>	<b>24.0</b>	<b>20.4</b>
<b>Provision for Debts</b>	<b>18.2</b>	<b>15.4</b>

## 11. Revenue Contribution to Capital

A revenue contribution to capital expenditure of £0.05m was made in 2009/10 (2008/09: nil). This is identified in Note 7 to the supplementary statements.

## 12. Contribution from Council Taxpayers

The Council's tax base at January 2010 (the number of chargeable dwellings in each valuation band net of discounts) converted to an equivalent number of Band D dwellings was calculated as follows:

Band	No. of Properties	Ratio	Band D Equivalent Dwellings
AR	244	5/9	136
A	128,897	6/9	85,931
B	107,550	7/9	83,650
C	64,885	8/9	57,676
D	31,465	1	31,465
E	18,105	11/9	22,128
F	7,772	13/9	11,226
G	5,261	15/9	8,768
H	704	18/9	1,408
<b>Total</b>	<b>364,883</b>		<b>302,388</b>
	Less: adjustment for collection rate		(6,047)
			<b>296,341</b>

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

The figures for the New Frankley in Birmingham Parish are:

Band	No. of Properties	Ratio	Band D Equivalent Dwellings
AR	3	5/9	2
A	1,278	6/9	852
B	1,439	7/9	1,119
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	2
<b>Total</b>	<b>2,871</b>		<b>2,114</b>
Less: adjustment for collection rate			(42)
			<b>2,072</b>

### 13. Business Ratepayers

Under the arrangements for uniform business rates, the Council collects National Non-Domestic Rates (NNDR) for its area which are based on local rateable values multiplied by a uniform rate which is set by the Government (48.5p for 2009/10 : 46.2p for 2008/09). The total non-domestic rateable value at 31 March 2010 was £928.8m (2008/09: £934.0m). 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 2009/10 are analysed as follows:

2008/09 £m		2009/10 £m
507.6	Contribution to the NNDR pool: Non-Domestic Rates	516.8
(0.4)	Less: Transitional Relief Adjustments	0.8
(148.3)	Less: Allowances & Adjustments	(156.4)
<b>358.9</b>	<b>Net Contribution to NNDR pool</b>	<b>361.2</b>
372.6	Amount actually paid during the year	405.2
(13.7)	Payment to/ (refund due from) pool	(44.0)
<b>358.9</b>		<b>361.2</b>
	Redistribution from the NNDR pool:	
<b>561.4</b>	Net income to Council	<b>536.3</b>

### 14. Precept Payments

The preceptors on the Collection Fund are 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 2009/10, there was a net write back of £2.1m 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, (2008/09: £1.1m write back). This represented 0.5% of the amount of

Council Tax due as at 1 April 2009 including amounts brought forward from earlier years (2008/09: 0.27%).

Unpaid NNDR of £0.2m was written off (2008/09: £0.7m written off). This represented 0.6% of NNDR due as at 1 April 2009 including amounts brought forward from earlier years, (2008/09: 0.19%)

## 16. Collection Fund - Prior Year Adjustments

Balance Sheet Items	Opening Balance	2009 SORP Adjustments		Restated Balance
		Council Tax	NNDR	
	£'000	£'000	£'000	£'000
Council Tax Debtors	78,175	(9,148)	0	69,028
NNDR Debtors	57,439	0	(33,100)	24,339
Major Preceptor Debtors	0	4,307	0	4,307
<b>Total Debtors</b>	<b>135,615</b>	<b>(4,841)</b>	<b>(33,100)</b>	<b>97,673</b>
Council Tax Bad Debt Provision	(23,339)	2,731	0	(20,608)
NNDR Bad Debt Provision	(16,399)	0	16,399	0
<b>Total Bad Debt Provision</b>	<b>(39,738)</b>	<b>2,731</b>	<b>16,399</b>	<b>(20,608)</b>
Council Tax Creditors	(18,015)	2,108	0	(15,907)
NNDR Creditors	(16,702)	0	16,702	0
Major Preceptor Creditors	(2)	2	0	0
<b>Total Creditors</b>	<b>(34,719)</b>	<b>2,111</b>	<b>16,702</b>	<b>(15,907)</b>
<b>Council Tax Deficit</b>	<b>29</b>	<b>(29)</b>	<b>0</b>	<b>0</b>
<b>Collection Fund Adjustment Account</b>	<b>0</b>	<b>29</b>	<b>0</b>	<b>29</b>

Income and Expenditure Account and SMGFB	Opening Balance	2009 SORP Adjustment		Restated Balance
		Council Tax	NNDR	
	£'000	£'000	£'000	£'000
Council share of Collection Fund Surplus	(6,503)	1,652	0	(4,851)
Amounts included in the I&E Account to be excluded by regulation in determining the in-year movement on the General Fund balance	0	(1,652)	0	(1,652)

## 17. Note to the Group Accounts

### Goodwill

Goodwill is calculated as the difference between the fair value of the assets acquired and the consideration paid. When an associate becomes a subsidiary the consideration includes the revalued amount of the net assets of the associate attributable to the group immediately prior to the date of the associate becoming a subsidiary.

