



## Accounts 2003-04 contents

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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



## 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:

### 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>	
Type of asset	
Other Land and Buildings	64.7
Vehicles and equipment	7.0
Investment Properties	7.7
Infrastructure	41.2

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
<b>Council Business Management Committee</b>	6,401	0
<b>Regulatory Committees</b>		
Development Control Committee	2,350	0
Licensing Committee	(15)	0
Public Protection	11,838	137
<b>Capital Accounting and other Adjustments</b>	(67,351)	0
<b>Amounts to be met from Government Grants and Local Taxpayers</b>	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





## 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 safeguardwr9eourcpC49irs and

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## 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



- 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



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





## 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:

#### 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.







### 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 Scheme. This is a funded defined benefit scheme. The appropriate Fund is the West Midlands Pension Scheme. This is a funded defined benefit scheme.



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





### 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.

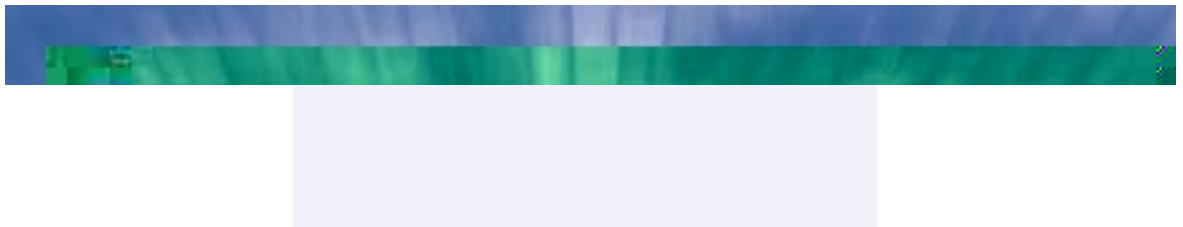


## Consolidated Revenue Account

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





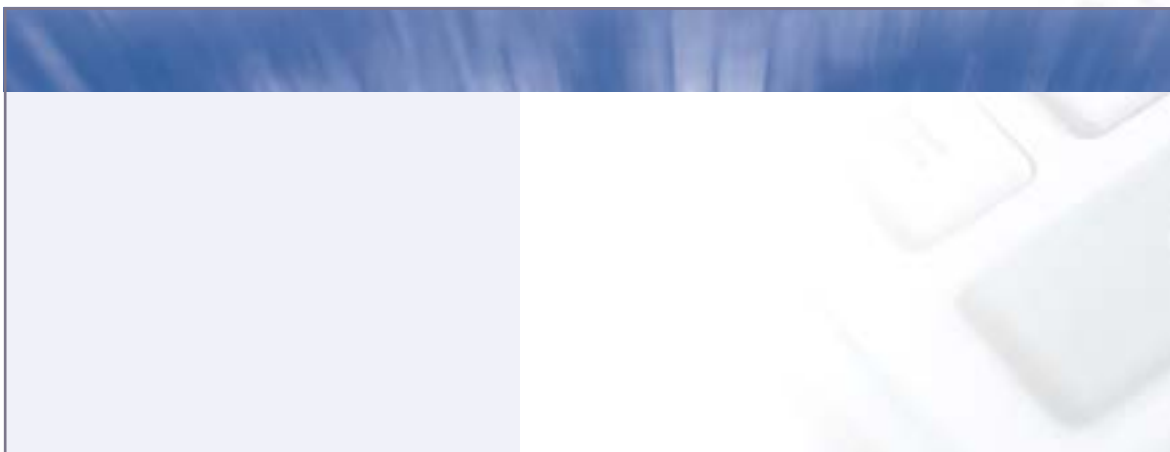


### 3. Pensions

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







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.




