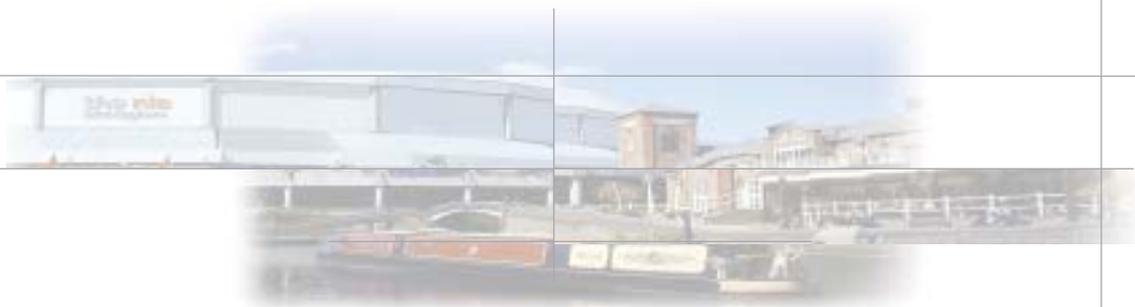
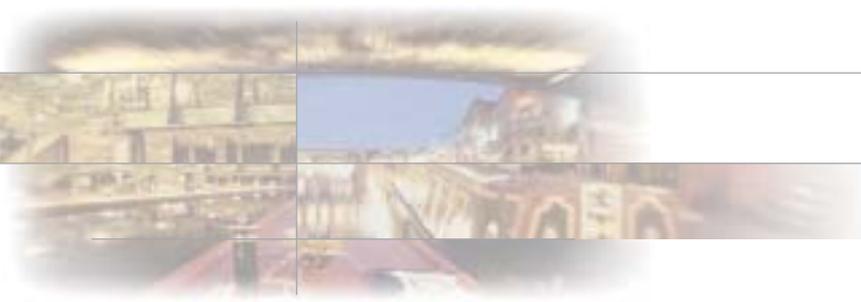


# ACCOUNTS 2003/2004



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## Foreword

### Introduction

These accounts set out the financial results of Council activities for the year ended 31st March 2004. The City Council manages its affairs to ensure the economic, efficient and effective use of resources and to safeguard its assets. This is vital if the Council is to continue to play a leading role in the life of the City and provide high quality services for the benefit of all its citizens. This task is shared by all Members and Officers of the Council under the leadership of Cabinet and Chief Executive. The Strategic Director of Resources has a particular role in ensuring financial stewardship.

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

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

- an understanding of the accounting statements
- a review of the authority's financial performance in 2003-04
- an explanation of the authority's financial position
- an overview of the City Council's priorities for the future

The main statements within the accounts and their purposes are:

- **Consolidated Revenue Account** – this account gives details of the cost of services which the City Council provides and shows how the net cost (after departmental income and movements to and from reserves) has been financed from Revenue Support Grant and local taxpayers.
- **Housing Revenue Account** – this account reflects the statutory obligation to 'ring-fence' and show separately the financial transactions relating to the provision of Council housing.
- **Collection Fund** – is maintained separately, as a statutory requirement, to show the transactions of the Council as Billing Authority in relation to non-domestic rates and council tax. It illustrates the way in which the income has been distributed to Precepting Authorities.
- **Consolidated Balance Sheet** – summarises the financial position of the City Council including the Housing Revenue Account and the Collection Fund. It provides a statement of the assets and liabilities at the end of the financial year (31st March 2004).
- **Statement of Movements in Reserves** – summarises the movements in the City Council's revenue and capital reserves.
- **Cash Flow Statement** – summarises the total cash movements during the year for revenue and capital purposes.
- **Group Accounts** – these statements consolidate the City Council's accounts with those of The National Exhibition Centre (NEC) Ltd.

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



## A summary of the City Council's financial performance for the financial year 2003-04

During 2003-04 the Audit Commission rated all authorities in the country through a Comprehensive Performance Assessment. As part of this the City Council's Use of Resources was scored a maximum 4 out of 4. This process was complemented by a peer review re-visits undertaken by the IDeA in March 2003 and the outcomes of these processes have helped to inform the City Council's performance improvement agenda which is fully set out in the Cabinet and Corporate Priorities and the Performance Plan.

### Revenue Expenditure

The City Council continued to face financial pressure during 2003/04. The original budget included a number of areas where savings had to be made and anticipated the use of £4.1m of specific resources to enable a budget transfer of £1.7m. Strict financial management during the year has meant that the transfer from specific resources has not been necessary and amounts totalling £5.0m have been added to General Balances. The following table compares actual spending with the budget:

	Original Estimate 2003/04 £m	Actual Net 2003/04 £m	Variation £m
Net cost of City Council services	1,286.2	1,282.9	(3.3)
Funded by government grants and Local Taxpayers	(1,287.9)	(1,287.9)	(0.0)
Contribution to General Balances	(1.7)	(5.0)	(3.3)

### General Fund Reserves and Balances

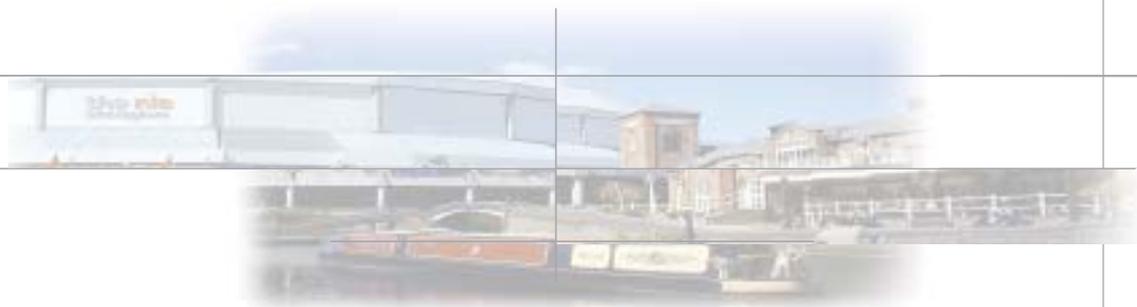
Balances at the end of 2003/04 stand at £22.1m . Of this £9.4m is a minimum working balance, £2.5m is committed to specific items in 2004/05; and £10.2m is available to the Portfolios and Committees to support future spending.

### Capital Expenditure

Total expenditure on capital schemes in 2003/04 was £242.2m (2002/03 £217.8m). This compared to the latest capital budget of £267.7 million. These totals include spending on operational leasing and deferred charges.

The City Council's capital expenditure on an accruals basis, including amounts owing but not paid in 2003/04, analysed between types of asset, is summarised below. This also includes operational leasing and deferred charges.

Deferred charges arise when expenditure of a capital nature is incurred on assets not owned by the City and which cannot therefore be added to the City's Asset Register and Balance Sheet. Examples of such expenditure are grants made by Housing to owner-occupiers of private houses to carry out improvements to their own properties. For accounting purposes, this expenditure is transferred to service revenue accounts together with any grant income received to fund the expenditure.



	£m
<b>Capital expenditure 2003-04</b>	
<b>Type of asset</b>	
Other Land and Buildings	64.7
Vehicles and equipment	7.0
Investment Properties	7.7
Infrastructure	41.2
Community Assets	8.5
Council dwellings	64.8
<b>Total Capital Expenditure (re Fixed Assets)</b>	<b>193.9</b>
Deferred Charges	45.2
Operational Leasing	3.1
<b>Total Capital Expenditure (Accruals Basis)</b>	<b>242.2</b>
Movement in Accruals	(0.5)
<b>Total Capital Expenditure (Payments Basis)</b>	<b>241.7</b>
<b>Capital financing 2003-04</b>	
<b>Source</b>	
Borrowing Approvals	87.5
Capital Receipts	24.7
Capital Grants	100.2
Contributions	17.4
Revenue	8.8
Operational Leasing	3.1
<b>Total</b>	<b>241.7</b>

The City Council finances capital expenditure on a payments basis. However, the authority also needs to account for capital expenditure on an accruals basis, showing the amounts owing to contractors etc, for incorporation into the City Council's asset register and balance sheet. Accruals for 2003/04 show a net movement of £0.5m.

### Housing Revenue Account (HRA)

The net surplus for 2003/04 was £4.4 million which will be added to the surplus of £6.7 million brought forward to make a carry forward surplus of £11.1 million.

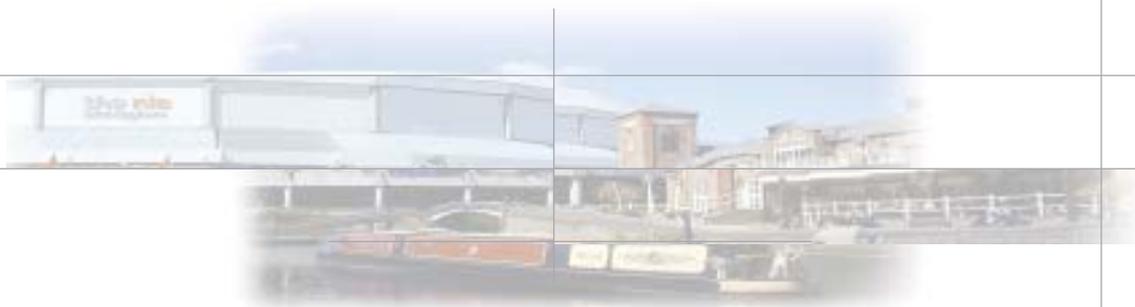
## Financial Summary 2003-04

The City Council's revenue and capital budget is allocated between the Portfolio holders, who make up the Executive Cabinet, and Committees of the Council. Spending against these budgets is carefully monitored through the year and reported on a monthly basis to Cabinet. The end of year spending position, analysed by portfolio, is summarised in the table below.

	Net Revenue Spending £'000	Capital Spending £'000
<b>Portfolios</b>		
Leaders	63,191	790
Deputy leaders	38,574	10,677
Education and Lifelong Learning	673,708	47,360
Equalities and Human Resources	4,258	1,305
Housing General Fund	32,155	28,683
Housing Revenue Account (note)	0	64,918
Leisure, Sport and Culture	79,407	11,435
Local Services and Community Safety	13,803	6,212
Regeneration	19,255	21,237
Social Services and Health	278,399	9,796
Transportation, Street Services and Sustainability	126,950	39,634
Council Business Management Committee	6,401	0
<b>Regulatory Committees</b>		
Development Control Committee	2,350	0
Licensing Committee	(15)	0
Public Protection	11,838	137
Capital Accounting and other Adjustments	(67,351)	0
Amounts to be met from Government Grants and Local Taxpayers	1,282,923	242,184

Note:

1. the Housing Revenue Account is funded by Rents and Government Subsidy.  
Gross expenditure for 2003-04 was £354.193m.



## Accounting Policies

The accounting policies used in the preparation of these accounts are set out in section 4. There have been two changes from previous years. First, 2003-04 sees the full introduction of Pensions Accounting to Local Authority accounts. Amounts have been included in both the Consolidated Revenue Account and Balance Sheet to reflect the future liabilities of the Council for pension payments. Second, monies received from developers as contributions to regeneration linked to specific sites have now been recognised on the Council's Balance Sheet.

## Priorities for the future

The Cabinet and Corporate Plan 2004/2005 sets out the City Council's priorities which are:

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

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

The City Council's three-year financial plan outlines how policy will lead budget planning, and how spending pressures and investment in service improvement will be funded. Improvement often means making better use of existing resources, but will sometimes also require redirecting resources into different areas. The budget for 2004/05 included some significant shifts in resources to support the delivery of priority areas, such as:

- Continued commitment to schools through passporting of extra Government money.
- Developing intensive preventative services for children and families
- Improving waste collection and street cleanliness.
- Improving roads and footpaths
- Developing effective means of securing community safety.

More detail on this year's budget can be found in the Budget Book 2004/05

[www.birmingham.gov.uk](http://www.birmingham.gov.uk)



## Statement of Responsibilities

### The City Council's Responsibilities

The City Council is required to:

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

### The Chief Financial Officer's Responsibilities

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

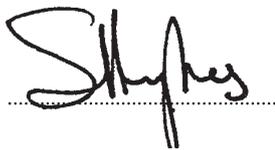
- selected suitable accounting policies and applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- complied with the Code of Practice on Local Authority Accounting.
- applied the accounting concept of a 'going concern' by assuming that the Authority's services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

### The Chief Financial Officer has also:

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

### Certification of Accounts

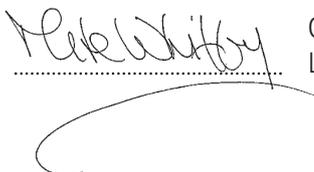
I certify that the Statement of Accounts presents fairly the position of Birmingham City Council at 31st March 2004 and its income and expenditure for the year ended 31st March 2004.



Stephen Hughes  
Strategic Director of Resources

I confirm that these accounts were approved by the Council Business Management Committee on 30th June 2004.

Signed on behalf of Birmingham City Council:



Cllr Mike Whitby  
Leader of the Council and Chair of meeting approving the accounts.



## Statement of Internal Control for Local Government Bodies

### 1. Scope of Responsibility

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.

In discharging this overall responsibility, Birmingham City Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of Birmingham City Council's functions and which includes arrangements for the management of risk.

### 2. The purpose of the system of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it 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's 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.

The system of internal control has been in place at Birmingham City Council for the year ended 31 March 2004 and up to the date of approval of the Statement of Accounts.

### 3. The Internal Control Environment

The key elements of the internal control environment, include:

- Birmingham City Council has established a Corporate Plan setting out its objectives and there is an accompanying Performance Plan in which achievement of the authority's objectives is monitored.
- Birmingham City Council facilitates policy and decision-making via a Cabinet Committee Structure with Member activity portfolios. There are Scrutiny Committees covering all portfolios and a co-ordinating Overview and Scrutiny Committee. The Constitution has been codified into one document and is available on the intranet and external web pages.
- Birmingham City Council ensures compliance with established policies, procedures, laws and regulations – including risk management. There is a comprehensive corporate induction programme in place and information regarding policies and procedures are held on our Intranet. The City Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with External Audit. Other Inspectorate bodies such as Ofsted, the Social Services Inspectorate and the Benefit Fraud Inspectorate also review compliance with policies, procedures, laws and regulations within their remit. The City Council first established a risk management strategy in July 2002, and this has been updated subsequently. Leadership is provided to the risk management process by the Strategic Director of Resources being the Officer Corporate Governance Champion and the Deputy Leader is designated as the Member's Corporate Governance Champion. The City Council has approached embedding 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 are giving presentations, providing training, facilitating workshops and providing guidance through the publication of Risk Management Implementation Guide and brochures have promoted this process.

