



**Worcester**  
**CITY COUNCIL**

**Making Worcester a Great Place to Live, Work and Visit**

**STATEMENT OF ACCOUNTS  
2008/09**

**Audited Final Version 1.4**

**WORCESTER CITY COUNCIL  
DRAFT STATEMENT OF ACCOUNTS 2008/9**

---

**CONTENTS**

	Page
STATEMENT OF RESPONSIBILITY FOR THE STATEMENT OF ACCOUNTS	1
EXPLANATORY FOREWORD	2 - 5
ANNUAL GOVERNANCE STATEMENT	6 - 13
INDEPENDENT AUDITOR'S REPORT <i>(to follow)</i>	14 - 15
STATEMENT OF ACCOUNTING POLICIES	16 - 19
INCOME AND EXPENDITURE ACCOUNT	20
STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE	21
STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE - DETAILED RECONCILIATION	22
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	23
BALANCE SHEET	24
CASH FLOW STATEMENT	25
NOTES TO THE CORE FINANCIAL STATEMENTS	26 - 46
COLLECTION FUND	47 - 49
CONFIRMATION OF COUNCIL APPROVAL OF THE ACCOUNTS	50

**WORCESTER CITY COUNCIL  
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 ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Financial Services.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts.

**The Head of Financial Service's responsibilities**

The Head of Financial Services is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code"). The Head of Financial Services is required to present the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2009.

**As the responsible officer, I certify that in preparing this Statement of Accounts for the year ended 31st March 2009, I have:**

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that were reasonable and prudent,
- complied with the Code.

**I have also:**

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

These accounts present fairly the financial position of Worcester City Council at 31st March 2009 and its income and expenditure for the year then ended.

G. Lucas  
**Head of Financial Services**  
**29th September 2009**

**Approval by the Council**

I certify that this Statement of Accounts including the Income and Expenditure Account and the Balance Sheet were approved by Council at its meeting held on 29th September 2009.

Councillor Simon Geraghty  
**Leader of the Council**  
**29th September 2009**

# WORCESTER CITY COUNCIL

## EXPLANATORY FOREWORD

---

### 1. Introduction

This Statement of Accounts presents the financial position of the Council for the year ended 31 March 2009. The Accounts are produced in the format stipulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with best accounting practice. This foreword provides a brief explanation of the financial aspects of the Council's activities and a guide to the significant matters reported in the accounts.

### 2. The Accounting Statements

The accounting statements included in the accounts are listed below along with an explanation of their purpose:

**Income and Expenditure Account.** This account summarises the resources that have been generated and consumed in providing services and managing the Council during 2008/09. It includes all expenditure and income on an accruals basis, as well as transactions measuring the value of fixed assets consumed and the real projected value of retirement benefits earned by employees in the year.

**Statement of Movement on the General Fund Balance.** This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund balance. The General Fund balance shows whether the Council has over or under spent against the council tax that it raised in the year, taking into account the planned use of or additions to reserves.

**Statement of Total Recognised Gains and Losses.** This statement brings together all of the gains and losses of the Council during the financial year. The statement also separates the movements between revenue and capital reserves.

**Balance Sheet.** This shows the Council's financial position on 31 March 2009. It shows the balances and reserves at the Council's disposal at that date, and summarises the fixed and current net assets employed in carrying out the Council's functions.

**Cash Flow Statement.** This summarises the cash received and payments made by the Council for revenue and capital purposes in 2008/09.

**Collection Fund.** We are legally obliged to maintain this fund separately from our other funds and accounts. The Collection Fund summarises the income received from council taxpayers and business ratepayers on behalf of the government and precepting authorities. The Collection Fund records the income we receive and how this income was distributed between this council, the county council, parish and town councils, the police and fire authorities and the government.

### 3. Budget Performance - Net Revenue Budget

The budgeted 'Net Expenditure by Service' of the Council for 2008-09 was originally £16.275m. This was subsequently amended to £16.668m for approved spending plans and releases from earmarked reserves. Actual net expenditure for the year was £16.045m an underspend of £623k which reduces to an underspend of £456k after the application of capital charges and a proposed transfer of £205k to earmarked reserves to meet ongoing commitments. Details are provided in Note 2 to the Core Financial Statements.

## WORCESTER CITY COUNCIL EXPLANATORY FOREWORD

---

### 3. Budget Performance - Net Revenue Budget (cont'd)

The net impact on the General Fund balance is a budgeted net contribution of £289k and an unbudgeted contribution of £456k which increases the General Fund balance to £913k. This is in accordance with the Council's policy to hold a General Fund balance of about £1m but not less than £600k.