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)

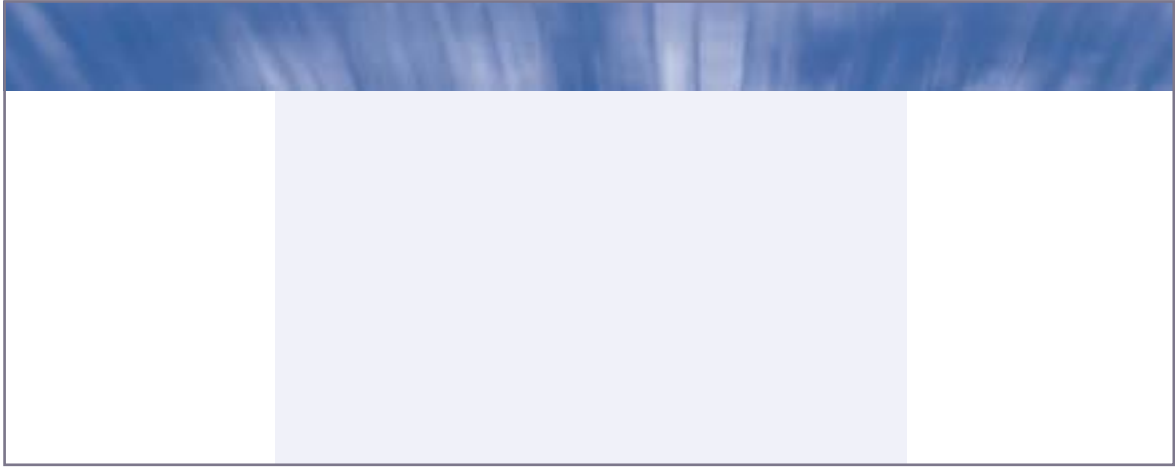
Statement of Actuarial Gains and Losses	2002-03 £'000	2003-04 £'000
Difference between Actual and Expected Return on Assets	(529,240)	179,198 (11.6% of Assets)
Effect of Difference Between Actuarial Assumptions on Liabilities and Actual Experience	0	0 (0% of Liabilities)
Effect of Changes in Actuarial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

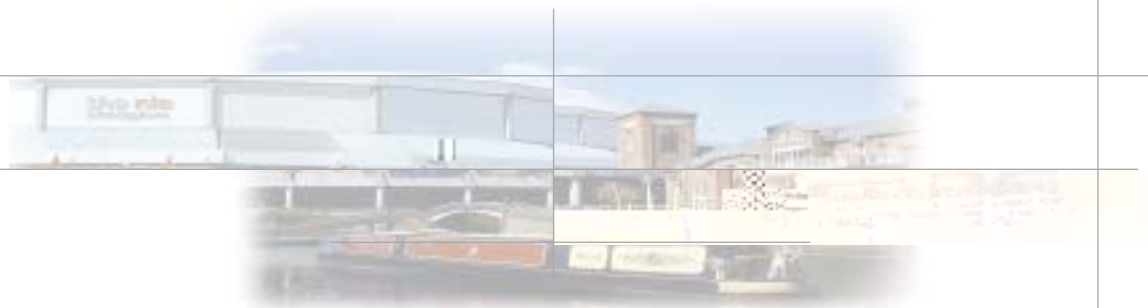
As at 31st March 2004, the City Council has a commitment to meet the following rental charges on both finance and operating leases:

	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>





Initial funding	Cash Contribution (£)
B'ham and Black Country Strategic Health Authority	400,000,000