- 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. A wide range of Best Value Reviews of services have been carried out in previous years and city-wide reviews of People, IT, Property and Money were carried out in 2002/3. The improvement plans from these have been put into place.
- Financial management in Birmingham City Council and the reporting of financial management was considerably enhanced 4 years ago with the implementation of a General Ledger and Management Information System, GLAMIS, which integrates the general ledger function with those of budgetary control and payments. These are supported by a Corporate Accounting Procedures Manual held on Lotus Notes which contains information on financial and business procedures and processes to be followed in all areas of the City Council. A Scheme of Delegation which sets out the powers of Directors, the Financial Regulations and Contract Standing Orders form part of the Constitution. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action is initiated.
- Performance management in Birmingham City Council and the reporting of performance management has been improved with a more focussed Cabinet and Corporate Plan setting our priorities and is supported by a Performance Plan. The Performance Plan includes the Best Value Performance Indicators (BVPIs) we are required to collect as well as a variety of local indicators, targets and milestones we have developed to drive and measure improvements in service provision. The Deputy Leader's portfolio includes responsibility for performance management and quarterly reporting against BVPIs, local indicators, targets and milestones has taken place throughout 2003/4 and will continue in the future.

#### 4. Review of Effectiveness

Birmingham City Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

The Council has developed key policy documents, such as the Cabinet and Corporate Plan 2003/04 and the Performance Plan 2003/4 through which the Council expresses its objectives and puts in place the mechanisms by which it can monitor their achievement. Regular progress reports are presented to Cabinet, and are subject to the Scrutiny process.

Directorate, Divisional and Service unit business plans that contain a variety of performance indicators and targets, that are regularly reviewed, support these plans.

The Council's constitution, which is regularly reviewed by the Monitoring Officer, sets out the responsibilities of both Members and senior managers. In particular the Council has identified the three statutory posts as follows:-

Head of Paid Service	- Chief Executive
Monitoring Officer	- Chief Legal Officer
Chief Financial Officer	- Strategic Director of Resources

The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/Solace guidance and has developed a Local code of corporate governance.

The arrangements for the provision of internal audit are contained within the Council's Financial

Regulations which is included within the Constitution. The Strategic Director of Resources is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2003. The internal audit provision is managed, independently by the Head of Birmingham Audit and operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2003. The Birmingham Audit plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk 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 Cabinet and shared with the Council's external auditor. All reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses. These are submitted to Members, Strategic Directors, School Heads and Chairs of Governors as appropriate. 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 letter;
- other work undertaken by independent inspection bodies.

I have been advised on the implications of the result of the review of the effectiveness of the system of internal control by Birmingham City Council, and a plan to address weakness and ensure continuous improvement of the system is in place.

### 5. Significant Internal Control Issues

The Council has set two central priorities:

- To develop Birmingham as a city of flourishing neighbourhoods
- To improve our services and to serve Birmingham people well

These form the basis for the Cabinet and Corporate Plan and Performance Plans referred to above and focus the improvements which are being made in all areas of the Council.

The Comprehensive Performance Assessment in 2003 identified the Council as weak whilst confirming that significant improvements have been made in a number of important areas such as Education, Benefits and the use of resources. Other areas were highlighted by this and other recent inspections as being well placed to make progress but needing to show concrete evidence of improvements. The review of internal control also highlights these as significant areas for the delivery of change by the Council although the systems to ensure the management of the risks have been shown to be sound. The two main areas are:

- Improving Social Care provided to children. The City Council's Social Care & Health Services currently have a zero rating. The annual review letter identified that progress had been made but there is still a long way to go. The Children Inspection report, the key performance indicators and our financial management performance all give cause for concern at present. The Director and senior officers meet regularly with the Social Services Inspectorate. All outstanding recommendations are managed and monitored through Delivery and Improvement Statements and the Directorate Business Plan.



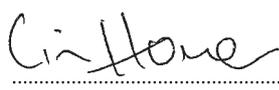
- Improving landlord services, in particular the housing repairs service. Housing Repairs also received no stars in the re-inspection in September 2003. Service Improvements based on a Performance Improvement Plan are being overseen by a Strategic Housing Board and Cabinet Committee. Regular meetings are held with the Housing Inspectorate. There is a continuing need to improve the quality of service and responsiveness to tenants. There are also particular issues around Supporting People audit trails for payments and information from repairs contractors.

The Council is actively developing the way it works with partners and organises itself to deliver services. Developments of this nature require careful management and the the Council has sought to identify and minimise the impact of risks associated with this change. The major developments are:

- 2003/04 saw a considerable amount of work to prepare for Devolution of decision making and Localisation of service delivery to 11 Districts in the City with effect from 1st April 2004. The Constitution, control mechanisms and internal procedures have been fully reviewed as part of this preparation. There remains a significant amount of work to ensure that these arrangements are bedded down, that there is a continuity of service provision and that necessary financial controls are maintained.
- The Council is preparing to enter into major PFI schemes in Highways and Education. The Council already has experience of one Schools PFI scheme and this will inform the preparations for these projects. This preparation will include full risk assessments and involvement of professional partners.
- The Council is also intending to enter into a strategic partnership for Business Transformation. Careful selection of a partner for this project is underway.

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

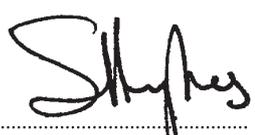
- Continuing to reduce error and claimant fraud and improving support systems within Housing Benefits
- Reducing sickness levels to enable better services to be provided
- Improving the control environment regarding funding to partners to support the flourishing neighbourhoods priority

Signed  .....

Lin Homer  
Chief Executive

Signed  .....

Councillor Sir Albert Bore  
Leader of the Council

Signed  .....

Stephen Hughes  
Strategic Director  
of Resources



## Statement of Accounting Policies

The City Council's Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2003. The code has been approved as a Statement of Recommended Practice (SoRP).

The following policies have been adopted in compiling the accounts:

### Fixed Assets

#### a) Asset Categories

Fixed assets are categorised as follows:

Examples:

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

#### b) Recognition of Fixed Assets

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

#### c) Valuation Bases

Operational assets are included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use (Existing Use Value – EUV). Short life operational assets, such as vehicles, plant and equipment, are included at historic cost less depreciation as a proxy for current value. This will not materially affect the accounts.

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

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

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

#### d) Revaluation Cycle

When an asset is included in the balance sheet at Open Market Value (OMV) or Existing Use Value (EUV), it is formally revalued at intervals of not more than five years, and the revised amount included in the balance sheet. The difference between the value and the amount at which that asset was included in the balance sheet immediately prior to the latest valuation is credited or debited to a Fixed Asset Restatement Reserve. The City Council has a rolling programme in place to revalue approximately 20% of its property assets each year. The entire housing portfolio was revalued in 2000/01 to meet the Government's requirements for Housing Resource Accounting.

**e) Disposals**

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

**f) Depreciation****Council Dwellings**

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

**Other Land and Buildings**

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

**Vehicles, plant, furniture, and equipment**

– depreciation is applied on a straight-line basis over the useful life of the asset. The book value of these assets is not materially different to the current value which is the basis of valuation required by the SoRP.

**Infrastructure**

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

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

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

**Community Assets**

– community assets are not depreciated.

**Investment Properties**

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

**g) Charges to Revenue**

Service revenue accounts, including the Housing Revenue Account, are debited with asset charges equivalent to depreciation plus a notional interest charge of 3.5% of the asset value. This percentage is determined by the Local Authority Accounting Panel of the Chartered Institute of Public Finance and Accountancy and subject to regular review. A corresponding credit is made to the Asset Management Revenue Account, which ensures that asset charges do not affect the amount to be met from government grants and local taxation.



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

In accordance with FRS 11 (Impairment of Fixed Assets), a review was carried out as at 31/03/2004 to identify any land and/or buildings whose current values had fallen below the carrying amount (the balance sheet value) for example, as result of obsolescence or physical damage. Assets so identified are considered to be impaired. In 2003-04 no assets were found to be impaired.

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

The entire housing portfolio was revalued in 2000/2001 to meet the Government's guidance on Housing Resource Accounting. The basis used was Existing Use Valuation (Social Housing). In accordance with the guidance, a sample of properties was chosen to be representative of each type of property and were valued as "beacons". The full valuation was obtained by extrapolating these beacon values across the whole housing stock. These beacon values will be reviewed to reflect movements in property market values: this took place in 2003/4 and will take place annually thereafter, again in line with the guidance. High rise flats and defective dwellings continued to be valued using a Discounted Cash Flow method, in the absence of appropriate market evidence.

#### **Private Finance Initiative (PFI)**

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

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

The particular application of this policy is further explained in Note 28 to the Consolidated Balance Sheet.

#### **Income and expenditure**

##### **a) Accruals**

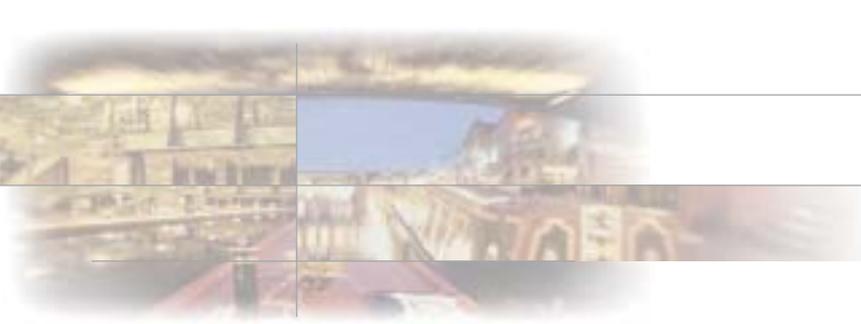
The City Council accounts are kept on an accruals basis in accordance with the Accounting Code of Practice and objectives of financial reporting set out in FRS18.

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

Certain periodic payments (e.g. utilities) are not accrued for per FRS18. These are accounted for on a cash basis, but result in no material difference to the accounts.

##### **b) Support Services**

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



### Government grants

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

### Investments

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

### Leases

#### a) Finance leases

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

#### b) Operating leases

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

### Pension schemes

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

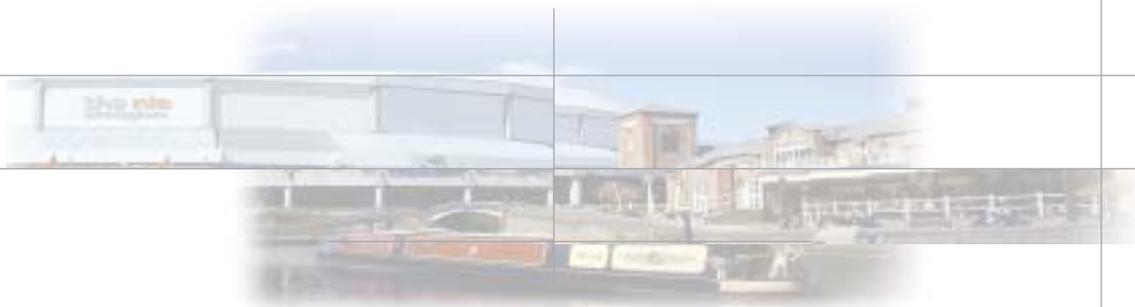
#### a) Teachers' Pension Scheme

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

#### b) Local Government Pension Scheme

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

The fund is subject to an actuarial valuation every three years, the last one being 31st March 2001. At this time the fund's assets were valued at 95.5% of the value of the liabilities. A valuation is due as at 31st March 2004 and the Fund Actuaries are currently working on this.



Financial Reporting Standard 17 requires the recognition of the council's share of the fund's assets and liabilities in its accounts, as well as requiring recognition in the Council's revenue account of the full costs of providing for future retirement benefits. The Council has implemented this standard in full in 2003-04. In accordance with Government regulations, a Pensions Reserve has been set up and the Council's liabilities arising from its participation in the scheme have been written onto the balance sheet. The revenue account has been debited with the full cost of providing for future pension liabilities arising from in year service. Appropriations equal to the difference between this amount and the actual employers pension contribution are made from the Pensions Reserve so that the additional costs of providing for retirement benefits in accordance with FRS17 do not impact on levels of local taxation.

These accounting policies represent a change to those applied in prior years. Previous policy was to recognise liabilities in relation to retirement benefits only when employer's contributions became payable to the pension fund or payments fell due to the pensioners for which we were directly responsible.

The change has had the following effects on the results of the prior and current periods. The overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are 0.2% higher after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 2.7% higher than it would otherwise have been. The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by 20%.

Disclosure note 3 to the Consolidated Revenue Account provides details of contributions made in respect of both pension schemes.

### Provisions

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

### Reserves

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

Details of reserves held at 31st March 2004 are shown in the notes supporting the Balance Sheet and the Statement of Total Movements in Reserves.

### Contributions from developers (Section 106 monies)

Contributions from Developers (section 106 monies) are now shown on the Balance Sheet as Capital contributions unapplied. This represents a change in accounting policy from prior years and the 2002/03 Balance Sheet has been restated accordingly.

### Stocks and Work in Progress

Stocks are included in the balance sheet at either historic or replacement cost. This valuation method is not in compliance with the relevant SoRP, however the effect of this is not material to the accounts. For trading activities, the amount recognised in the appropriate revenue accounts for contract work in progress is the payments received and receivable, less related costs.

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

### Value Added Tax

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

### Post Balance Sheet Events

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

### Deferred Charges

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

### Redemption of Debt

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

### Interest Charges

Interest on loans is charged to the Asset Management Revenue Account based on the amount which is due and payable within the financial year.

### Group Accounts

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



### Best Value Accounting Code of Practice (BVACOP)

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

## Consolidated Revenue Account

Year Ending 31st March 2004

2002-03 Net Expenditure £'000 (Restated)		Expenditure £'000	2003-04 Income £'000	Net Expenditure £'000
15,477	Central Services to the Public	95,137	(82,975)	12,162
4,669	Court and Probation Services	28,239	(23,777)	4,462
190,787	Cultural, Environmental and Planning Services	328,365	(150,149)	178,216
645,228	Education Services	902,360	(228,684)	673,676
92,733	Highways, Roads and Transport	118,922	(20,587)	98,335
71,475	Housing Services	604,211	(564,426)	39,785
246,419	Social Services	399,654	(119,373)	280,281
17,223	Corporate and Democratic Core	16,553	(42)	16,511
11,977	Non Distributed Costs	21,106		21,106
1,295,988	Cost of Services	2,514,547	(1,190,013)	1,324,534
44	Parish Precept			53
(401)	(Surpluses)/Deficits on Trading Undertakings			(7,683)
16,000	Levies			21,358
(108,180)	Surplus on Asset Management Revenue Account			(31,325)
110,222	Interest Cost - Pensions			120,783
(128,787)	Expected return on Pensions Assets			(88,433)
(9,527)	Interest and investment income			(8,413)
1,175,359	Net Operating Expenditure			1,330,874
	<b>Appropriations</b>			
19,518	Appropriation to/(from) Pensions Reserve			(29,537)
(383)	Contributions to/(from) HRA Balances			4,434
	Contributions to/(from) Earmarked Reserves			
(1,624)	Schools Balances			11,486
18,694	Other Reserves			6,918
(34,880)	Appropriation to/(from) Capital Financing Reserve			(41,252)
1,176,684	Amounts to be met from Government Grants and Local Taxation			1,282,923
	<b>Sources of Finance</b>			
(614,771)	Revenue Support Grant*			(728,976)
(300,121)	Non domestic rates redistribution			(285,874)
(259,388)	Council Tax			(273,025)
(60)	Transfer in respect of Collection Fund surpluses			(77)
2,344	(Surplus) Deficit for Year			(5,029)
(19,420)	General Balance Brought Forward			(17,076)
2,344	(Surplus)/Deficit for Year			(5,029)
(17,076)	General Balance Carried Forward			(22,105)

\* These figures include PFI Grant of £6.756 million in 2002-03 and £5.763 million in 2003-04.