The underspend of £456k in 2008/09 is as a result of a variety of over and underspends during the year. Some of the key variances are highlighted in the table below:

	over/(under) spends £000's
Employee salary costs	(537)
Reduced car park income	131
Operational Services income	(199)
Legal and Planning fee income	113
Concessionary Travel	383
Environmental Health Income	(115)
Government grants (LABGI and Restoration Fund)	(218)

The key overspends in 2008/09 were highlighted in the Council's Medium Term Financial Strategy and were addressed as part of the 2009/10 budget setting process. However, in doing so, the Council has had to implement a five year budget action plan savings programme to ensure a balanced budget overall. This will mean that many of the underspends arising in 2008/09 have been identified as savings in 2009/10 to help achieve the required balanced budget position.

### 4. Impact of the Economic Climate

The downturn in the economic climate has started to have an impact on the Council's finances, particularly on reduced income generation in car parks, and planning and legal fees and increases in the volumes and subsequent value of housing benefit claims. Any adverse financial performance arising in 2008/9 has been compensated by savings elsewhere. Going forward, the Council has taken steps (in its Medium Term Financial Plan) to manage any further detrimental impacts and the situation will be closely monitored in the coming financial year.

### 5. Gross Revenue Expenditure

The Income and Expenditure Account shows the gross cost of service provision for 2008/09 which amounts to £61.064m. This expenditure has been analysed by type as shown below:

Expenditure Type	2008/09 £000	2007/08 £000
Employee expenses	14,926	15,961
Premises related expenses	3,327	3,067
Property impairments	1,640	587
Transport related expenses	1,905	2,142
Supplies and services	9,975	9,129
Housing Benefit and Council Tax payments	26,184	23,745
Capital charges	3,107	2,876
<b>Gross Cost of Services</b>	<b>61,064</b>	<b>57,507</b>

## WORCESTER CITY COUNCIL EXPLANATORY FOREWORD

---

### 5. Gross Revenue Expenditure (cont'd)

- Employee expenses comprise all payments to and on behalf of the City Council's employees including salaries, employer's national insurance and pension contributions, training, professional subscriptions, recruitment, and health and safety costs. The decrease in employee expenses results from holding a number of vacancies pending a restructuring and staff reduction exercise and the remaining effect of transferring staff to the South Worcestershire Revenues and Benefits Shared Service Organisation (SWR&BSSO). The cost of Supplies and Services has had a compensating increase due to the fee which is now paid to the SWR&BSSO .
- Premises and transport related expenses and supplies and services costs include the cost of maintaining buildings, operating vehicles and the purchase of goods and services.
- Property impairments have arisen following a planned and regular review by the Council's Estates Valuation Manager. The downturn in the economic climate has had an adverse effect on property valuations and this is reflected in the impairment reductions. Impairment reductions result in a cost to the Income and Expenditure Account, but they do not result in a charge to the Council Tax payers.
- Capital charges comprise net servicing of finance costs and depreciation and they represent the real cost of using assets to provide the Council's services.

### 6. Gross Revenue Income

The Council received gross income of £43.272m and this is analysed by type as follows:

<b>Income Type</b>	<b>2008/09</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
Government Grants	30,257	26,974
Rent Income	1,188	1,175
Sales, Fees & Charges	7,792	7,652
Other Income	4,035	5,013
<b>Total Income</b>	<b>43,272</b>	<b>40,814</b>

- Government grant income includes £27,182m towards the cost of Council Tax Benefits, Housing Benefits and their administration.
- Rent income comprises mainly rents in respect of industrial and commercial properties.
- Sales, fees and charges income is generated by Council services e.g. leisure facilities, building control fees, car parking, planning fees, land charges fees and licensing fees.
- Other income includes miscellaneous items such as recharges, reserves & provisions, prior year subsidy income and partnership income.

### 7. Pension Fund

The Council's share of the assets and liabilities of the Pension Fund is a net liability and has been calculated in accordance with Financial Reporting Standard 17. The net liability has increased by £0.65m to £27.6m, a further explanation can be found in Note 1 to the Core Financial Statements.

It is important to understand that the net pensions liability is a position taken at just one point in time. Market prices can move up as well as down in the short term and it is therefore not possible to quantify what long term effect the movement in market prices will have on the Pension Fund.

## WORCESTER CITY COUNCIL EXPLANATORY FOREWORD

---

### 8. Borrowing

The Council borrows (within specified limits) to cover shortfalls in current cash funds (before Council Tax revenues are received, for example) or to fund capital expenditure. Note 26 (Long Term Borrowing) in the Notes to the Core Financial Statements provides details of the Council's outstanding loans and when they mature.