### Negative Goodwill

Negative goodwill arises on bargain group transactions where the assets acquired exceed the consideration paid. Negative goodwill up to the fair values of the non-monetary assets acquired is recognised in the profit and loss account as the non-monetary assets are recovered, excess negative goodwill is recognised as the benefits accrue. The recognition of negative goodwill commences in the year after its creation.

The Authority's Group Financial Statements on pages 75-78 include the financial results of the NEC Group, NEC (Developments) Plc and Service Birmingham Ltd. As referred to in Note 36 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 2009).

The Council has a 100% 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. The Council holds a 87.58% stake in the National Exhibition Centre (Developments Plc). For this reason the Council has decided to account for these companies as subsidiaries in preparing consolidated financial statements. The NEC Group and the National Exhibition Centre (Developments) Plc made a post tax profit of £2.6m in the year ended 31 March 2010, (2008/09: £2.6m). 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 and the National Exhibition Centre (Developments) Plc on a line by line basis. The major effects of this is an increase in long term liabilities from £4,510.3m (2008/09: £3,528.5) to £4,618.0m (2008/09: £3,552.3m), an increase in fixed assets from £6,191.4m (2008/09: £5,690.4m) to £7,096.6m (2008/09: £6,437.5m), a reduction in long term investments from £320.0m 2008/09: £367.0m) to £27.0m (2008/09: £69.9m) and an increase in group reserves from £1,664.2m (2008/09: £2,288.7m) to (2,174.3m (2008/09: £2,468.0m). 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 18 to the Council's core statements.

The Council also holds 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 2009/10 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 36 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 December 2010 valuations as a result of the increase in shareholding. The valuation in the Group Balance Sheet is £829.0m rather than the valuation of £194.8m in the National Exhibition Centre Limited Group Balance Sheet which was prepared on a depreciated historical cost basis.

As a result of the increase in share holdings of the National Exhibition Centre (Developments) Plc its fixed assets were revalued at March 2010. The valuation in the Group Balance Sheet is £76.2m rather than the valuation of £68.6m in the National Exhibition Centre (Developments) Plc Balance Sheet, which was prepared on a 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.

## 18. Note to the Group Balance Sheet

At 31 March 2010 the amount owed by the Council to the National Exhibition Centre Limited Group and the National Exhibition Centre (Developments) Plc totalled £1.0m (2008/09: £0.1m ) and amount owed by the National Exhibition Centre Limited Group to the Council totalled £0.7m (2008/09: £5.6m).

The amounts owed by the Council to the National Exhibition Centre Limited Group and the National Exhibition Centre (Developments) Plc comprise trading balances only. The amounts owed by the National Exhibition Centre Limited Group to the Council consist of trading balances of £0.7m and a loan balance of £14,000.

## 19. Note to the Group Cash Flow Statement

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

Restated 2008/09 £m		2009/10 £m
762.0	<b>Surplus/Deficit:</b> Deficit on Revenue Account	521.7
(0.2)	<b>Add Back:</b> Provisions Set Aside	(161.4)
<b>761.8</b>		<b>360.3</b>
	<b>Items Included Under Other Classification:</b>	
(163.1)	Interest Paid	(163.0)
35.6	Interest Received	18.9
(189.2)	Capital Financing Costs	(221.8)
(704.3)	Non Cash Item Adjustments	(229.5)
<b>(1,021.0)</b>		<b>(595.5)</b>
	<b>Items On Accruals Basis</b>	
0.2	Movement In Stock	(0.8)
33.8	Movement In Debtors	5.6
(10.7)	Movement In Creditors	(26.1)
<b>23.3</b>		<b>(21.3)</b>
<b>(235.9)</b>	<b>Cash (Inflow)/Outflow From Revenue Activities</b>	<b>(256.4)</b>

# **Independent auditor's report to the Members of Birmingham City Council**

## **Opinion on the accounting statements**

I have audited the Authority and Group accounting statements and related notes of Birmingham City Council for the year ended 31 March 2010 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 Reconciliation of the Single Entity Deficit for the Year to the Group Deficit, 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 published by the Audit Commission in April 2008.

## **Respective responsibilities of the Treasurer and auditor**

The Treasurer's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- 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 accounting 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 and the Summary of the 2009/10 Financial Year. 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 planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.



## **Opinion**

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 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**

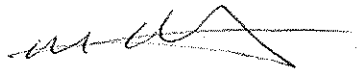
I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. 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 and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 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 ended 31 March 2010.

## **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  
2nd Floor  
No1 Friarsgate  
1011 Stratford Road  
Solihull  
B90 1RZ  
26 October 2010

# Glossary

## **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 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 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.

**Defined Benefit Pension Scheme**

A retirement benefit scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.

**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.

**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.

**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.

**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 (NNDR)**

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.

**Non Operational Assets**

Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services.

**Operational Assets**

Fixed assets held, occupied, used or consumed in the direct delivery of services for which the Council has a statutory duty or discretionary power to provide.

**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**

Amounts levied on the Council by other councils or public bodies (Police Authorities, Fire and Rescue Authorities and Parish Councils), that cannot directly raise council tax themselves.

**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.