The figures for 2002-03 have been restated to reflect the full implementation of FRS17 in 2003-04.

## Notes to the Consolidated Revenue Account

### Explanatory Notes

#### 1. Trading Services

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

2002-03 Profit (Loss) £'000 (Restated)		2003-04 Turnover £'000	2003-04 Expenditure £'000	2003-04 Profit (Loss) £'000
(72)	Highways and Sewers	9,741	9,295	446
6	Property Services	64,643	60,542	4,101
112	Legal Services	7,327	7,392	(65)
222	Markets	6,078	5,292	786
(28)	Non-Schools Cleaning	3,320	3,324	(4)
28	Catering	2,368	2,216	152
(152)	Street Lighting	6,343	6,485	(142)
20	Vehicle Maintenance	4,949	4,861	88
(725)	Education Catering	25,604	24,961	643
467	Education Staff Agency	11,754	11,083	671
285	Trade Refuse	5,438	4,929	509
569	Urban Design	15,587	14,681	906
105	Grounds Maintenance	5,347	5,254	93
12	Education Cleaning	7,239	7,173	66
(448)	Other Trading Activities	10,307	10,874	(567)
401		186,045	178,362	7,683

#### 2. Minimum Revenue Provision

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

2002-03 £m		2003-04 £m
22.3	Non-housing amount - 4% of credit ceiling	26.8
13.1	Housing amount - 2% of credit ceiling	11.8
35.4	Minimum Revenue Provision	38.6

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

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

The Asset Management Revenue Account brings together the capital charges made to portfolios and regulatory committees under the capital accounting system, and the real external interest charges paid by the City Council. The balance on the Asset Management Revenue Account is transferred to the

Consolidated Revenue Account after the net cost of services has been determined, thus ensuring that capital charges have a neutral effect on the amounts required from council taxpayers.

The transactions on the Asset Management Revenue Account in 2003-04 are summarised below:-

2002-03			2003-04	
£m	£m		£m	£m
		<b>Income</b>		
	(301.4)	Capital charges	(227.5)	
	(0.2)	Government grants - magistrates court	(0.2)	
	(4.7)	Deferred Grant write down	(6.7)	
(306.3)				(234.4)
		<b>Expenditure</b>		
	95.3	Provision for depreciation	97.8	
	1.0	Premiums on premature repayment of debt	11.1	
	101.8	External interest charges	94.2	
198.1				203.1
(108.2)		Balance to Consolidated Revenue Account		(31.3)

#### 4. Income relating to prior years

Central Services income includes £0.590m in respect of prior years, of which £0.589m relates to the prior year effect of NNDR revaluations (£0.194m on schools and £0.395m on other properties).

#### 5. Council Tax

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

### Disclosure Notes

#### 1. Publicity Expenditure

The Council is required by Section 5(1) of the Local Government Act 1986 to provide details of its spending on Publicity. During 2003/04 £9.3m was spent including £0.7m in respect of The National Exhibition Centre (2002-03 £0.7m).

2002-03			2003-04	
£m			£m	
1.9	Recruitment Advertising		2.3	
1.0	Other Advertising		0.9	
7.0	Promotions and Other Publicity		6.1	
9.9	Total		9.3	

#### 2. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended by the Local Government and Housing Act 1989 and The Local Government Act 2000 permits the Council to spend up to £3.80 per annum for each resident on grants and donations to voluntary and not for profit organisations. Total expenditure incurred in 2003-04 was £0.8 million (2002-03 £0.6 million) against a limit of £3.8 million (2002-03 £3.8 million).

### 3. Pensions

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

Teachers may be members of the Teachers Pension Scheme (TPS). This is also a defined benefit scheme although it is accounted for as a defined contribution scheme as the Council's share of the assets and liabilities of the scheme cannot be identified.

- i. The City Council's employer's contribution for the year 2003-04 was £53,893,997 (£50,575,974 in 2002-03).
- ii. The cost of awarding discretionary additional benefits and their associated inflation proofing is borne separately by the City Council. Expenditure in 2003-04 was £5,261,796 (representing 1.22% of members' aggregated pensionable pay). This amount is made up of £4,914,606 in respect of ongoing added years pension payments and associated pensions increase charges and £347,190 in respect of one off added years lump sum payments. The corresponding figure for 2002-03 was £5,068,932.
- iii. In the latest Actuarial Valuation as at 31 March 2001 95.5% of past service liabilities were funded. An employer's contribution rate has been set for the City Council of 12.50% for the three years from 1 April 2002 to 31 March 2005. The employer's rate includes an assumption regarding the number of potential early retirements over that three-year period. If the actual level of early retirements exceeds those provided for in the Valuation, it may be necessary to review the employer's contribution rate, or otherwise make a lump sum contribution to the Pension Fund. For the years 2001-02, 2002-03 and 2003-04 the City Council has managed its early retirements within the Actuarial guidelines.

For Teachers, the City Council paid an employer's contribution of £41.8m (13.5% of pensionable pay) in 2003-04 to the Teachers' Pension Scheme. The equivalent figure for 2002-03 was £24.5 million (8.35% of pensionable pay). The teachers' pension scheme is administered by the Teachers Pensions Agency and is not the direct responsibility of the City Council. In addition, £5.6m (£5.6 million in 2002-03) was paid to retired teachers in respect of added years benefits and, in certain cases, the employer share of teacher pension benefits. These figures include pension increases, where appropriate. A liability is shown on the balance sheet in respect of the Council's obligations to pay added years benefits.

- iv. The following costs have been charged to the City Council's revenue account to reflect full compliance with FRS17 in 2003-04

	2002-03 £'000	2003-04 £'000
<b>Operating costs</b>		
Current Service Cost	53,740	55,315
Past Service Cost	1,593	4,978
Curtailement Cost	294	342
Total Cost	55,627	60,635
<b>Finance costs</b>		
Expected Return on Assets	128,787	88,433
Interest on Pension Liabilities	(110,222)	(120,783)
Net Gain (Cost)	18,565	(32,350)

The figures for 2002/03 in the table above do not include operating and financing costs in respect of added years benefits for retired teachers. It is not considered however that this omission is material.

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

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

Balance Sheet Items	31.03.2003 £m	31.03.2004 £m
Market Value of Assets	1,271.7	1,544.8
Liabilities	(2,011.7)	(2,135.1)
(Deficit)	(740.0)	(590.3)

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

	Assets at March 31st 03		Assets at 31 March 04	
	£000's	%	£000's	%
Equities	956.3	75.2	1,181.8	76.5
Government Bonds	125.9	9.9	149.8	9.7
Other Bonds	53.4	4.2	63.3	4.1
Property	104.3	8.2	112.8	7.3
Other	31.8	2.5	37.1	2.4
<b>Total</b>	<b>1,271.7</b>		<b>1,544.8</b>	

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

	£000
Balance at 1.4.04	(740,001)
Appropriation to CRA	(29,537)
Actuarial gain	179,198
Balance at 31.3.04	(590,340)

The following assumptions were made.

Financial Assumptions	31.03.03 LGPS	31.03.03 TPS	31.03.04 LGPS	31.03.04 TPS
Rate of inflation	2.5%	2.5%	2.8%	2.8%
Rate of increase in salaries (LGPS only)	4.0%	-	4.3%	-
Rate of increase in pensions	2.5%	2.5%	2.8%	2.8%
Discount rate	6.0%	6.0%	6.3%	6.3%
<b>Expected rate of return on assets (LGPS only)</b>	<b>31.03.03</b>	<b>31.03.03</b>	<b>31.03.04</b>	<b>31.03.04</b>
Equalities	7.5%	-	7.5%	-
Govt. Bonds	4.5%	-	4.7%	-
Other Bonds	5.4%	-	5.5%	-
Property	6.5%	-	6.5%	-
Other	3.75%	-	4.0%	-

For the financial year ending 31st March 2004, the following additional disclosures are required:

Movement In Deficit	2002-03 £'000	2003-04 £'000
Deficit at Beginning of Year	(230,279)	(740,001)
Current Service Cost	(53,740)	(55,315)
Employer Contributions	56,580	63,448
Past Service/Curtailment Cost	(1,887)	(5,320)
(Net Interest)/Return on Assets	18,565	(32,350)
Actuarial (Loss)/Gain	(529,240)	179,198
Deficit at End of Year	(740,001)	(590,340)

Statement of Actuarial Gains and Losses	2002-03 £'000	2003-04 £'000
Difference between Actual and Expected Return on Assets	(529,240)	179,198 (11.6% of Assets)
Effect of Difference Between Actuarial Assumptions on Liabilities and Actual Experience	0	0 (0% of Liabilities)
Effect of Changes in Actuarial Assumptions	0	0 (0% of Liabilities)
Net Actuarial Gain (Loss)	(529,240)	179,198 (8.6% of Liabilities)

#### 4. Leasing

During 2003-04, the City Council paid £0.1m (2002-03 £0.1m) in finance lease rentals and £7.4m (2002-03 £8.7m) in operating lease rentals.

As at 31st March 2004, the City Council has a commitment to meet the following rental charges on both finance and operating leases:

	Finance Leases £m	Operating Leases £m
2004-05	0.1	5.9
2005-06	0.1	4.4
2006 to 2010	0.1	5.9
<b>Total</b>	<b>0.3</b>	<b>16.2</b>

## 5. Officers Emoluments and Members Allowances

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

No. of Employees 2002-03	Remuneration Band	No. of Employees 2003-04
156	£50,000 - £59,999	255
71	£60,000 - £69,999	88
21	£70,000 - £79,999	32
4	£80,000 - £89,999	6
3	£90,000 - £99,999	2
1	£100,000 - £109,999	3
1	£110,000 - £119,999	1
1	£120,000 - £129,999	1
0	£140,000 - £149,999	1
0	£170,000 - £179,999	1
<u>258</u>		<u>390</u>

The increase in numbers is due primarily to the effect of the annual pay award together with progression up incremental pay scales.

Allowances paid to members of the City Council in 2003-04 totalled £2.1m (2002-03 £2.3m)

## 6. Related Party Transactions

The City Council received a number of general and specific grants from central government totalling £1,460 million. Precepts were paid to the West Midlands Police Authority, the West Midlands Fire & Civil Defence Authority and New Frankley in Birmingham Parish Council amounting to £30.3 million. Payments to other local authorities and health authorities, excluding precepts, totalled £8.3 million. Receipts from other local authorities totalled £4.1 million. In addition, payments of Employers' Pension Contributions were made to Wolverhampton M.B.C. in respect of members of the Local Government Pension Scheme, and to the Teachers' Pensions Agency in respect of teachers. The amounts of these are detailed in disclosure note 3 above. The City Council paid £102 million in grants to a range of voluntary and community organisations. These grants were the main source of funding for a number of these organisations. The City Council also has interests in a number of companies, as detailed in the notes to the Balance Sheet. The following transactions are considered material:

Payments	£m	Payments	£m
Optima Community Association	2.8	Millennium Point Property Limited	0.2
NEC Finance plc	1.1	Birmingham Wheels Limited	0.1
Groundwork Birmingham	0.9	Academy of Youth Limited	0.1
Midlands Arts Centre	0.8	Afro-Caribbean Resource Centre	0.1
Witton Lodge Community Association	0.6	Aekta Project	0.1
Birmingham and Solihull Connexions	0.5	Ex Cathedra	0.1
St. Paul's Community Project	0.3	Local Leagues	0.1
Receipts	£m	Receipts	£m
Groundwork Birmingham	1.6	Optima Community Association	0.3
Birmingham Technology (Property) Ltd	0.7	Birmingham Wheels Limited	0.2
National Exhibition Centre	0.4	Witton Lodge Community Association	0.1

During 2003-04 works and services to the value of £0.1 million were commissioned from a company in which a Member had an interest. Contracts were entered into in compliance with City Council Standing Orders. During the financial year 2003-04 one of the Council's Chief Officers was advanced a short term loan of £412,000 to facilitate relocation to the West Midlands. This loan is included in the debtors figure on the balance sheet. It attracted interest at the Bank of England's Minimum Lending Rate. There were no other material transactions between the City Council and its Chief Officers, other than the payment of salaries. Details of these are disclosed in Note 5 above.

## 7. Building Control Account

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

### Planning

#### Building Regulations Outturn 2003-04

Outturn 2002-03		Planning Building Regulations Outturn 2003-04		
Total £000		Total Chargeable Activities £000	Total Non-Chargeable Activities £000	Total £000
2,932	Expenditure	2,435	547	2,982
(2,445)	Income	(2,533)	(101)	(2,634)
487	Net (surplus)/deficit	(98)	446	348
(76)	Appropriation from reserve	98	0	98
411	Net (surplus)/deficit After appropriation	0	446	446

## 8. Pooled Funding

The Council established a partnership agreement with Birmingham & Black Country Strategic Health Authority using powers under section 31 of the Health Act 1999 to pool funds from the two organisations and create a single budget. The Performance Improvement Plan dated 9th November 2001 identified two separate elements of spend to improve the delayed hospital discharges situation and established the principle of a pooled budget to fund them. An immediate placement of 42 individuals into residential or nursing homes was the first element and the pooled budget was to provide an average of 18 months funding, finishing on 8th May 2003. The second element involved the provision of 215 packages of "tapering" home support. Although this proposal met with initial market interest the level of assessed demand did not meet original expectations and the project was not initiated.