### 9. Capital Expenditure and Source of Funding

Capital expenditure for 2008/09 was £5.8m (£4.1m 2007/08). This compares with an original estimate of £8.2m for the year. The difference largely relates to timing differences on budget profile versus actual expenditure, a process which has been reviewed in order to make improvements in 2009/10. The majority of the difference on budget for 2008/9 will be carried forward into 2009/10 to enable the approved schemes to be completed.

A summary of the capital expenditure in 2008/09 is shown below. Of the £5.8m spend, £4.2m added to the value of fixed assets, and the balance was written off in year to the Income and Expenditure Account as revenue expenditure funded from capital under statute. The sources of funding for the Council's capital expenditure in 2008/09 are also shown below.

<u>Capital Expenditure</u>	<u>£000</u>	<u>Source of Funding</u>	<u>£000</u>
Housing Grants	513	Approved borrowing	1,093
Other Schemes	1,362	Usable capital receipts	2,070
ICT Projects	356	Grants and other contributions	2,095
Depot Facilities	1,555	Section 106 funds	529
Parks & play areas	1,796		
Vehicles & Equipment	205		
<b>Total</b>	<b><u>5,787</u></b>	<b>Total</b>	<b><u>5,787</u></b>

In addition to the capital expenditure on the schemes shown above, the Council also developed a new facility - St John's Sports Centre, which has been valued at £3.5m. This asset is shown as a revalued asset in the 'Revaluation Reserve', which is detailed in Note 30 to the Core Financial Statements.

### 10. Significant Changes in Accounting Policies

In accordance with the SORP the Council has adopted for 2008/09 a change to accounting policies as follows:

- Under FRS17 Retirement Benefits quoted securities held as assets by the pension fund are now valued at bid price rather than mid market value. This has increased the net pension liability at the end of 2007/08 from £26.870m to £26.966m. There are also revised disclosure requirements for the pension fund within these accounts
- Renaming 'deferred charges' to 'revenue expenditure funded from capital under statute'.

### 11. Further Information

Further information about the accounts is available from the Head of Financial Services, Customer Services Centre, Orchard House, Farrier Street, Worcester, WR1 3BB. In addition, interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised in the local press.

# WORCESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT

---

## 1. Scope and Responsibility

Worcester 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.

Worcester 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, Worcester City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Worcester City Council has approved and adopted a Code of Corporate Governance, which was consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government at the time of its adoption. The Internal Audit Plan for 2008/09 included a review of the present Code in response to the latest updated CIPFA/SOLACE Framework and a revised Code of Corporate Governance which meets best practice will be put in place during 2009/2010.

A copy of the Code is contained in the Council's Constitution on our website at [www.worcester.gov.uk](http://www.worcester.gov.uk) or can be obtained from Democratic Services who are based at Orchard House, Farrier Street, Worcester.

This statement explains how Worcester City Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

## 2. The Purpose of the Governance Framework

The governance framework comprises the systems, processes, and cultural values used by Worcester City Council, to direct and control its activities enabling it to account to, engage with and lead the community. The framework also enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Worcester 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 governance framework has been in place at Worcester City Council for the year ended 31 March 2009 and up to the date of approval of the annual report and statement of accounts.

## **WORCESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT**

---

### **3. The Governance Framework**

The Council's governance framework is reflected in the Council's Constitution which can be found on our website at [www.worcester.gov.uk](http://www.worcester.gov.uk).

The Council's Constitution clearly identifies the terms of reference, role and responsibilities of full council, the cabinet, overview and scrutiny, audit and standards committees, all of which have fully understood governance responsibilities.

Together with our partners Worcester City Council's ambition is expressed in the Community Strategy for Worcester's vision of 'A First Rank Cathedral and University City'. To achieve this Council has set out its strategic priorities in the Corporate Plan. This is reviewed annually and cascaded through the corporate planning process into service plans, which are in turn reflected in the staff appraisal and development process.

The Council's performance management framework sets out how its objectives and priorities are to be achieved. Monitoring of performance against agreed plans takes place on a quarterly basis using the Key Priority Groups (Cabinet Portfolio), Corporate Management Team, Cabinet, and Performance Management and Budget Scrutiny Committee. The Constitution contains the necessary approvals and rules for governance, including delegations to Committees and Officers. During 2008/09, the Chief Executive (as the Head of Paid Service) and subsequently the Acting Head of Paid Service, the Head of Governance and Corporate Support (as the Monitoring Officer), and the Head of Financial Services (as the Chief Financial Officer), each carried statutory responsibilities relating to governance.