## 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>

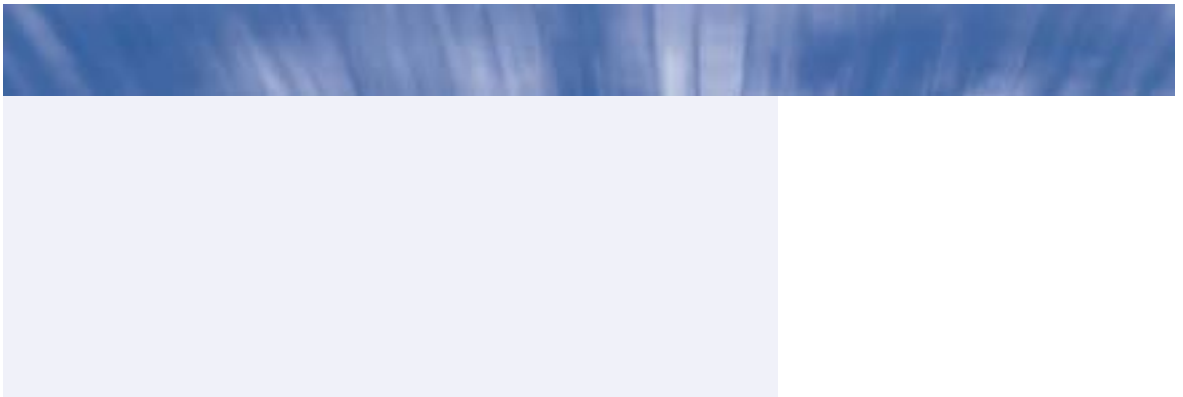


## Housing Revenue Account (HRA)

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
<u>15,311</u>	Expenses attributable to Estate Services	15,557
1		









	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.



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).

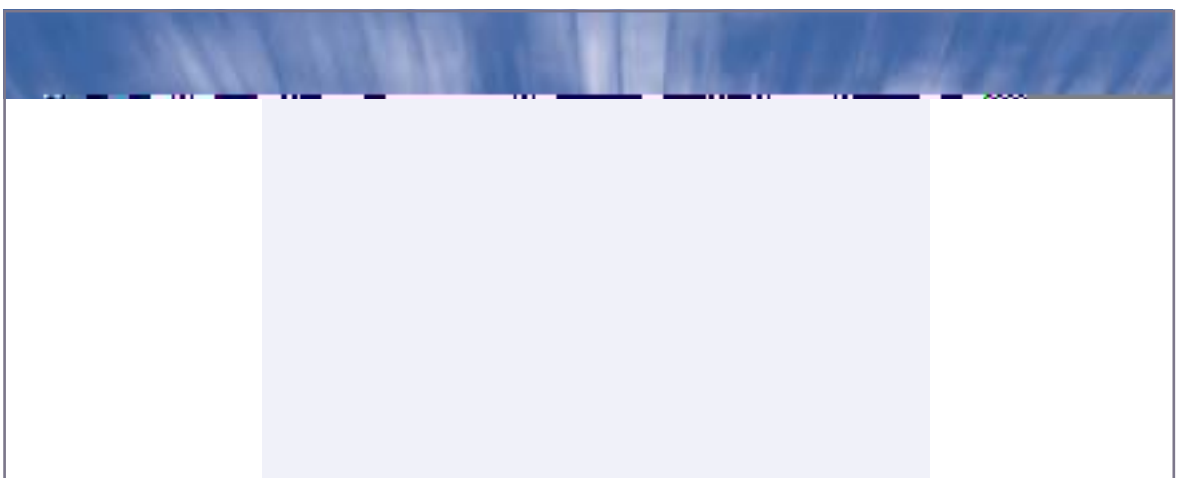
A provision for bad debts has been made to meet possible future write offs of rent outstanding. The provision was £15.4m at 31 March 2004 (31 March 2003: £14.6 m)and has been calculated in accordance with government guidelines.

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	
291,664				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





## 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

## 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
	<i>Current assets:</i>			
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
	<i>Current liabilities:</i>			
(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>
3,581,159	<b>Total assets less current liabilities</b>			3,924,956
(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>
<u>1,433,486</u>	<b>TOTAL ASSETS LESS LIABILITIES</b>			<u>2,050,315</u>
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>