Initial funding	Cash Contributon (£)
B'ham and Black Country Strategic Health Authority	400,000
Birmingham City Council	400,000
<b>Total Funding</b>	<b>800,000</b>
<b>Balance Brought Forward</b>	<b>253,794</b>
Expenditure 2003-04 (2002-03 £332,208)	49,690
<b>Net underspend carried forward</b>	<b>204,104</b>

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

### Pooled Fund to Support the provision of adult learning disability services

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

The aims of the Partners in establishing this agreement are to:-

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

There are five projects included in this plan

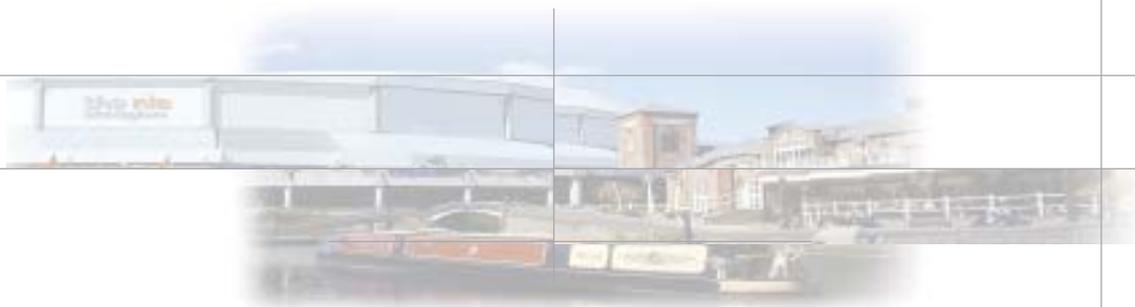
1. Advocacy Services
2. The complex needs service
3. Supported Living
4. Person Centred planning
5. Local provision Initiative

The agreement is scheduled to run for three years.

Initial funding	Cash Contributon (£)
East Birmingham PCT	540,823
Birmingham City Council	133,744
<b>Total Funding</b>	<b>674,567</b>
Expenditure 2003-04	654,567
<b>Net underspend carried forward</b>	<b>20,000</b>

### 9. Auditors Remuneration

The Council's appointed auditors are the Audit Commission. Payments to the auditors in 2003-04 totalled £1.2 million (£1.1 million in 2002-03) of which £0.8 million (£0.6 million in 2002-03) related to the audit of the Council's statutory accounts, service inspections, and assessments of the Council's improvement programmes. The £0.8 million was made up of £0.1m inspection work and £0.7m code of practice work. The remaining £0.4 million (£0.5 million in 2002-03) related to the audit of grant claims submitted to central government and the European Union.



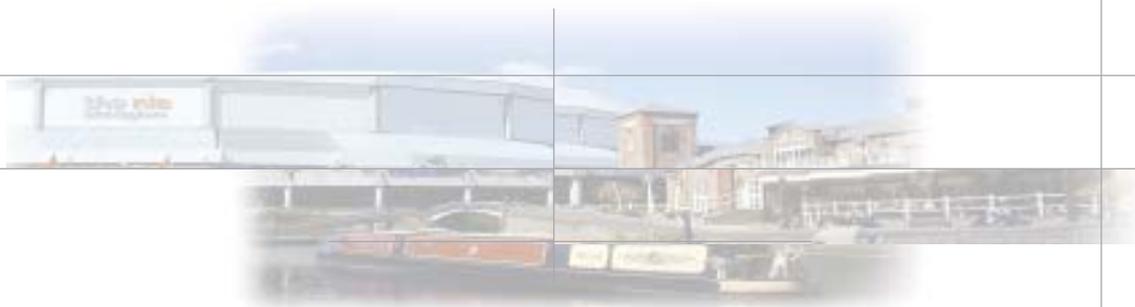
## 10. Local Government (Goods and Services) Act 1970

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

	Expenditure £'000	Income £'000	Net £'000
Property Services	61	(61)	0
Education Services	1,194	(1,207)	(13)
Catering Services	28	(35)	(7)
Birmingham City Laboratories	227	(191)	36
Purchasing and Procurement	131	(1310)	0
Urban Design	250	(340)	(90)
Highways	746	(-746)	0
<b>Total</b>	<b>2,637</b>	<b>(2,711)</b>	<b>(74)</b>

## Housing Revenue Account (HRA)

2002-03 £'000		2003-04 £'000
	<b>Management and Maintenance:</b>	
61,626	Repairs Expenditure	65,843
1,904	Leasing	2,359
39,147	Housing General Management Expenditure	39,113
15,311	Expenses attributable to Estate Services	15,557
<u>117,988</u>	<b>Total Management and Maintenance</b>	<u>122,872</u>
5,799	Rents, Rates, Taxes and Other Charges	6,209
131,281	Rent Rebates	131,807
4,078	Provision for Bad and Doubtful Debts	3,660
82,025	Cost of Capital/Impairment/Deferred Charges	49,604
41,552	Depreciation (dwellings)	39,875
198	Debt Management Expenses	166
<u>382,921</u>	<b>Total Expenditure</b>	<u>354,193</u>
	<b>Rental Income:</b>	
194,960	Gross Debit - Dwellings	193,486
(5,701)	Less Voids	(4,824)
1,638	Shop Rents	1,681
3,548	Land and VP's	3,391
(892)	Less Voids	(927)
<u>193,553</u>	<b>Total Rental Income</b>	<u>192,807</u>
3,076	Charges for Services and Facilities	8,237
159,068	HRA Subsidy Receivable (inc MRA)	162,100
1,364	GF Contributions towards Expenditure	1,302
<u>357,061</u>	<b>Total Income</b>	<u>364,446</u>
25,860	Net Cost of Services (surplus) deficit	(10,253)
(40,532)	Transfer to/(-from) AMRA	(14,691)
575	Amortised Premiums and Discounts	1,539
(257)	Investment Income/Mortgage Interest	(356)
<u>(14,354)</u>	<b>Net Operating Expenditure</b>	<u>(23,761)</u>
	<b>Appropriations</b>	
11,913	HRA Set Aside to repay debt	10,675
2,824	Revenue Contribution to Capital	8,652
383	<b>(Surplus) Deficit in the year</b>	<u>(4,434)</u>
(7,054)	(Surplus) Deficit at the beginning of the year	(6,671)
383	(Surplus) Deficit for the year	(4,434)
<u>(6,671)</u>	<b>(Surplus) Deficit at the end of the year</b>	<u>(11,105)</u>



## Notes to the Housing Revenue Account

### 1. Housing Stock

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

	1 Bed	2 Bed	3+ Bed	Total
Flats	17,351	12,850	5,491	35,692
Housing and Bungalows	3,867	10,026	23,340	37,233
<b>Total</b>	<b>21,218</b>	<b>22,876</b>	<b>28,831</b>	<b>72,925</b>
Multi-occupied dwellings	0	0	0	0
<b>Housing Stock at 31 March 2004</b>	<b>21,218</b>	<b>22,876</b>	<b>28,831</b>	<b>72,925</b>

The movement in stock is analysed below:

	2002-03	2003-04
Stock at 1 April	80,915	76,647
Sales	3,211	2,879
Demolitions	1,057	843
Repurchases	0	0
<b>Stock at 31 March</b>	<b>76,647</b>	<b>72,925</b>

The housing stock, land and other property within the HRA has to be valued in line with the Guidance on stock valuation published in May 2000. The basis of the valuation is in accordance with the Royal Institute of Chartered Surveyors using the existing use value for social housing (EUV-SH).

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

	1 April 2003 £'m	31 March 2004 £'m
Council Dwellings	1,384	1688
Other Land and Buildings	5	5
<b>Total Operational Assets</b>	<b>1,389</b>	<b>1,693</b>
Non Operational Assets	28	29
<b>Total</b>	<b>1417</b>	<b>1722</b>

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

The balance sheet value of non-operational assets includes surplus vacant property awaiting demolition, HRA properties let to 3rd parties such as shops and development land. The Vacant properties awaiting demolition were assessed as a liability of £6m .

## 2. Value of dwellings on vacant possession

- (a) the vacant possession value of dwellings within the authority's HRA (valued in accordance with the Guidance) as at 1 April 2003 is £2,869m.
- (b) The difference between the above figure and the £1,722m in the balance sheet is after a notional diminution in the value of assets to reflect the fact that the dwellings are let at social housing rents.

## 3. Deferred charges

Deferred charges are a reflection of capital expenditure that does not result in an asset. There are no deferred charges in the financial year 2003-04 (2002-03 Nil).

## 4. Impairment charges

Impairment charges reflect a reduction in the value of fixed assets due to the economic environment or something has occurred to the assets. This could include a decline in demand, obsolescence and commitments to make significant changes to housing. No impairment charges have been identified in the 2003-04 accounts (2002-03 Nil).

## 5. Major Repairs Reserve

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

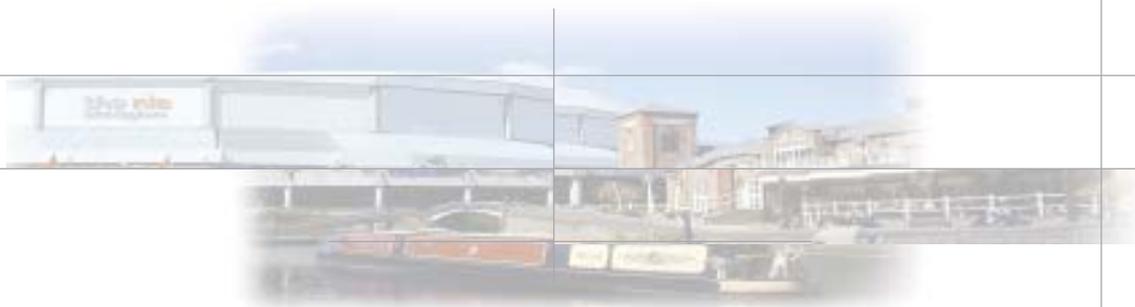
The main movements on the Major Repairs Reserve are set out below.

	2002-03 £000's	2003-04 £000's
Opening balance on the Major Repairs Reserve on 1 April	3,792	319
The amount transferred to the Major Repairs Reserve during the year	41,552	39,875
The charge to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the authority's HRA	(45,025)	(24,066)
The closing balance on the Major Repairs Reserve on 31 March	319	16,128

## 6. Housing Revenue Account Subsidy

This includes three components, HRA Subsidy, Rent Rebate Subsidy and the Major Repairs Allowance. The HRA Subsidy element is based on stock management and maintenance allowances, capital financing costs and notional rent income. The Rent Rebates Subsidy includes the rebates granted and adjustments for backdated and overpaid benefit that are met by a cash grant of 1.7%. The MRA is paid through HRA Subsidy regime and has been explained in note 5.

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



	2002-03 £000's	2003-04 £000's
Rent Rebates Subsidy	130,937	132,817
HRA element	(13,421)	(10,592)
Major Repairs Allowance	41,552	39,875
<b>Total</b>	<b>159,068</b>	<b>162,100</b>

## 7. Capital expenditure on HRA assets

The total expenditure on a cash basis for HRA assets in 2003-04 was £64.0m. This was funded from the following sources;

	2002-03 £000's	2003-04 £000's
Borrowing	5,396	9,672
Useable capital receipts	1,790	21,560
Major Repairs Reserve	45,024	24,066
Other contributions	3,389	8,652
<b>Total</b>	<b>55,599</b>	<b>63,950</b>

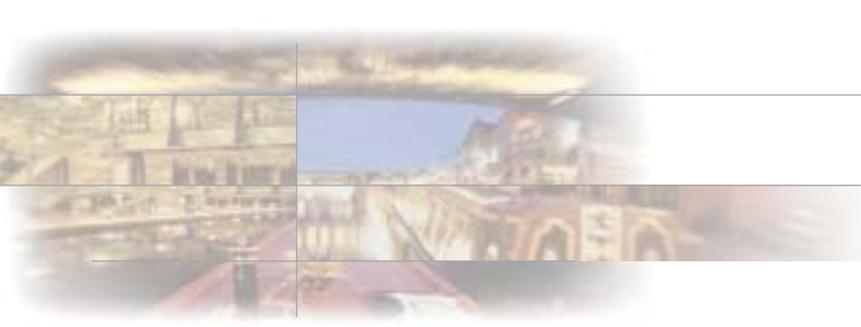
The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £88.1m (land £1.5m, houses £86.6m). £64.4m of this is reserved for debt repayment. This excludes mortgage principal repayments from ex council houses of £0.4m.

## 8. Cost of capital charges

The cost of capital charges based on a 3.5% basis on the valuation are £49.604m. The capital finance charges calculated in accordance with Item 8 Debit (General Determination 2003-04) are £47.293m including interest and principal repayments at 2% of debt outstanding.

## 9. Depreciation charges

	2002-03 £000's	2003-04 £000's
Dwellings	41,552	39,875
Other Land, Buildings and Garages	0	0
<b>Operational Total</b>	<b>41,552</b>	<b>39,875</b>
Non Operational	0	0
<b>Total Depreciation</b>	<b>41,552</b>	<b>39,875</b>



The total charge for depreciation for the land, houses and other property within the authority's HRA is £39.875m. The principle adopted by the authority is that depreciation is equal to the major repairs allowance that reflects the maintenance of properties in their present condition.

#### **10. Rent arrears**

Arrears of rent on housing dwellings at 31 March 2004 amounted to £13.7m (31 March 2003: £13.5m). Arrears of rent on other services and income amounted to £6.9m at 31 March 2004 (31 March 2003: £6.8m).

A provision for bad debts has been made to meet possible future write offs of rent outstanding. The provision was £15.4m at 31 March 2004 (31 March 2003: £14.6 m)and has been calculated in accordance with government guidelines.

Arrears relating to former tenants are written out of the accounts at the year-end. The debts continue to be pursued by officers and income subsequently collected is credited to the Housing Revenue Account. The total former tenants' arrears written out in 2003-04 was £2.9m (2002-03 £4.1m).

## Collection Fund

2002-03 £'000		Note	2003-04 £'000	£'000
	<b>Income</b>			
215,908	Council Tax: Income	2	227,913	
73,910	Transfer from General Fund: Council Tax Benefit		77,697	
1,846	Decrease in provision for bad debts	5	1,278	
<u>291,664</u>				306,888
283,433	Business ratepayers: Income collectable	3		291,524
54	Community Charge: Income collected resulting in a reduction to provision for bad debts			64
<u>575,151</u>				<u>598,476</u>
	<b>Expenditure</b>			
259,404	Demands on the Collection Fund: Birmingham City Council	4	273,049	
44	Frankley in Birmingham Parish		53	
9,245	West Midlands Fire and Civil Defence Authority		10,253	
17,247	West Midlands Police Authority		19,995	
<u>285,940</u>				303,350
0	Council Tax: Increase in provision for bad debts			0
4,386	Debts Written Off			4,629
281,553	Business rate: Payment to national pool	3	289,612	
1,880	Cost of collection allowance		1,912	
<u>283,433</u>				291,524
1281	(Surplus) brought forward			(111)
<u>575,040</u>				<u>599,392</u>
(111)	(Surplus)/Deficit carried forward			916

### 1. General

These accounts represent the transactions of the Collection Fund

This is a statutory fund which the City Council administers on its own behalf, and that of New Frankley in Birmingham Parish Council and of the West Midlands Police, and Fire and Civil Defence Authorities. It records major sources of funding and their distribution. As the City Council is the billing authority, the fund is consolidated with other accounts in the Consolidated Balance Sheet on page 38 of these accounts.