Executive decision-making is carried out through the Cabinet, the Planning Committee, the Licensing Committee, and senior management. The Overview and Scrutiny Committees have responsibility to review and scrutinise the activities of the Council, provide advice on the development of policies, and monitoring performance (see above). During 2008/09 the Audit Committee received and reviewed reports on the work of Internal and External Audit.

Worcester City Council has a formal risk management strategy. Risk management is a key element of service and financial planning. Through this the Council seeks to embed a risk management culture within service management. The council's approach to risk management is regularly reviewed and considered by the Business Risk Group of managers to ensure the risk register itself is regularly reviewed and updated.

Individual managers are responsible for the performance and financial management of their services and activities delegated to them. Budget monitoring is carried out monthly and reported to officers, Corporate Management Team, individual Cabinet Portfolio holders and each Key Priority Group. Quarterly performance and financial monitoring reports are considered by the Cabinet and Performance Management and Budget Scrutiny Committee, Using a range of performance indicators.

The key elements of the systems and processes that comprise the Worcester City Council's governance arrangements include:

- identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users
- reviewing the authority's vision and its implications for the authority's governance arrangements

### **3. The Governance Framework (cont'd)**

- measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources
- defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for communication
- developing and communicating codes of conduct, defining the standards of behaviour for members and staff
- reviewing and updating the Constitution every six months which clearly defines how decisions are taken and the processes and controls required to manage risks
- undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities
- ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful
- whistle-blowing and receiving and investigating complaints from the public
- identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training
- establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation
- work in progress on incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships (Governing Partnerships: Bridging the Accountability Gap, Audit Commission, 2005) and reflecting these in the authority's overall governance arrangements.

### **4. Review of effectiveness**

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

#### Audit Committee

The Audit Committee played a key monitoring role by reviewing and monitoring internal control issues throughout the year. This included reviewing the work of internal audit and the outcomes of their work, ensuring recommendations are put into place by management and requesting follow up audits to areas of concern. In addition, the committee considered reports by the external auditor such as the Annual Audit and Inspection letter, as well as the Council's action plans in response to recommendations made. A revised timetable detailing the Audit Committee cycle of business has been introduced.

#### External Audit and Specific Governance Issues

The Audit Commission reported its latest assessment of the Council's "Use of Resources" and included the key findings in the "Annual Audit and Inspection Letter" (AAIL) in March 2009 - the findings of which were reported to the Audit Committee on 27th April 2009. Action plans to address the recommendations of the External Auditor were adopted by Councillors.

#### **4. Review of effectiveness (cont'd)**

##### Internal Audit

Worcester City Council's responsibility for maintaining an adequate and effective internal audit function is set out in Regulation 6 of the Accounts and Audit (Amendment)(England) Regulations 2006.

The Internal Audit section operates in accordance with the Institute of Internal Auditors Standards and the CIPFA Code of Practice 2006 and objectively reviews on a continuous basis the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic and effective use of resources.

The Internal Audit Plan for 2008/2009 was risk based (assessing impact of failure, potential for failure and quality of internal control) and was approved by the Audit Committee. It included:

- a number of core systems which were designed to suitably assist the external auditor to reach his 'opinion'
- other corporate systems (e.g. IT, governance) and a number of operational systems (e.g. insurance, cash kiosks,) which assisted the council to maintain / improve its control systems and risk management process or implement / reinforce its oversight of such systems.

The Chief Internal Auditor has concluded that the internal control arrangements during 2008/9 effectively managed the principal risks identified in the audit plan and outstanding issues were being addressed as part of a process of continuous improvement. This conclusion is based on assurances provided by management in 2008/9 in response to audit reports particularly on the major issues raised in year which were: the S106 agreement system, the implementation of cash kiosks, the parking charge notices system and the payroll / personnel interface.

##### Governance Working Group

The Governance Working Group was set up during 2008/09 and meets every two months. The purpose of the Group (as defined within its Terms of Reference) is to implement and measure performance against the June 2007 CIPFA/SOLACE Delivering Good Governance in Local Government Framework (intended as best practice for developing and maintaining a local code of governance by Local Authorities). This embodies the following core principles:

- I. Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.
- II. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- III. Promoting the values of the authority and demonstrating the values of good governance through behaviour.
- IV. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- V. Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers – also have the capability and capacity to deliver effectively.
- VI. Engaging with local people and other stakeholders to ensure robust local public accountability

The Working Group has a clear link to the forthcoming Comprehensive Area Assessment through the Use of Resources assessment.

## **WORCESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT**

---

### Governance Working Group (cont'd)

Therefore the Group will seek to demonstrate its value through (1) improving Use of Resources scores and (2) the effectiveness of the Council's corporate governance arrangements measured by how well the Council is meeting its key priorities.