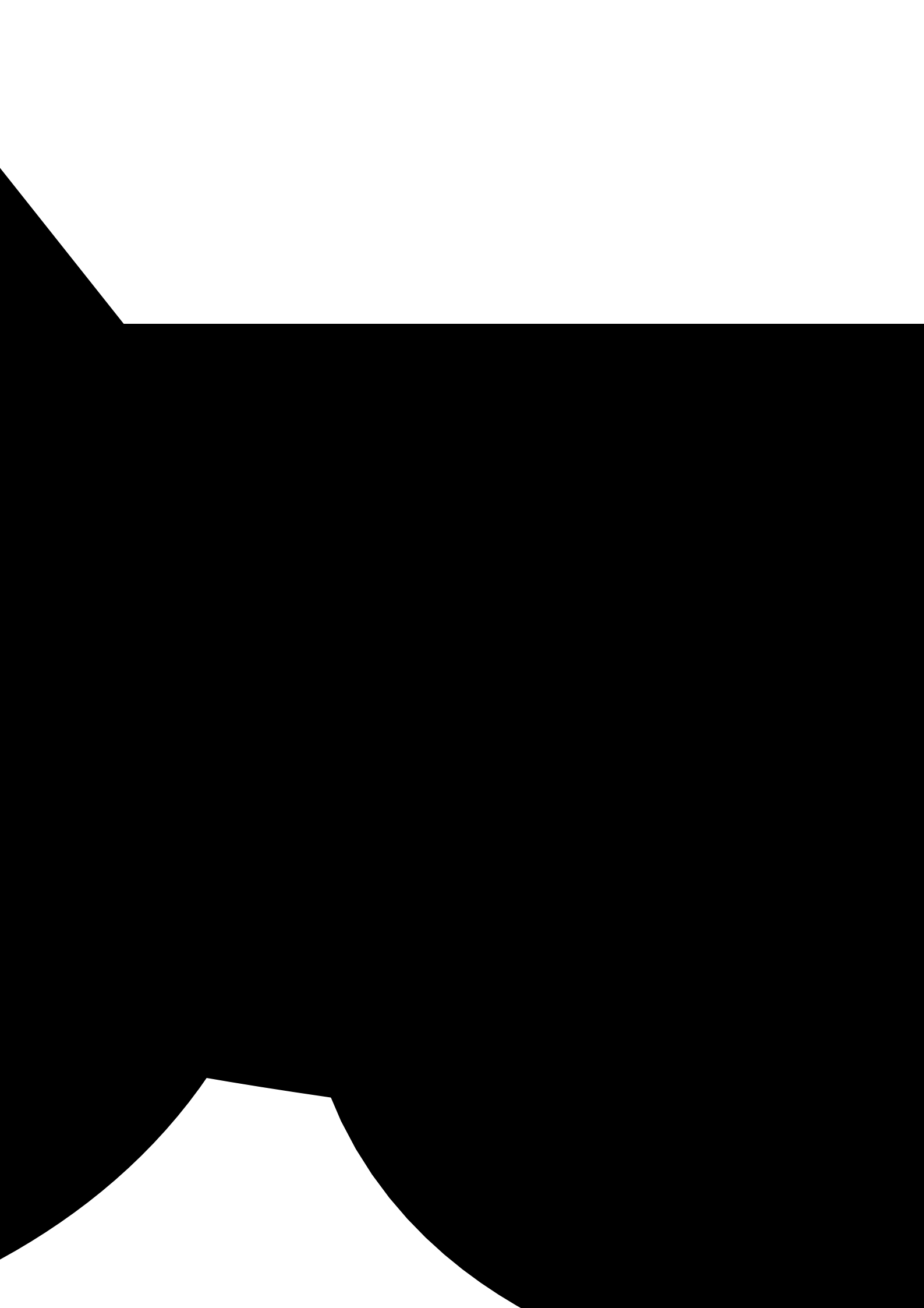
## 1. Capital Expenditure and movement in fixed assets 2003-04

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.

	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





#### 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)
Closing Balance as at 31 March	8.8	13.7

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
<u>32.5</u>	<b>Total Long Term Debtors</b>	<u>33.9</u>

## 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
<u>3,159</u>	<b>Total Stocks</b>	<u>3,341</u>

## 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
<u>252.7</u>		<u>284.7</u>
(59.3)	Provision for bad debts	(55.9)
<u>193.4</u>	<b>Total Debtors</b>	<u>228.8</u>



[Redacted]	
[Redacted]	[Redacted]

[Redacted]	
[Redacted]	[Redacted]

[Redacted]	
[Redacted]	[Redacted]



**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

## 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		2003-04





- 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
Chelmsley Showcase phase 2 (Highway improvements and bus lane implementation)	1.1
<b>Education and Lifelong Learning Schemes</b>	