## 2. Contribution from council tax payers

The council's tax base at January 2003 (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	380	5/9	211
A	128,504	6/9	85,669
B	101,667	7/9	79,074
C	61,013	8/9	54,234
D	27,687	1	27,687
E	16,186	11/9	19,783
F	7,230	13/9	10,443
G	4,989	15/9	8,315
H	655	2	1,310
<b>Total</b>	<b>348,311</b>		<b>286,726</b>
Less: adjustment for collection rate			(5,735)
			<b>280,991</b>

## 3. Business ratepayers

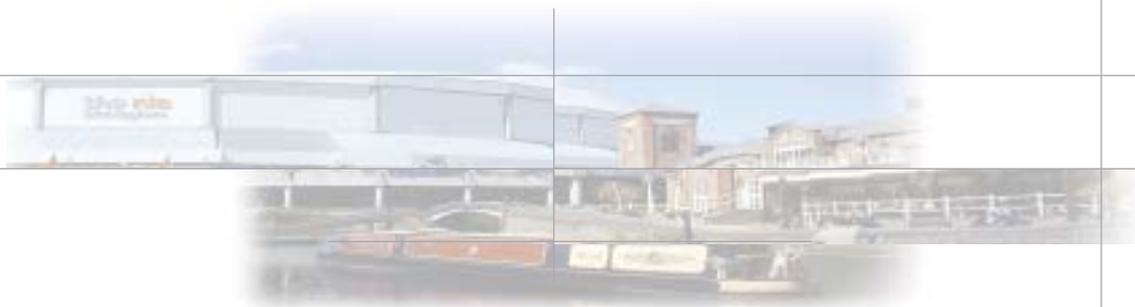
Under the arrangements for uniform business rates, the council collects National Non-Domestic Rates (NNDR) for its area which are based on local rateable values multiplied by a uniform rate which is set by the Government (44.4p for 2003-04 : 43.7p for 2002-03). The total non-domestic rateable value at 31 March 2004 was £810.2m (£863.8m at 31 March 2003). 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 2003-04 are analysed as follows:

2002-03 £'000		2003-04 £'000
390,592	<b>a) Contribution to the NNDR pool: Non domestic rates</b>	392,121
8,462	Add: transitional relief adjustments	1,242
(117,501)	Less: allowances and adjustments	(103,751)
<u>281,553</u>	Net contribution to NNDR pool	<u>289,612</u>
272,367	Amount actually paid during the year	271,207
9,186	Payment to/(refund due from) pool	18,405
<u>281,553</u>		<u>289,612</u>
	<b>b) Redistribution from the NNDR pool:</b>	
300,121	Net income to City Council from NNDR	285,874

## 4. Precept Payments

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



## 5. Bad debts

Every effort is made to recover all amounts due from council/community tax and business ratepayers. However, where it has been proved impossible to recover unpaid charges, such amounts are written off to the Collection Fund Account. In 2003-04, £3.3m (£2.6m) in respect of unpaid NNDR and £4.6m (£4.4m) of Council Tax was written off. These write-offs represented 1.08% (0.87%) of NNDR due as at 1st April 2003 including amounts brought forward from earlier years and 1.33% (1.32%) of the amount of Council Tax due including arrears from earlier years. The figures in brackets are those for the previous year.

The basis for calculating the council tax bad debt provision was changed in 2002-03, to reflect improved collection arrangements. This basis has been refined in 2003-04 and has resulted in a reduction of £1.3m. The basis for calculating the NNDR bad debt provision has been changed in 2003-04 to reflect that used for Council Tax, and has resulted in a reduction of £1.4m.

## Consolidated Balance Sheet

31st March 2003 £'000		Note to the accounts	£'000	31st March 2004 £'000
	<b>Fixed Assets</b>			
	<i>Operational assets</i>			
1,417,264	- council dwellings and other HRA properties	}	1,721,949	
1,457,341	- other land and buildings	}	1,583,800	
28,239	- vehicles, plant, furniture and equipment	} 1,2 & 3	28,249	
361,228	<i>Infrastructure assets</i>	}	379,675	
1	<i>Community assets</i>	}	1	
<u>327,310</u>	<i>Non-operational assets</i>	}	<u>327,149</u>	
3,591,383				4,040,823
8,793	Premature debt repayment premiums	4		13,673
68,873	Long term investments	5		74,506
<u>32,474</u>	Long term debtors	6		<u>33,928</u>
3,701,523	<b>Total long term assets</b>			4,162,930
	Current assets:			
53,454	- other investments	5	46,273	
3,159	- stocks and work in progress	7	3,341	
193,363	- debtors	8	228,834	278,448
	Current liabilities:			
(57,253)	- borrowings repayable within 12 months	9	(161,229)	
(260,882)	- creditors	10	(324,047)	
<u>(52,205)</u>	- cash overdrawn		<u>(31,146)</u>	<u>(516,422)</u>
<b>3,581,159</b>	<b>Total assets less current liabilities</b>			<b>3,924,956</b>
(1,106,845)	Long term borrowing	9		(933,859)
(740,001)	Pensions Liability	11		(590,340)
(120,965)	Deferred Liabilities	12		(119,294)
(122,173)	Deferred Grants	13		(170,582)
<u>(57,689)</u>	Provisions	14		<u>(60,566)</u>
<b>1,433,486</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>			<b>2,050,315</b>
1,317,916	Fixed Asset Restatement Reserve	15		1,672,405
725,824	Capital Financing Reserve	16		773,316
29,051	Useable Capital Receipts Reserve	17		50,177
21,941	Capital Contributions Unapplied	17		23,022
(740,001)	Pensions Reserve	11		(590,340)
54,578	Earmarked Reserves	17		73,313
319	Housing Major Repairs Reserve	17		16,128
17,076	Balances - General fund	}		22,105
6,671	- Housing Revenue Account	} 18		11,105
111	- Collection Fund	}		(916)
<u>1,433,486</u>	<b>NET EQUITY</b>			<u>2,050,315</u>

### 1. Capital Expenditure and movement in fixed assets 2003-04

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

The City Council's capital expenditure on an accruals basis, including amounts owing but not paid in 2003/04, analysed between types of asset, is summarised below. This also includes deferred charges.

	2003-04 (£m)
<b>Capital Expenditure</b>	
<b>Type of Asset</b>	
Other Land and Buildings	64.7
Vehicles and equipment	7.0
Investment Properties	7.7
Infrastructure	41.2
Community Assets	8.5
Council Dwellings	64.8
<b>Total Capital Expenditure re Fixed Assets</b>	<b>193.9</b>
Deferred Charges	45.2
Operational Leasing	3.1
<b>Total Capital Expenditure (Accruals Basis)</b>	<b>242.2</b>
Movement in Accruals	(0.5)
<b>Total Capital Expenditure (Payments Basis)</b>	<b>241.7</b>
<b>Capital Financing</b>	
<b>Source</b>	
Borrowing Approvals	87.5
Capital Receipts	24.7
Capital Grants	100.2
Contributions	17.4
Revenue	8.8
Operational Leasing	3.1
<b>Total</b>	<b>241.7</b>

	Council Dwellings, & Garages £m	Other Land, & Buildings £m	Vehicles, Plant & Equipment £m	Infrastructure Assets £m	Community Assets £m	Investment Properties £m	Total £m
Net book value at 1 April 2003	1,417.3	1,457.3	28.3	361.2	0.0	327.3	3,591.4
Additions	0.3	56.8	7.0	41.3	0.0	0.5	105.9
Disposals	(75.4)	(6.7)	0.0	0.0	0.0	(1.0)	(83.1)
Revaluation and Restatements	419.6	104.4	0.1	0.0	0.0	0.3	524.4
Depreciation for year	(39.9)	(28.0)	(7.1)	(22.8)	0.0	0.0	(97.8)
<b>Book value at 31.03.04</b>	<b>1,721.9</b>	<b>1,583.8</b>	<b>28.3</b>	<b>379.7</b>	<b>0.0</b>	<b>327.1</b>	<b>4,040.8</b>

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

## 2. Land, buildings and other assets

31 March 03	Property Assets (major categories)	31 March 04
76,779	Council Dwellings	73,036
5,103	Investment Properties	5,100
481	Schools and Nurseries	478
57	Other Educational Establishments	58
85	Office and Administrative Premises	90
132	Social Services Properties	132
40	Libraries	41
7	Museums and Art Galleries	7
23	Swimming Pools, Leisure Centres, Sports Stadium	23
82	Public Halls and Community Centres	82
133	Parks	146
31	Depots and Vehicle Workshops	31
70	Public Car Parks	66
4	Markets	3
9	Cemeteries and crematoria	12
2,478	Kilometres of roads	2,475
	<b>Council dwellings comprise the following types of properties:</b>	
75,463	Freehold	71,760
961	Long Leasehold	941
355	Short Leasehold	335

## 3. Fixed Asset Valuation

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

Approximately one fifth of the Council's property assets are valued each year. Peter Jones MRICS, Assistant Director and other similarly qualified staff in Birmingham Property Services, Economic Development Department, carried out all valuations, and valuation certificates were issued in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The effective date of the current year's valuation is the 1st April 2003. Properties regarded as operational were valued on the basis of Existing Use Value. Where no evidence of market value of suitable comparable property was available, and/or where the asset is of a specialist nature, the method of valuation was Depreciated Replacement Cost.

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

### *Operational Assets (Housing):*

The entire housing stock was revalued as at 1st April 2000 by Peter Jones MRICS, according to the former DETR 'Guidance on Stock Valuation for Resource Accounting' issued in 2001. The valuation was on the basis of Existing Use-Social Housing using sample "beacon properties" and a valuation certificate was issued in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Not all properties were inspected by the Valuer. A desktop review of the beacon values was carried out as at 01.04.03 by Peter Jones MRICS in accordance with the former DETR guidance.

#### Infrastructure and Community Assets:

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

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

#### 4. Premature Debt Repayment Premiums

	2002-03 £m	2003-04 £m
Opening Balance as at 31 March	8.8	8.8
Net discounts/premiums on premature redemption of debt	1.0	15.9
Amount charged to asset management revenue account	(1.0)	(11.0)
<b>Closing Balance as at 31 March</b>	<b>8.8</b>	<b>13.7</b>

The balance remaining represents net premiums paid on premature repayment of debt and will be charged to the asset management revenue account over the life of the replacement loan. Of the £11.0 million charged to the Asset management Revenue Account, £8.9 million was funded by the application of balances from the Provision for Credit Liabilities. See also Note 18 below.

#### 5. Investments

31.03.03 £m (Restated)		31.03.04 £m
68.9	<b>Long Term investments:</b> Unlisted investments intended to be held for the medium or long-term, at cost/valuation	74.5
53.5	<b>Short Term investments:</b> Temporary money market deposits	46.3
<b>122.4</b>	<b>Total investments</b>	<b>120.8</b>

The Council is guaranteeing repayment of the full amount on the principal of and interest accruing on The NEC Limited loan stocks (See Note 25). The City Council is making a provision to repay the principal on these loan stocks. Part of these sums is now being invested by Morley Fund Management on behalf of the City Council. This arrangement is reflected in the movement in unlisted investments above.

The Council has revised its accounting treatment of monies received from developers as "planning gains" (Section 106 receipts). These are included for the first time. The amounts received are shown in the balance sheet as Contributions Unapplied. These sums total £24.5 million, of which £23.8 million is invested externally, and the balance held as cash. £23.8 million is therefore included in the Short Term Investments figure. Of the £24.5 million, £1.5 million was applied to finance capital expenditure in 2003-04 but not drawn down as at 31st March 2004. The Contributions Unapplied figure on the balance sheet is, therefore, £23.0 million

## 6. Long Term Debtors

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

31.03.03 £m		31.03.04 £m
13.6	University of Central England	12.9
1.4	Mortgages:- Former council house tenants	1.6
7.1	Birmingham Airport Holdings	7.1
3.0	Birmingham Technology Group	3.0
2.5	Birmingham Hippodrome	2.5
0.3	Birmingham Rep	0.3
2.2	Employee Loans	1.9
1.6	N.E.C. Developments Plc	1.6
0.6	Learning and Skills Council	0.5
0.0	Millennium Point	2.2
0.2	Other Long term Debtors	0.3
<b>32.5</b>	<b>Total Long Term Debtors</b>	<b>33.9</b>

## 7. Stocks and Stores

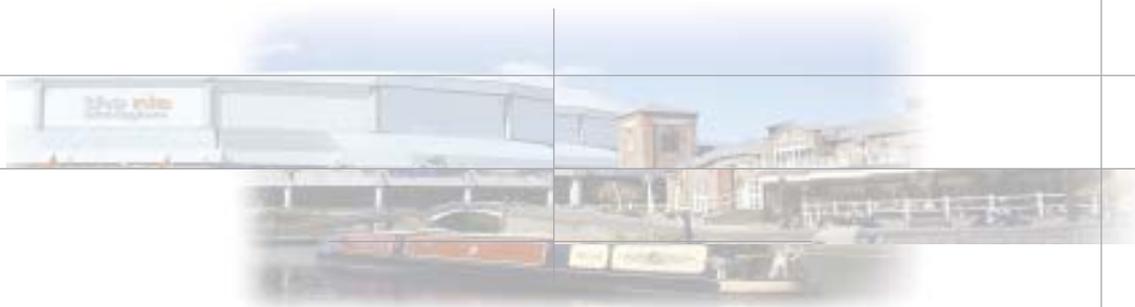
An analysis of stocks and stores is shown below:

31.03.03 £'000		31.03.04 £'000
824	National Exhibition Centre	957
767	Leisure Services	745
764	Transportation	743
530	Other	874
274	Work In Progress	22
<b>3,159</b>	<b>Total Stocks</b>	<b>3,341</b>

## 8. Debtors

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

31.03.03 £m		31.03.04 £m
	<b>Sums due from:</b>	
47.2	Council Tax Payers	48.3
5.8	Community Charge Payers	5.7
14.0	Business Ratepayers	13.4
25.0	Residential and Commercial Rents	26.3
61.7	Government Departments	71.4
99.0	Others	119.6
<b>252.7</b>		<b>284.7</b>
(59.3)	Provision for bad debts	(55.9)
<b>193.4</b>	<b>Total Debtors</b>	<b>228.8</b>



## 9. Council Borrowing

31.03.03 £m		31.03.04 £m
	<b>Analysis by source:</b>	
20.1	Stock	20.1
5.0	Bonds	0.0
1,017.0	Public Works Loan Board	884.0
79.6	Other Market Loans	89.6
42.4	Short Term Loans	101.3
<b>1,164.1</b>	<b>Total Borrowing</b>	<b>1,095.0</b>

The balance sheet shows these borrowings as follows:

31.03.03 £m		31.03.04 £m
57.3	Borrowings repayable within 12 months	161.2
75.0	Between 1 and 2 years' time	30.0
71.9	Between 2 and 3 years' time	10.0
28.7	Between 3 and 4 years' time	0.0
0.0	Between 4 and 5 years' time	0.0
156.3	Between 5 and 10 years' time	153.9
184.9	Between 10 and 15 years' time	159.9
590.0	After more than 15 years	580.0
<b>1,164.1</b>	<b>Total Borrowings</b>	<b>1,095.0</b>

## 10. Creditors

Any analysis of creditors is shown below.