### Statutory Duties of Monitoring Officer and Chief Financial Officer

The statutory duties of the Monitoring Officer and the Chief Financial Officer require them to draw to members' attention any improper practices or financial imprudence. No issues were reported.

### The Standards Committee

The Standards Committee's role is to promote and maintain high standards of conduct by Members and to monitor the operation of the Members Code of Conduct. Following the introduction of the local assessment framework in May 2008 and appropriate training for the Standards Committee, there were two complaints made to the Standards Committee in 2008/09 in respect of Worcester City Council Members. One of these was referred for investigation by the Monitoring Officer and is still ongoing. The other complaint was considered by the Assessment Sub-Committee of the Standards Committee who found that there had been no breach of the Code of Conduct.

### Business Risk Group

The Business Risk Group of senior managers plays a key role in leading and monitoring the development of the council's Business Continuity Plan and the Council's Risk Management Strategy, ensuring that they link together and fit in with the Civil Emergency Plan.

### Data Security

The Council's CoCo (Government Connect Code of Connection) was approved at the end of March 2009 after working with the GCTech team. In particular the efforts concentrated on securing remote access to the Council's systems and data security. As part of the new IT Shared Service work is taking place to consolidate security across Worcester City, Malvern Hills District and Wychavon District Councils.

### Annual Service Assurance Assessment

Throughout 2008/09, we ensured that the council adopted a robust approach to corporate governance, which has been advised through the work of the standards committee, audit committee and overview and scrutiny – as well as the statutory roles of the Monitoring Officer and Chief Financial Officer. A Service Assurance Assessment exercise has been completed, findings summarised and actions arising will be taken forward by the Council's 'Governance Working Group' in 2009/10.

The approach taken to compiling this Assurance Assessment is summarised on the diagram shown at the end of the Annual Governance Statement.

## **5. Significant governance issues**

### Strategic Planning and Risk

The City Council continues to face significant financial challenges over the next few years, and has set itself the difficult task of making significant reductions in spending in 2009-10 and over the following four years. This is set out in the Council's Medium Term Financial Plan, and Budget report to the Cabinet and Full Council meetings in February 2009.

## WORCESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT

---

### Strategic Planning and Risk (cont'd)

The Council plans to make budget reductions through efficiency savings, income generation, shared services and collaborative working with neighbouring councils (particularly the County Council), and some reductions in service. These amount to £3.1m in 2009-10 and a further £1.2m over the following four years.

The Council's reserves were significantly depleted as at 31st March 2008, but action has been taken in 2008-09 to rebuild the general reserve and reverse the previous decision to use them to help phase in major budget changes. As part of this, during 2008-09, the Council conducted a major review of its 'in year' spending to keep within budget despite escalating external cost pressures, and to assist in preparations for the 2009-10 budget strategy (above). We continue to be exposed to external cost pressures and risks to our income. However, the Council's budget contains a comprehensive analysis of financial based risks, and has built in some tolerance in its financial targets to assist in managing this.

### Key actions taken during 2008/2009

- Plans to address weaknesses and recommendations arising from audit reports and to ensure continuous improvements are in place. Action taken: On-going
- The Internal Audit Plan for 2008/09 includes a review of corporate governance in the light of the new national guidance (from CIPFA/SOLACE). This work is due to be completed in June 2008, following which we plan to establish a Governance / Internal Controls Working Group to oversee the review / development and implementation of revised arrangements for monitoring and control of our Corporate Governance framework. This will also serve to address the shortcomings identified above, and in particular provide a stronger and more focussed approach to the operational rules and delegations covering financial, procurement and contract matters. Action taken: Governance Working Group set up
- Review of governance arrangements in place for all partnerships. Action taken: Partnership framework to be introduced during 2009/2010 for existing and new partnerships
- Reviewed and improved the content and presentation of financial and performance information.
- The Council continues to embed risk management throughout the Council's Services and continuously reviews and updates the Council's strategic risk register.
- Continue to review and improve data security, data integrity and data quality. Action taken: The Data Quality Strategy has been agreed by CMT (in April 09) and we are starting to implement it, namely by collecting information on our systems to compile a Register. This will include identifying responsible officers and making an assessment of the risk of poor quality data. We will then be proposing a programme of data quality testing.
- Review of the effectiveness of the Audit Committee in line with the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities. Action taken: Review carried out by External Audit and action plan arising will be reported during 2009/2010.
- Work in progress on reviewing the complaints system and procedures. Action taken: The complaints procedure was reviewed and updated during 2008/2009. The latest version of the complaints system (iCasework) is installed on the council's servers and awaiting implementation.