### 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



## 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
Centre for the Child - healthy recreation for Birmingham citizens	181.9	8.7	2.0	188.6
Charles Baker Trust - accommodation for the elderly and disabled	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
Girls Night Shelter for women and girls in need or distress	261.3	9.1	0.0	270.4
G2s and C neTJT*0				



### 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 1,000 £1 ordinary shares (25%) in Birmingham Technology (Development) Limited. The City Council also holds 1,000 £1 ordinary shares (25%) in Birmingham Technology (Property) Limited and 1,000 £1 ordinary shares (25%) in Birmingham Technology (Development) Limited. The City Council also holds 1,000 £1 ordinary shares (25%) in Birmingham Technology (Property) Limited and 1,000 £1 ordinary shares (25%) in Birmingham Technology (Development) 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 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



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)
Proceeds of disposals									50.4
Financing of fixed assets							9.7)		(9.7)

## Cash Flow Statement

2002-03			2003-04	
£m	£m		£m	£m
		<b>Revenue activities</b>		
		<i>Cash Outflow s:</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	
<u>26.5</u>		Precepts paid	<u>30.2</u>	
	2,423.6			2,536.5
		<i>Cash Inflow s:</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)	
<u>(143.2)</u>		Other operating cash receipts	<u>(172.3)</u>	
	(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 Outflow s:</i>		
109.9		Interest paid	103.2	
0.1		Interest element of finance lease rentals	0.0	
<u>110.0</u>			<u>103.2</u>	
		<i>Cash Inflow s:</i>		
(8.4)		Interest received	(9.3)	
	101.6			93.9
		<b>Capital activities</b>		
		<i>Cash Outflow s:</i>		
184.1		Purchase of fixed assets	194.5	
13.2		Purchase of long term investments	5.6	
<u>37.1</u>		Other capital cash payments	<u>47.1</u>	
	234.4			247.2
		<i>Cash Inflow s:</i>		
(101.7)		Sale of fixed assets	(111.0)	
0.0		Capital Contributions received	(24.5)	
<u>(95.1)</u>		Capital grants received (note 4)	<u>(163.1)</u>	
	(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 Outflow s:</i>		
148.9		Repayments of amounts borrowed	79.0	
0.4		Capital element of finance lease rental payments	0.0	
			<u>79.0</u>	
		<i>Cash Inflow s:</i>		
	(105.0)	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:

	31.03.2003 £m (Restated)	31.03.2004 £m
<b>Grants received</b>		
<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:





FRS	Financial Reporting Standard.
General Fund	The total services of the City Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by Council Tax, Government Grants and NNDR.
Government Grants	Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority, in return for past or future compliance with certain conditions relating to the activities of the City Council.
Government Grants Deferred Account	Grants and other external contributions towards capital expenditure are written off to the revenue account as the assets to which they relate are depreciated. The balance on this account represents grants not yet written off.
Housing Revenue Account (HRA)	A separate account detailing the expenditure and income arising from the provision of council housing.
HRA Subsidy	Grant paid by Central Government to support the provision of rented housing.
Impairment	A diminution in value of a fixed asset resulting from, inter alia, obsolescence or physical damage. To comply with accounting standards the City Council undertakes annual reviews of its assets to identify any assets which have been impaired.
Infrastructure Assets	These are inalienable assets, expenditure on which is recoverable only by continued use of the asset created. Examples of such assets are highways and footpaths.
Investments	A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the City Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.
Investment Properties	Interest in land and/or buildings: <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>
Liabilities	Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.
Materiality	An item is material if its omission, non-disclosure or mis-statement in financial statements could be expected to lead to a distortion of the view given by the financial statements.
Minimum Revenue Provision (MRP)	A minimum amount, set by law, which the City Council must charge to the revenue account, for debt redemption or for the discharge of other credit liabilities.
National Non-Domestic Rates (NNDR)	Rates which are levied on business properties. The City Council collects these rates and pays them into a national pool, which is then re-distributed on the basis of population.
Net Book Value	The amount at which fixed assets are included in the balance sheet, ie. Their historical cost or current value less the cumulative amounts provided for depreciation.
Operating Leases	Leases other than a finance lease.







## 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