31.03.03 £m (Restated)		31.03.04 £m
55.9	General Creditors	56.6
37.7	Government Grants	30.7
0.0	HM Collector of Taxes (Income Tax and National Insurance)	21.3
4.0	Housing Benefit	3.4
52.9	Receipts in Advance	84.0
3.8	Amounts Owed to Employees	5.6
14.7	NNDR	16.7
91.9	Other	105.8
<b>260.9</b>	<b>Total Creditors</b>	<b>324.1</b>

The balance owing to HM Collector of Taxes relates to payroll deductions made in March 2004 where the amounts had not been paid over as at 31st March. There is no equivalent figure for 2003 as the Council has changed its accounting practice in this area during the year.

### 11. Pensions Liability

Full details of the calculation of the pensions liability may be found in Disclosure Note 3 to the Consolidated Revenue Account.

### 12. Deferred Liabilities

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

31.03.03 £m		31.03.04 £m
77.5	Debt taken over from the former West Midlands County Council	76.5
3.2	Walsall Waste Disposal	3.2
39.7	Schools PFI	39.2
0.6	Other	0.4
<b>121.0</b>	<b>Total Deferred Liabilities</b>	<b>119.3</b>

### 13. Deferred Government Grants

This account holds the various Government capital grants and contributions from private developers. These will be written off to revenue over the life of the relevant assets in accordance with the depreciation schedule. Grants funding assets which are not depreciated are written off to the Capital Financing Reserve. During the year grants totalling £55.1 million (2002-03 £43.1 million) used to finance the acquisition of fixed assets was taken to the account and £6.7 million (2002-03 £4.7m), equivalent to depreciation on assets financed by grants in previous years, was written off to revenue.

### 14. Provisions

	31.03.03 £m	Increase in year £m	Applied in year £m	31.03.04 £m
NEC Limited Loan Debt	53.3	2.7	0.0	56.0
Other	4.4	0.9	0.7	4.6
	<b>57.7</b>	<b>3.6</b>	<b>0.7</b>	<b>60.6</b>

#### 14.1 NEC Ltd.

The City Council is guaranteeing repayment of the full amount on the principal of and interest accruing on the NEC loan stocks. The City Council has set up a provision to repay the principal of £215m due in 2016 and £73m due in 2027. (see also note 5 and 20).

#### 14.2 Bad Debt Provision

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

### 15. Fixed Asset Restatement Reserve

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

The movements on the fixed asset restatement reserve in 2003-04 are shown below:

	2002-03 £m	2003-04 £m
Opening Balance at 1 April	1,262.0	1,317.9
Revaluation and restatement of fixed assets	213.5	524.4
Movement in deferred liability	(12.0)	0.0
Exp. not resulting in a change in asset values	(63.2)	(86.9)
Disposal of fixed assets	(82.4)	(82.9)
Prior Year Adjustment	0.0	(0.1)
<b>Closing Balance at 31 March</b>	<b>1,317.9</b>	<b>1,672.4</b>

### 16. Capital Financing Reserve

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

The movements on the Capital Financing Reserve are shown below:

	2002-03 £m		2003-04 £m	
Opening Balance		672.6		725.8
<b>Capital Receipts Reserved</b>				
Sales of Fixed Assets	55.1		65.1	
Mortgage Principal	<u>1.0</u>	56.1	<u>0.3</u>	65.4
<b>Financing of Capital Expenditure</b>				
Use of Capital receipts	20.4		24.7	
Direct Revenue Financing	3.6		9.8	
Use of Major Repairs Reserve	<u>45.0</u>	69.0	<u>24.1</u>	58.6
Depreciation	(53.5)		(58.0)	
Impairment of Fixed Assets	(0.2)		0.0	
Transfer from Major Repairs Reserve	(45.0)		(39.9)	
Write Down of Deferred Grant	4.7		6.7	
Write Off of Grants Not Funding Assets	11.1		14.6	
Write off of Premiums			(9.0)	
Deferred Charges - Expenditure	(37.1)		(46.4)	
Deferred Charges - Income	10.7		16.3	
Minimum Revenue Provision	35.4		38.6	
Other	<u>2.0</u>	(71.9)	<u>0.6</u>	(76.5)
		<b>725.8</b>		<b>773.3</b>

## 17. Earmarked Reserves

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

	31.03.03	Movement in year	31.03.04
	£m	£m	£m
Sums set aside to finance capital expenditure	10.5	(0.9)	9.6
Housing Major Repairs Reserve	0.3	15.8	16.1
Reserves for budgets delegated to schools	21.8	11.4	33.2
Service Development Reserve	6.3	(3.9)	2.4
PFI Schools Reserve	2.1	1.1	3.2
Insurance Reserve	3.5	0.8	4.3
Other	10.3	10.3	20.6
	<b>54.8</b>	<b>34.6</b>	<b>89.4</b>
Usable Capital Receipts	29.1	21.1	50.2
Capital Contributions Unapplied	21.9	1.1	23.0
	<b>105.8</b>	<b>56.8</b>	<b>162.6</b>

The reserve in respect of budgets delegated to schools is a net figure held by schools at 31st March 2004 and is an earmarked reserve which must in totality be available for schools' use. These balances include £3.7m (2002-03: £2.0m) relating to former Grant Maintained schools (see Note 26).

The net figure held by schools, before any temporary loans to the General Fund are taken into account, is made up of £45.5m underspent by schools and £5.2m overspent by schools.

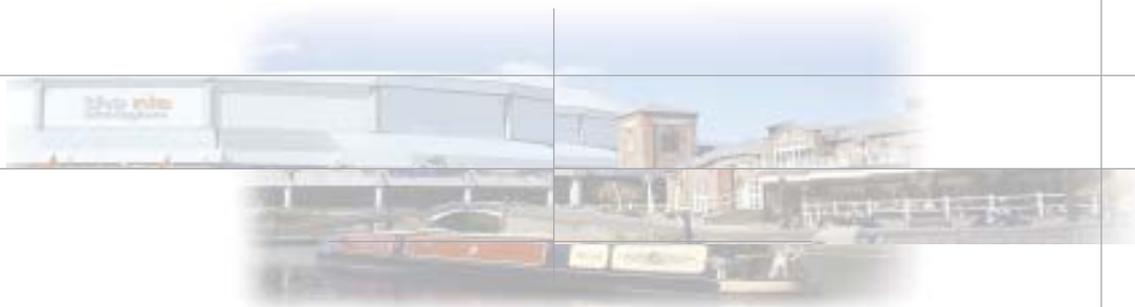
Earmarked reserves are available to fund capital or revenue expenditure, following approval by the Cabinet. Expenditure is charged to the revenue or capital account when it is incurred and is financed by an appropriation from the reserve to the Consolidated Revenue Account.

The Housing Major Repairs Reserve is a reserve to which is credited the Major Repairs Allowance which may be applied to the financing of housing repair work. £0.3 million was brought forward from 2002-03 and £39.9 million received during the year. £24.1 million was applied to the funding of Housing capital expenditure leaving a balance of £16.1m.

The Usable Capital Receipts Reserve has been increased from £29.1m at 31st March 2003 to £50.2m at 31st March 2004. It represents the carry forward of unspent capital receipts at the year end. The increase is due largely to a higher than expected level of capital receipts in year; the planned use of receipts for specific purposes in later years; and the slippage of planned capital expenditure into later years.

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

	31.03.03	Movement in year	31.03.04
	£m	£m	£m
General Fund	17.1	5.0	22.1
Housing Revenue Account	6.7	4.4	11.1
Collection Fund	0.1	(1.0)	(0.9)
	<b>23.9</b>	<b>8.4</b>	<b>32.3</b>



For 2004-05 the City Council has budgeted to make a contribution of £1.5m to General Fund balances. The Collection Fund is a statutory fund in which the Council records transactions for council tax and business rates. Amounts due to the precepting authorities are shown as a creditor in the balance sheet.

### 19. Provision for Credit Liabilities

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

2002-03 £m		2003-04 £m
0.0	Balance brought forward	0.0
35.4	Minimum revenue provision	38.6
56.1	Reserved capital Receipts	65.1
(91.5)	Use of provision	(103.7)
0.0	Balance carried forward	0.0

### 20. Contingent Liabilities

These relate to pending legal or contractual claims not included in the accounts and guarantees given by the City Council for repayment of loans taken out by certain associated companies (see also note 25). The City Council currently has the following contingent liabilities:

- i) The City Council is guaranteeing repayment of the full amount on the principal of and interest accruing on the NEC Ltd loan stocks raised for the construction of the International Convention Centre, the National Indoor Arena and Hall 10 at the National Exhibition Centre. At 31st March 2004 the amount of the loans guaranteed was £215m (2003:£215m) due in 2016. At 31st March 2004, the City Council had a provision of £56.0m (2003: £53.3m) in respect of the repayment of this principal. (see note 13).
- ii) The City Council is guaranteeing payment of the full amount on the principal of and interest accruing on the National Exhibition Centre (Developments) PLC loan stock raised in May 1997 for the construction of the four new halls at the National Exhibition Centre. The amount of the loan guaranteed is £73m (2003: £73m) due in 2027.
- iii) The City Council has agreed to guarantee up to a maximum of £13.5m of commercial loans made by Württembergische Hypothekenbank AG to Aston Science Park Limited. At 31 March 2004 the full amount of £13.5m (2003: £13.5m) had been drawn down against this facility. The loan facility is due for repayment over 17 years and commenced in May 2004.
- iv) The City Council has agreed to provide the benefit of a guarantee for any shortfall in income below £1.8m per annum up to a maximum of £275,000 per annum to enable Millennium Point Property Ltd to meet its commitments on a £12.9m bank loan from Barclays Bank plc. The loan is required as part of the project's £113m funding. Millennium Point is a 100% owned subsidiary of Millennium Point Trust Ltd who are charged with procuring, designing, building, financing and operating Millennium Point.

- v) The City Council is the Accountable Body for a range of grant funding regimes such as Single Regeneration Budget, New Deal for Communities and European Funding. This role can be project specific, where the Council accesses funding directly for itself or on behalf of another organisation, or programme related, where the Council is accountable for the delivery of or underwrites the performance of a programme. There is a potential liability to the Council arising from potential non-delivery of outputs, ineligible expenditure or disposal of assets. As at 31st March 2004 commitments under the Council's Accountable Body roles totalled £181.6m with projected future commitments arising in years to 2011/12 of £235m. To minimise the impact of these possible liabilities the City Council has introduced various controls and mechanisms such as legal agreements, charges on assets and detailed expenditure verification and monitoring.
- vi) The City Council has agreed to provide the benefit of a guarantee for an overdraft facility advanced by HSBC to Thinktank Trust Ltd amounting to £0.5m (2002-03 Nil).
- vii) The City Council's final Housing Benefit claim for 2002-03 is still being considered by the Department of Work and Pensions. There may be a clawback of subsidy from the City Council, above the level provided for in the accounts, which would reduce the level of benefit income shown and also reduce the General Fund balance carried forward.

## 21. Commitments under Capital Contracts

The City Council has to plan its capital spending in advance of work proceeding. Thus, at 31 March 2004, 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:

	£m
<b>Transportation Schemes</b>	
Masshouse (major remodelling of city centre road network)	3.7
Warwick Road (Highway improvements in South Birmingham)	1.0
Chelsley Showcase phase 2 (Highway improvements and bus lane implementation)	1.1
<b>Education and Lifelong Learning Schemes</b>	
Neighbourhood Nursery Initiatives	1.7
<b>Leisure Schemes</b>	
New Storage Capacity for Museums	2.6
<b>Economic Development Schemes</b>	
Kyotts Lake (to provide industrial units)	1.1
<b>Resources Directorate Scheme</b>	
Council House Roof Repair	1.1
<b>Total</b>	<b>12.2</b>

## 22. Advance Capital Payments

As at 31st March 2004, Satman Developments (Birmingham) Limited held £ 0.5m (2003 £0.5m) of funds by way of advance payments to undertake building works on behalf of the city .



### 23. Insurance

The City Council maintains an Insurance Reserve to assist in managing claims falling against negotiated policy excesses accepted by the City Council. The policy excesses, which change from time to time, are for the major risks (2003-04 policy year):

<b>Fire:</b>	£750,000 per claim
<b>Terrorism:</b>	£750,000 per claim
<b>Employers Liability:</b>	£500,000 per claim
<b>Public Liability:</b>	£150,000 per claim
<b>Motor Vehicle:</b>	£25,000 per claim up to £850,000 in aggregate pa

The balance on the reserve is £4.3m (2002-03: £3.5m) and it is included in the Other Earmarked Reserves (see Note 17).

Municipal Mutual Insurance Co. Ltd. (MMI) ceased writing new insurance business in 1992 and is currently using its available resources to meet outstanding claims. MMI may not fully know the full extent of its liability claims as it may take a number of years for them to arise. The City Council had part of its fire insurance and a number of contingency covers with MMI. Claims totalling £0.47m are currently outstanding.

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

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

## 24. Trust Funds

The City Council administers a number of trust funds which have been established from donations and bequests made to it to meet a variety of objectives and purposes. The total monies held at 31st March 2004 were £6.5m (2003: £6.2m).

In addition, the City Council held £1.6m (2003: £1.5m) of Social Services Clients' Funds.

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

	Balance at 31.03.03 £'000	Income £'000	Expenditure £'000	Balance at 31.03.04 £'000
Bodenham Trust - for children with special educational needs	446.8	34.5	17.3	464.0
<b>Centre for the Child – healthy recreation for Birmingham citizens</b>	181.9	8.7	2.0	188.6
<b>Charles Baker Trust – accommodation for the elderly and disabled</b>	178.2	13.3	0.8	190.7
Clara Martineau Trust - for children with special educational needs	2,074.1	442.9	150.0	2,367.0
<b>Girls Night Shelter for women and girls in need or distress</b>	261.3	9.1	0.0	270.4
Holinsworth Fund - to further the work of voluntary hospitals	118.4	24.1	10.8	131.7
Museum & Art Gallery Development Trust - enhancement of city museums	245.1	81.6	0.0	326.7
Rupert St. Endowment - improving leisure facilities	484.4	79.8	18.1	546.1
<b>The Elford Trust – to promote the education of children and their carers</b>	251.7	48.4	57.5	242.6
<b>The Harriet Louisa Loxton Charity – for the aged and infirmity</b>	908.6	2.8	24.3	887.1
The Lord Mayor's Charity Appeal - for charitable purposes	184.0	98.0	97.6	184.4
Other	890.1	344.3	568.3	666.1
	<b>6,224.6</b>	<b>1187.5</b>	<b>946.7</b>	<b>6,465.4</b>

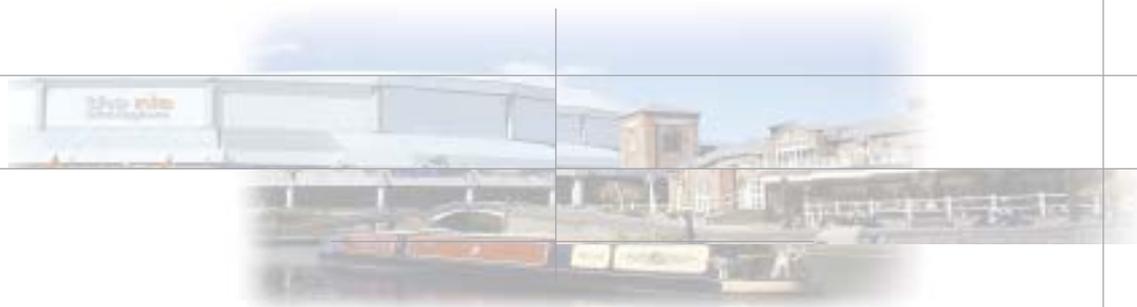
*The opening balances of the following funds have been restated. The Lord Mayor's Charity Appeal.*

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

## 25. Associated and Subsidiary Companies

The City Council maintains involvement with a number of associated and subsidiary companies. The assets and liabilities of these companies are not included in the City Council's accounts. Note 20 also lists major contingent liabilities in relation to some of the following companies.