**WORCESTER CITY COUNCIL  
ANNUAL GOVERNANCE STATEMENT**

---

Key actions to be taken during 2009/2010 (from Annual Service Assurance Assessments)

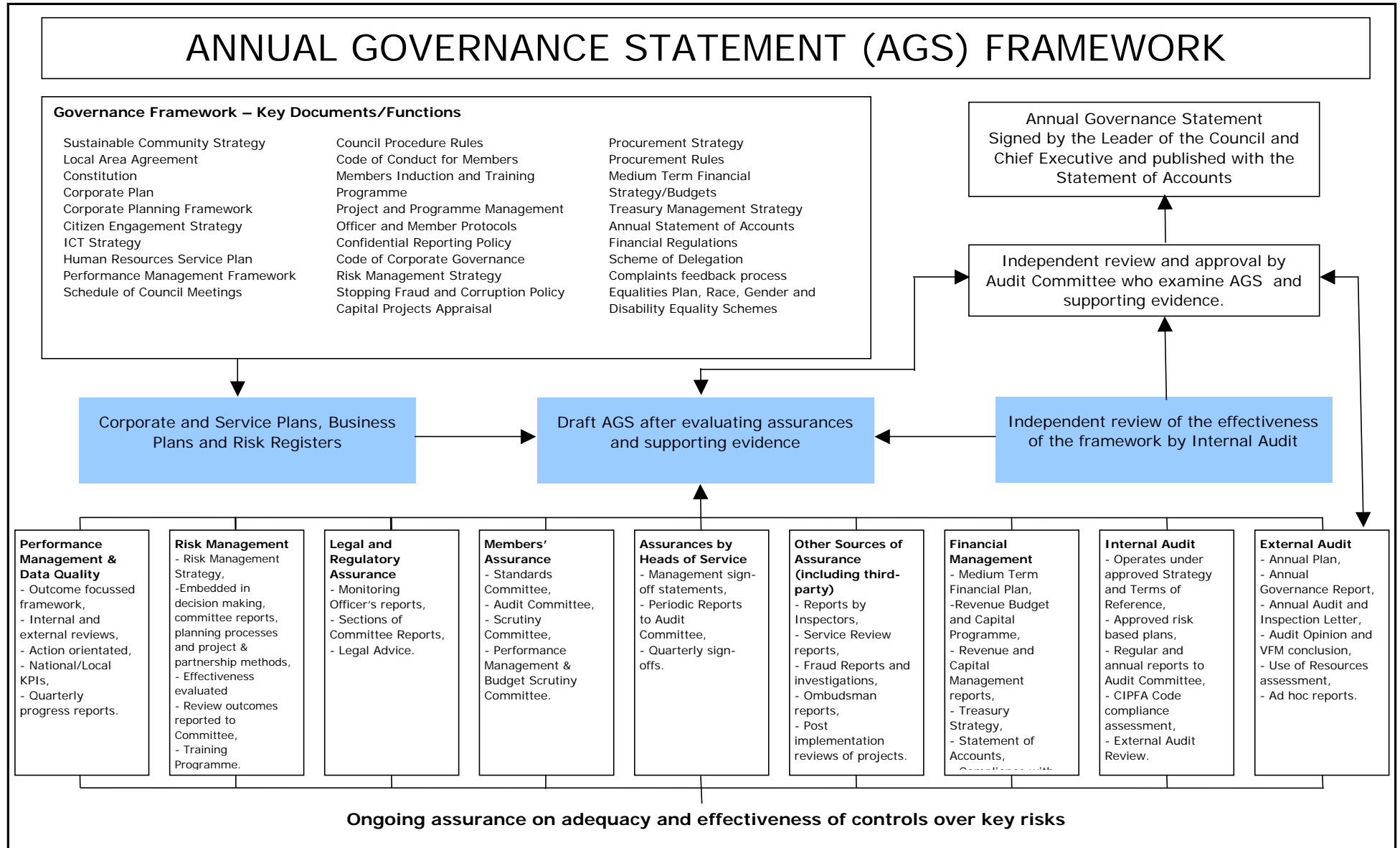
- Following the restructure and reduction in corporate capacity that has taken place during 2008/2009, it is important that all Services have revised management structure charts showing clear reporting lines with segregation of duties wherever required. New job descriptions will be produced and appraisals will be carried out.
- Health and Safety risks need to be identified by services, there will be relevant training for staff members and monitoring will take place – this will be resolved by the proactive approach taken by the Health & Safety Co-ordinator who will be continuing the work he has been doing with Services on Corporate Health & Safety issues.
- The service risk registers need to be completed and/or updated and not all teams have business continuity plans but these will be addressed during 2009/2010 by the Business Risk Group.
- Staff awareness of the Constitution and the Personnel Handbook will be raised
- In decision making greater reference will be made to H&S, Equality, Insurance and Community Safety
- Corporate / Service Planning showed weaknesses in the areas of service specific procedures and recording of assets, these will be addressed in 2009/10
- Internal control needs to be improved by monitoring the action plans arising from these assessments – these will be followed up during 2009 /2010, as well as at the end of the year.

Following the creation of the Governance Working Group, substantial progress has been made on enhancing the Council's corporate governance arrangements during 2008/09 as shown above. We propose over the coming year to take the steps set out in the 2009/10 action plan to further develop, enhance and embed these arrangements throughout the organisation. We are satisfied that these steps will provide the improvements that were identified in our 'review of effectiveness' and we will monitor their implementation and operation as part of our next annual review.

.....  
Alan Stuttard  
**Head of Paid Service**

.....  
Cllr Simon Geraghty  
**Leader of the Council**

**The Council's approach to compiling the Annual Governance Statement:**



**WORCESTER CITY COUNCIL  
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORCESTER CITY  
COUNCIL**

---

To follow.

**WORCESTER CITY COUNCIL  
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS**

---

To follow.

# WORCESTER CITY COUNCIL

## STATEMENT OF ACCOUNTING POLICIES

---

### 1. General

Worcester City Council's Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007- A Statement of Recommended Practice (the SORP) and the Best Value Accounting Code of Practice 2007 (BVACOP) both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of fixed assets.

### 2. Significant Changes in Accounting Policies

It is a requirement of the Statement of Recommended Practice on Local Authority Accounting that the Council adopts the following changes of accounting policies within the Statement of Accounts for 2008/09:

- Under FRS17 Retirement Benefits quoted securities held as assets by the pension fund are now valued at bid price rather than mid market value. This has increased the net pension liability at the end of 2007/08 from £26.870m to £26.966m. There are also revised disclosure requirements for the pension fund within these accounts
- Renaming 'deferred charges' to 'revenue expenditure funded from capital under statute'.

### 3. Accruals of Income and Expenditure

Activity is accounted for in the year that it occurs rather than when cash payments are made or received. This means that revenue income is recorded when the debt has been established rather than when the money is received. Expenditure is recorded when it is owed rather than when payment is made.

### 4. Tangible Fixed Assets

Expenditure on the acquisition, creation or enhancement of fixed assets to the value of £5,000 or more is capitalised on an accruals basis in the accounts where it benefits the authority for more than one year. This excludes expenditure on routine repairs and maintenance which is charged direct to revenue accounts.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into the groupings required by the SORP and are included in the Balance Sheet net of depreciation where applicable as follows:

- Land and buildings, operational properties and other operational assets in existing use - the lower of net current replacement cost and net realisable value in existing use.
- Vehicles, plant and equipment and infrastructure assets - depreciated historical cost.
- Community assets - depreciated historical cost.
- Non-operational assets (including investment properties and assets that are surplus to requirements) - the lower of net current replacement cost and net realisable value.
- Assets in the process of construction - historical cost until the asset is completed and a valuation quantified.

The revaluations of fixed assets are planned at five-yearly intervals. Material changes to asset valuations are adjusted as they occur. Increases in valuations are matched by entries in the Revaluation Reserve to recognise unrealised gains.

#### Impairment

The value at which assets are included in the balance sheet is reviewed at the end of each reporting period and adjusted where material. Impairment is accounted for as follows:

**WORCESTER CITY COUNCIL  
STATEMENT OF ACCOUNTING POLICIES**

---

**4. Tangible Fixed Assets (cont'd)**

Impairment (cont'd)

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

A transfer is made from the Revaluation Reserve to the Capital Adjustment Account to the extent that any impairment loss on an asset charged to the Income and Expenditure Account is matched by a previously accumulated revaluation gain.

Disposals

When an asset is disposed of or decommissioned, the net value of the asset and any receipts on disposal are transferred to the Income and Expenditure Account as part of the gain or loss on disposal. Any revaluation gain for this asset held in the Revaluation Reserve is transferred to the Capital Adjustment Account.

Receipts are appropriated to the Usable Capital Receipts Reserve from the Statement in the Movement on the General Fund Balance and are only used for new capital investment or are set aside to reduce the Council's underlying need to borrow. The written-off value of disposals is not a charge against council tax.