The major investments are in the following companies.



### The National Exhibition Centre Limited

The City Council holds 5,000 £1 shares (50%) in the company, the purpose of which is to promote and operate the National Exhibition Centre, the International Convention Centre and the National Indoor Arena. At 31st March 2004, the City Council was guaranteeing loans of £215m (2003: £215m) to the company (see notes 20 (i) ).

The Company did not make any profit or loss before or after tax during the year to 31st March 2004 (2003: £0). The Company's net assets at 31st March 2004 amounted to £11,000 (2003: £11,000). The National Exhibition Centre Limited is a regulated influenced company under the Local Authorities (Companies) Order 1995 (S.I. 849). This means that a number of finance and propriety controls apply in relation to NEC Ltd activities.

In Agreements dated 17th March 1986 and 17th December 1987, as amended by an agreement dated 4th April 1996, Birmingham City Council has agreed to ensure that finance will be available in such a way and of such amount as will make certain that the company will remain solvent within the meaning of Section 123 of the Insolvency Act 1986 (that is that it will be able to meet its debts as they fall due) during such time as all or any part of the loan stock referred to in note 20 of the financial statements, in issue at the date of the agreements, or any interest costs or expenses payable in respect thereof remain to be repaid or paid. During 2003-04, the City Council made reimbursements totalling £21.512m to the Company NEC Ltd.

The above information is based on audited company accounts. There was no qualification to the audit opinion on the accounts of this company.

### The National Exhibition Centre (Developments) plc

The Company was set up to provide an additional 30,000 square metres of exhibition space in four new halls. The new building has been financed by a loan stock issue of £73million to the company which is guaranteed by the City Council. The City Council was allotted 450 of 1,000 ordinary shares of £1 each and 50,000 of 100,000 preference shares of £1 each in the company. The City Council has loan notes totalling £1.6 million in the company and has agreed to make available additional loans of £3.1 million should the Company require further funds. The loss before and after tax for the year to 31st March 2004 amounted to £14,000 (2003: £264,000). The net liabilities at 31st March 2004 amounted to £1,128,000 (2003: £1,114,000)

The above information is based on audited company accounts. There was no qualification to the audit opinion on the accounts of this company.

### Birmingham Technology Group

The Birmingham Technology Group of companies aims to promote, encourage and secure the development and management of a science park in Birmingham. The City Council appoints seven out of the thirteen members of Birmingham Technology Limited, which has loans outstanding from the City Council as at 30 June 2003 of £2.96m (2002: £2.96m). The City Council holds 1,250 £1 ordinary shares (25%) in Birmingham Technology (Property) Limited and is guaranteeing £13.5m of commercial loans by the company. The City Council also has 500 £1 ordinary shares (9%) and £800,000 of preference shares in Birmingham Technology (Venture Capital) Limited.

The Group's figures for the year ending June 2002 and 2003 are as follows:

2002 £m (Restated)		2003 £m
0.4	Profit/(Loss) on Ordinary Activities before taxation	0.6
0.5	Profit/(Loss) on Ordinary Activities after taxation	0.5
7.4	Net Assets	7.9

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

#### Other associated and subsidiary companies:

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

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

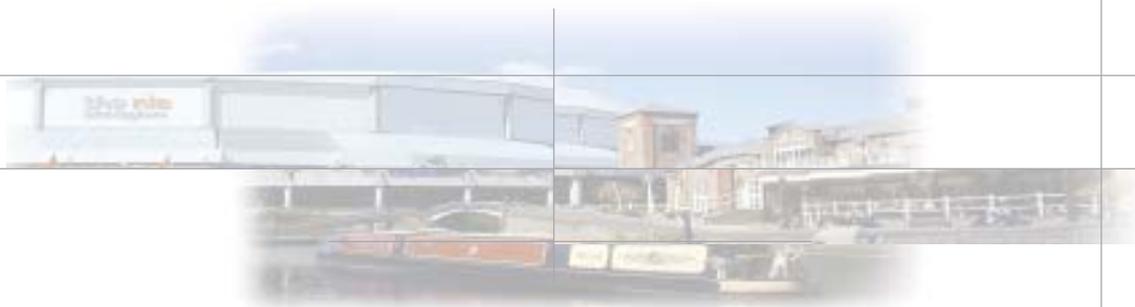
**Copies of all Company Accounts can be obtained from the Directorate of Resources  
Telephone 0121-303 3938**

#### 26. Other Company Interests

##### Birmingham Airport Holdings Limited (BAH)

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

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



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

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

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

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

The group performance is as follows:

Year to 31st March 03 £m		Year to 31st March 04 £m
24.0	Net profit before tax	30.9
15.8	Net profit after tax	19.9
198.6	Net assets at 31st March	207.2
2.2	City Council dividend income	2.3

## 27. Foundation Schools

The Schools Standards and Framework Act 1998 changed the status of Grant Maintained Schools to Foundation or Voluntary Aided Schools maintained by the Local Education Authority. The change for funding purposes took effect from 1st April 1999. This change has resulted in the inclusion of opening and closing balances for current assets and liabilities controlled by former Grant Maintained schools in the consolidated balance sheet. Fixed assets and long term liabilities remain vested in the Governing Bodies of schools and therefore values and amounts have not been consolidated. This treatment is compliant with extant CIPFA guidance, although this guidance is no longer considered to comply with FRS5 "reporting the substance of transactions". In the authority area there are 24 former Grant Maintained schools with an estimated fixed asset valuation of £167 million as at 31st March 2004. Of these schools four had long term loans outstanding as at 31st March 2004.

## 28. Private Finance Initiative Commitments

### i) Schools PFI

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

At 31st March 2003, all 10 schools had been completed. In accordance with FRS5 the balance sheet reflects these 10 schools as the Council's assets because the Council bears the majority of the risks and rewards of ownership. The value of assets recognised on the Balance Sheet is £48.0m net of depreciation of £2.2m. The deferred liability recognised in respect of this scheme, amounts to £39.2m.

Within the fees payable to BSPL there are separately identifiable charges for services e.g. cleaning, repair and maintenance etc which are subject to payment deductions for sub-standard service delivery.

The remainder of the fee is linked to the accommodation being available and fit for use, and stringent payment deductions apply if any part of the school is unavailable during term-time.

The deferred liability for this scheme, shown in Note 12, is based only on the Basic Availability payments of £3.2m per annum. The remaining availability payments are charged to AMRA as an approximation for interest, further availability payments are charged to the Education Service Revenue Account.

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

	Services £000s	Availability £000s	Total £000s
Within one year	2,616	4,731	7,347
2005-06 to 2006-07	5,431	9,569	15,000
2007-08 to 2011-12	14,809	24,593	39,402
2012-13 to 2016-17	16,755	25,651	42,406
2017-18 to 2021-22	18,956	26,849	45,805
2022-23 to 2026-27	21,447	28,203	49,650
2027-28 to 2031-32	24,478	29,098	53,576
<b>Total</b>	<b>104,492</b>	<b>148,694</b>	<b>253,186</b>

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

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

#### ii) Public Conveniences PFI

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

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

At 31st March 2004 there were 17 conveniences provided under the contract. 20 conveniences are expected to be operational in 2004-05 and the remaining two by 2005-06. There are no payments made under the contract for facilities that are not operational.

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

	£000s
2004-05	418
2005-06 to 2006-07	955
2007-08 to 2011-12	2,606
2012-13 to 2016-17	2,948
2017-18 to 2021-22	3,336



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

### **29. Possible Introduction of the Euro**

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

Birmingham City Council has a Euro Co-ordinator, the Strategic Director of Resources, and is developing a contingency plan. The Authority has arranged for in-payments to be received in Euro's although, at this time, the exchange rate risk remains with the payer. Arrangements are in place to make payments in Euros should the specific case arise. The costs of contingency planning, which are not expected to be significant, will be met from existing resources. These costs are currently being evaluated as part of the process of scoping work required to integrate a new currency.

### **30. Post Balance Sheet Events**

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

## Statement of Total Movement in Reserves

	Capital Reserves				Revenue Reserves				Total £m
	Fixed Asset Restatement Reserve £m	Capital Financing Reserve £m	Usable Capital Receipts £m	Capital Contribtns Unapplied £m	Pensions Reserve £m	General Fund £m	Specific Reserves £m	HRA £m	
Balance as at 31.3.2003	(1,317.9)	(725.8)	(29.1)	0.0	0.0	(17.1)	(54.8)	(6.7)	(2,151.4)
Prior Year adjustment				(21.9)	740.0				718.1
Adjusted Balance	(1,317.9)	(725.8)	(29.1)	(21.9)	740.0	(17.1)	(54.8)	(6.7)	(1,433.3)
Net (surplus)/deficit for year				(5.3)	(149.7)	(5.0)	(34.6)	(4.4)	(199.0)
Net unrealised gain from Revaluation of fixed assets	(524.4)								(524.4)
Unrealised impairment losses									0.0
Effects of disposals of Fixed assets:				(45.8)					(45.8)
Cost or value of assets Disposed of	82.9								82.9
Proceeds of Disposals		(65.4)							(65.4)
Financing of fixed assets		(58.6)	24.7	4.2					(29.7)
Other adjustments	87.0	76.5							163.5
<b>Balance as at 31.3.04</b>	<b>(1,672.4)</b>	<b>(773.3)</b>	<b>(50.2)</b>	<b>(23.0)</b>	<b>590.3</b>	<b>(22.1)</b>	<b>(89.4)</b>	<b>(11.1)</b>	<b>(2,051.2)</b>

The Pensions Reserve figure as at 31st March 2003 has been restated to reflect the full implementation of FRS17 in 2003-04. Previously disclosures were made but the FRS17 figures were not shown on the face of the accounts.

Details of the movement in the pensions liability may be found in Disclosure Note 3 to the Consolidated Revenue Account.

Capital Contributions Unapplied are contributions from developers which were not previously shown in the Council's accounts. A prior year adjustment has been made to reflect the change in accounting policy. Further information may be found in the Statement of Accounting Policies on page 13.

## Cash Flow Statement

2002-03			2003-04	
£m	£m		£m	£m
		<b>Revenue activities</b>		
		<i>Cash Outflows:</i>		
1,013.6		Cash paid to and on behalf of employees	1,117.1	
968.0		Other operating cash payments	973.3	
270.7		National non-domestic rate Payments to national pool	271.2	
144.8		Housing benefit paid out	144.7	
26.5		Precepts paid	30.2	
	2,423.6			2,536.5
		<i>Cash Inflows:</i>		
(102.6)		Rents (after rebates)	(97.5)	
(213.8)		Council tax income	(225.5)	
(283.4)		National non-domestic rate receipts from national pool	(285.9)	
(289.1)		Non-domestic rate receipts	(255.2)	
(608.0)		Revenue support grant	(723.2)	
(213.7)		DSS grants for benefits	(215.4)	
(431.9)		Other government grants (note 4)	(430.3)	
(295.0)		Cash received for goods and services	(278.2)	
(143.2)		Other operating cash receipts	(172.3)	
	(2,580.7)			(2,683.5)
	(157.1)	Revenue activities net cash flow (note 1)		(147.0)
		<b>Returns on investments and Servicing of finance</b>		
		<i>Cash Outflows:</i>		
109.9		Interest paid	103.2	
0.1		Interest element of finance lease rentals	0.0	
110.0			103.2	
(8.4)		<i>Cash Inflows:</i>		
	101.6	Interest received	(9.3)	93.9
		<b>Capital activities</b>		
		<i>Cash Outflows:</i>		
184.1		Purchase of fixed assets	194.5	
13.2		Purchase of long term investments	5.6	
37.1		Other capital cash payments	47.1	
	234.4			247.2
		<i>Cash Inflows:</i>		
(101.7)		Sale of fixed assets	(111.0)	
0.0		Capital Contributions received	(24.5)	
(95.1)		Capital grants received (note 4)	(163.1)	
	(196.8)			(298.6)
	(17.9)	Net cash outflow/(inflow) before financing		(104.5)
		<b>Management of liquid Resources</b>		
(32.3)		Net increase/(decrease) in short term deposits	14.4	
		<b>Financing</b>		
		<i>Cash Outflows:</i>		
148.9		Repayments of amounts borrowed	79.0	
0.4		Capital element of finance lease rental payments	0.0	
			79.0	
	(105.0)	<i>Cash Inflows:</i>		
		New Loans raised - long term	(10.0)	83.4
	(5.9)	Net (increase)/decrease in cash (note 2)		(21.1)

## Note 1

### Reconciliation of deficit on revenue accounts and the Collection Fund to revenue activities net cash flow

#### Birmingham City Council

	2002-03 £m	2003-04 £m
Surplus on Revenue Account	2.3	(5.0)
Surplus on Housing Revenue Account	0.4	(4.4)
Deficit on Collection Fund	(1.4)	1.0
	<u>1.3</u>	<u>(8.4)</u>
Add back: Appropriations to reserves	(14.1)	(18.4)
Provisions set aside	(30.0)	3.4
	<u>(42.8)</u>	<u>(23.4)</u>
Items included under another classification		
Interest paid	(101.7)	(105.2)
Interest received	8.4	9.3
Capital financing costs	(41.6)	(40.0)
Other adjustments	(21.8)	39.9
Items on an Accruals Basis		
Movement in Stock	(0.2)	0.2
Movement in Debtors	15.9	35.4
Movement in Creditors	26.7	(63.2)
	<u>(157.1)</u>	<u>(147.0)</u>

## Note 2

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

	Long Term Loans £'000	Loans Maturing in 12 months £'000	Other LT Creditors £'000	Investments £'000	Cash Overdrawn £'000	Net Debt £'000
31.03.2003	1,106,845	57,253	120,960	(53,454)	52,205	1,283,809
31.03.2004	933,859	161,229	119,294	(46,273)	31,146	1,199,255
Movement In Year	172,986	(103,976)	1,666	(7,181)	21,059	84,554
Made up of Movements in:						
Cash						21,059
Borrowing						69,010
Investments						(7,181)
Repayment of Deferred Liabilities						1,666
						<u>84,554</u>



## Note 3

### Analysis of Changes in Net Debt

	31.03.2003 £000s	Cash Flow £000s	31.03.2004 £000s
Cash Overdrawn	52,205	(21,059)	31,146
Due within one year	57,253	103,976	161,229
Due after one year	1,106,845	(172,986)	933,859
Investments	(53,454)	7,181	(46,273)
Deferred Liabilities	120,960	(1,666)	119,294
	<b>1,283,809</b>	<b>(84,554)</b>	<b>1,199,255</b>

## Note 4

### Other Government Grants

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

Grants received	31.03.2003 £m (Restated)	31.03.2004 £m
<b>Revenue:</b>		
Housing Subsidy	130.9	162.1
NRF	10.4	14.2
Rent Allowances	135.8	131.0
Council Tax Benefit	70.9	75.0
European Social Fund	3.7	2.1
European Regional Development Fund	0.4	1.0
Single Regeneration Budget	5.7	3.3
Education Grants	107.0	137.9
PFI Grant	6.8	5.8
Other	174.0	113.3
	<b>645.6</b>	<b>645.7</b>
<b>Capital:</b>		
ERDF	8.8	31.4
SRB	4.3	5.3
Magistrates Courts	0.9	2.4
Education Capital Grants	23.5	0.0
Housing Capital Grants - including MRA	41.9	45.0
Other	15.7	79.0
	<b>95.1</b>	<b>163.1</b>

## Group Financial Statements

The City Council has a 50% interest in the companies making up the National Exhibition Centre Ltd. Group. In addition, the council acts as guarantor of the company's borrowing and underwrites its operating losses. The company made no profit in the year ended 31st March 2004. The group balance sheet has been produced by consolidating the assets and liabilities of the City Council with those of the NEC Ltd. Group on a line by line basis. The major effect of this is an increase in long term borrowing from £1,284 million to £1,549 million and in fixed assets from £4,042 million to £4,295 million. Additionally the Council holds a 45% stake in NEC (Developments) Ltd. The group revenue account shows the Council's share of the Company's loss in 2003-04 while the Group Balance Sheet includes the Council's share of the Company's accumulated deficit consolidated on a net equity basis.

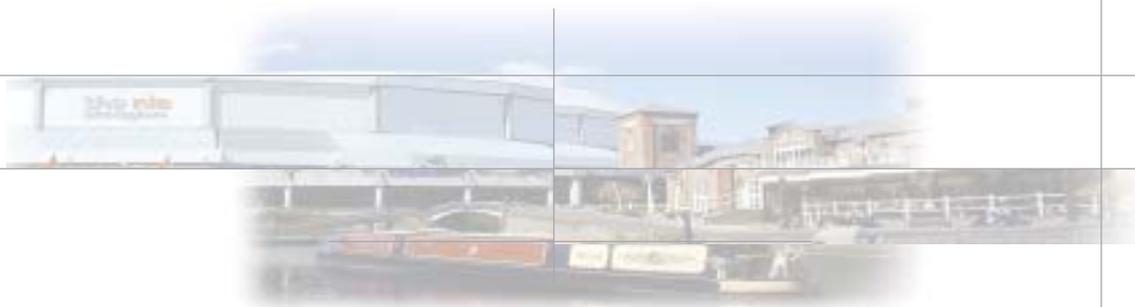
The accounts of the NEC Ltd. Group have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the provisions of company law. The accounts of the City Council have been prepared in accordance with the Statement of Recommended Practice for local Authorities (SoRP) produced by the Chartered Institute of Public Finance and Accountancy and endorsed by the Accounting Standards Board. Legislation relating to local authorities does not currently permit full compliance with UK GAAP. There are, therefore, a number of differences of accounting treatment between the Council and the NEC Ltd. Group. The major difference is that the Council's accounts reflect the full implementation of FRS17 (Retirement Benefits), compliance with which is not required for Public Limited Companies until 2005. The effect of such compliance by the NEC Ltd. Group is disclosed in a note to the consolidated financial statements.

Further details on the Council's relationship to NEC Ltd. may be found in Notes 20 and 25 to the Council's Balance sheet.

### Birmingham City Council Group Revenue Account

Year ended 31st March 2004

Year to 31st March 03 £'000		Year to 31st March 04 £'000
1,296,750	Net cost of services	1,324,534
44	Parish Council Precept	53
16,000	Levies not attributed to services	21,358
(210)	Surpluses/Deficits on Trading Undertakings	(7,683)
(108,180)	Surplus on Asset Management Revenue Account	(31,325)
(9,527)	Interest and Investment Income	(8,413)
0	Movement on Pensions Assets/Liabilities	32,350
(132)	Share of Deficits of Subsidiaries	0
1,194,745	Net operating expenditure	1,330,874
(18,193)	Appropriations	(47,951)
1,176,552		1,282,923
(614,771)	Government Grants	(728,976)
(559,569)	Collection Fund	(558,976)
2,212	(Surplus)/Deficit for year	(5,029)



## Group Balance Sheet

Balance sheet as at 31st March 2004

31st March 2003 £'000		31st March 2004 £'000
3,849,248	Fixed assets	4,294,131
41,253	Long term Debtors	47,587
68,868	Long term Investments	73,993
3,959,369	Total Long Term Assets	4,415,711
265,296	Current Assets	314,238
(395,735)	Current Liabilities	(540,346)
3,828,930	Total assets less Current Liabilities	4,189,603
(2,356,990)	Long term Liabilities	(2,139,780)
(11)	Minority Interests	(11)
1,471,929	Total Assets Less Liabilities	2,049,812
1,448,066	Reserves	2,018,021
17,081	General Fund Balances	21,602
6,782	Other Balances	10,189
1,471,929		2,049,812

### Note 1

The prior year figures for the NEC Group have been restated following changes in the Group structure during the year. The prior year balance sheet of the City Council has been restated to reflect the implementation of FRS17.

### Note 2:

Had FRS17 (Pensions) been fully implemented in 2003-04, the NEC Ltd. Group would have reported a profit of £2.9 million. There are no FRS17 disclosures in the accounts of NEC (Developments) Ltd., as the company has no employees.

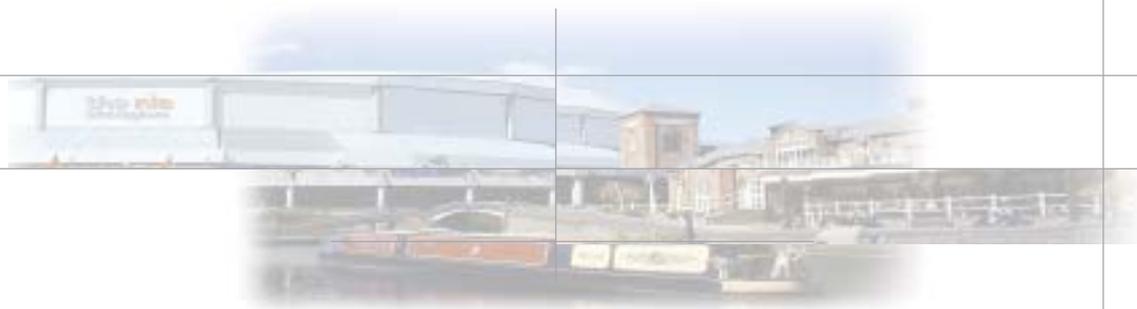
### Note 3:

At 31 March 2004 the amount owed by the Council to the NEC Group totalled £2.7 million and amount owed by the NEC Group to the Council totalled £10.9 million.

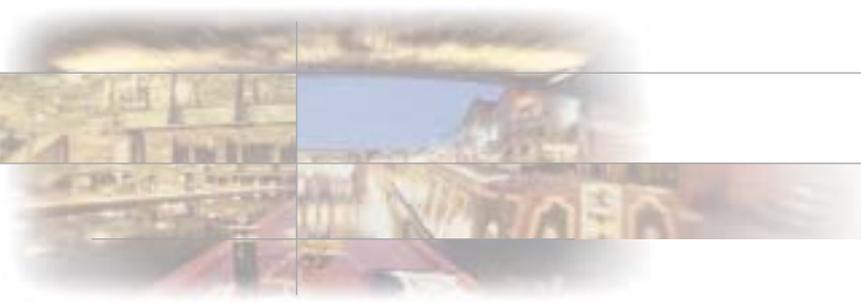


## Glossary of Terms

<b>Accruals</b>	Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).
<b>Asset Management Revenue Account (AMRA)</b>	An account maintained to record the costs of the Authority's Fixed Assets. It is credited with rentals charged to individual services for the use of those assets.
<b>Balances</b>	The total level of funds an authority has accumulated over the years, available to support revenue expenditure within the year.
<b>Capital Charge</b>	A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services
<b>Capital Expenditure</b>	Expenditure on the acquisition of a fixed asset, or expenditure which adds to, and not merely maintains, the value of an existing fixed asset
<b>Capital Financing Reserve</b>	An account maintained to hold the transactions relating to the financing of capital expenditure.
<b>Capital Receipt</b>	Money received from the disposal of land and other assets, and from the repayment of grants and loans made by the City Council.
<b>Collection Fund</b>	A fund administered by the City Council recording receipts from Council Tax and payments to the General Fund and other public authorities. It also records receipts of non-domestic rates collected on behalf of Central Government.
<b>Community Assets</b>	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.
<b>Consistency</b>	The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.
<b>Creditors</b>	An amount owed by the City Council for work done, goods received or services rendered, but for which payment has not been made at the end of the year.
<b>Deferred Charges</b>	Expenditure which may properly be incurred, but which does not result in an asset owned by the City Council. Examples of deferred charges are expenditure on items such as improvement grants.
<b>Depreciation</b>	The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset.
<b>Debtors</b>	Sums of money owed to the City Council but not received at the end of the year.
<b>Earmarked Reserve</b>	A sum set aside for a specific purpose.
<b>Emoluments</b>	Payments received in cash and benefits for employment.
<b>Fees and Charges</b>	Income arising from the provision of services, e.g. the use of leisure facilities.
<b>Finance Lease</b>	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.
<b>Fixed Assets</b>	Tangible assets that yield benefits to the City Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.
<b>Fixed Asset Restatement Reserve (FARR)</b>	The account which reflects the amount by which the value of the City Council's assets have been revised following revaluation or disposal.



<b>FRS</b>	Financial Reporting Standard.
<b>General Fund</b>	The total services of the City Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by Council Tax, Government Grants and NNDR.
<b>Government Grants</b>	Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority, in return for past or future compliance with certain conditions relating to the activities of the City Council.
<b>Government Grants Deferred Account</b>	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.
<b>Housing Revenue Account (HRA)</b>	A separate account detailing the expenditure and income arising from the provision of council housing.
<b>HRA Subsidy</b>	Grant paid by Central Government to support the provision of rented housing.
<b>Impairment</b>	A diminution in value of a fixed asset resulting from, inter alia, obsolescence or physical damage. To comply with accounting standards the City Council undertakes annual reviews of its assets to identify any assets which have been impaired.
<b>Infrastructure Assets</b>	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.
<b>Investments</b>	A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the City Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.
<b>Investment Properties</b>	Interest in land and/or buildings: <ul style="list-style-type: none"> <li>i) in respect of which construction work and development have been completed and</li> <li>ii) is held for its investment potential, any rental income being negotiated at arms length</li> </ul>
<b>Liabilities</b>	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.
<b>Materiality</b>	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.
<b>Minimum Revenue Provision (MRP)</b>	A minimum amount, set by law, which the City Council must charge to the revenue account, for debt redemption or for the discharge of other credit liabilities.
<b>National Non-Domestic Rates (NNDR)</b>	Rates which are levied on business properties. The City Council collects these rates and pays them into a national pool, which is then re-distributed on the basis of population.
<b>Net Book Value</b>	The amount at which fixed assets are included in the balance sheet, ie. Their historical cost or current value less the cumulative amounts provided for depreciation.
<b>Operating Leases</b>	Leases other than a finance lease.



<b>Post Balance Sheet Events</b>	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.
<b>Precept</b>	The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the City Council on their behalf.
<b>Prior Year Adjustments</b>	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.
<b>Private Finance Initiative (PFI)</b>	A Government initiative which enables authorities to carry out capital projects through partnership with the private sector.
<b>Provisions</b>	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.
<b>Prudence</b>	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.
<b>Related Party</b>	There is a detailed definition of related parties in FRS8. For the City Council's purposes, related parties are deemed to include: i) the elected Members of the City Council and their partners ii) the Chief Officers of the City Council and iii) the companies in which the City Council has an interest
<b>Revenue Expenditure</b>	Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.
<b>Revenue Support Grant (RSG)</b>	A grant from Central Government towards the cost of providing services.
<b>SSAP</b>	Statement of Standard Accounting Practice
<b>Standard Spending Assessment (SSA)</b>	The Government's assessment of the amount of expenditure required for each authority to provide a standard level of service across the country.



## Auditors Report to Birmingham City Council

### Independent Auditors' Report to Birmingham City Council

I have audited the statement of accounts on pages 8 to 61 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 13 to 19.

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

### Respective Responsibilities of the Chief Financial Officer and Auditor

As described on page 8 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

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

I review whether the statement on internal control on pages 9 to 12 reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

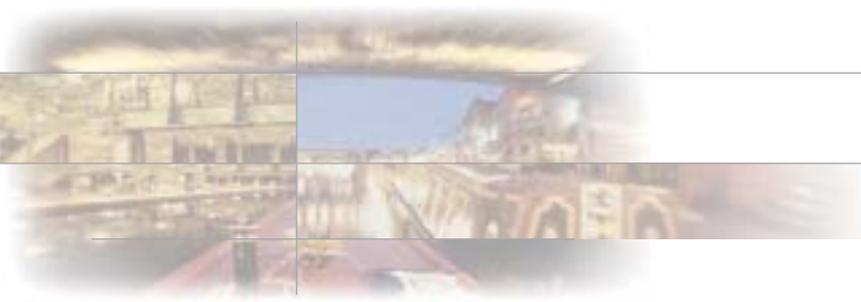
I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

### Basis of audit opinion

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

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

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

**Opinion**

In my opinion the statement of accounts presents fairly the financial position of Birmingham City Council as at 31 March 2004 and its income and expenditure for the year then ended.

**Certificate**

We have carried out 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. The audit cannot formally be concluded and an audit certificate issued because issues raised by local government electors need to be resolved.

Signature:

Date: 18 November 2004

Name: John Gregory

Address: Audit Commission  
Nº1 Friarsgate  
1011 Stratford Road  
Solihull  
West Midlands