**5. Intangible Fixed Assets**

Under FRS10, intangible fixed assets are regarded as "non-financial fixed assets that do not have physical substance but are identifiable and controllable by the Council through custody or legal rights".

**6. Depreciation**

Depreciation is provided on all assets with a finite useful life on a straight line basis. The charge is based on assumptions of useful life and valuation of the assets. Newly acquired assets are not depreciated in the year of acquisition but are fully depreciated in the year of disposal. Assets in the course of construction are not depreciated until they are used. The life expectancy of the following asset classes is:

- Buildings - 10 to 60 years
- Vehicles - 5 to 7 years
- Plant - 5 to 30 years
- Equipment - 4 to 15 years

Community Assets, Investment Properties and Assets under Construction are not depreciated as the assets do not provide a material benefit to the Council.

**7. Government Grants**

Government grants and other contributions towards revenue expenditure are recognised on an accruals basis when the conditions of entitlement to the grant/contribution are satisfied and there is reasonable assurance that the monies will be received. Grants/contributions relating to capital expenditure are credited to the Capital Contributions Unapplied account in the first instance. Once the asset to which they relate is in use by the Council the grant/contribution is transferred to the Capital Contributions Deferred account and is written off to service revenue accounts to offset the associated annual depreciation charge.

**WORCESTER CITY COUNCIL**  
**STATEMENT OF ACCOUNTING POLICIES**

---

**8. Charges to Revenue for Fixed Assets**

Service revenue accounts are charged with depreciation/amortisation on assets used to record the real cost of holding fixed assets during the year. Where capital expenditure is funded by Government Grants or other contributions the depreciation charge is offset by writing down the grant.

Impairment losses are charged to revenue. Impairment losses are losses attributable to the clear consumptions of economic benefits and other losses where there are no accumulated gains in the Revaluation Reserve to which they can be matched.

The Council is not required to raise council tax to cover depreciation/amortisation or impairment losses.

**9. Revenue Expenditure Funded from Capital under Statute**

This is a new name for what was previously "deferred charges" and represent expenditure which has been properly capitalised but does not result in a tangible asset. Such expenditure incurred during the year is written off to the relevant service revenue account. This includes housing renovation grants and grants to other bodies for capital expenditure purposes. Where the Council has determined to meet the cost of these charges from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on council tax.

**10. Operating Leases**

Rentals payable under operating leases are charged to the relevant service revenue account on an accruals basis.

**11. Reserves**

In addition to its general revenue balances the Council has set aside specific 'earmarked reserves' for future identified expenditure and to protect against unexpected events. Expenditure is not charged directly against reserves. When expenditure is incurred it is charged against the relevant service revenue account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

The pension reserve and capital adjustment account do not represent useable revenue resources for the Council.

**12. Stocks**

Stocks are valued at the latest price paid, with an allowance made for slow moving and obsolete items.

**13. Costs of Support Services**

In compliance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2007 (BVACOP) the cost of overheads and support services are charged to the services that benefit from the supply or service with the exception of certain costs that remain as part of the Corporate and Democratic Core and Non Distributed Costs.

**14. Pensions**

The Council participates in a defined benefits scheme administered by Worcestershire County Council. The cost of pensions included within the accounting statement follows the requirements of FRS 17- Retirement Benefits.

**WORCESTER CITY COUNCIL**  
**STATEMENT OF ACCOUNTING POLICIES**

---

**14. Pensions (cont'd)**

As required by legislation, an appropriation to the Pension Reserve has been made which reverses out the FRS 17 based pension costs in the Income and Expenditure Account and replaces them with the actual pension related payments made in the year. This ensures that the amount to be funded from Council Tax for the year is equal to the employer's pension contributions payable and payments made directly to pensioners.

The Annual Report of Worcestershire County Council's Pension Fund is available from the County Council.

**15. Bad debt provisions**

Provision is made for bad and doubtful debts in the Balance Sheet. A charge is made to the service that is receiving the income. When debts are written off they are matched by the release of the provision.

**16. Financial Liabilities (loans)**

Financial Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

**17. Financial Assets (investments)**

Loans and receivables are measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure account for interest receivable are based on the carrying value of the asset multiplied by the effective rate of interest for the instrument.

**18. VAT**

VAT is included within the accounts only to the extent that it is irrecoverable and therefore charged to service expenditure or capital expenditure as appropriate.

**19. Associated and subsidiary companies, group accounts**

In considering the requirement to prepare Group Accounts, the City Council has adopted FRS2 and the CIPFA Accounting Code of Practice. The City Council is of the opinion that it does not have any material interests in companies and other entities and need not prepare group accounts.

**20. Events after the balance sheet date**

The accounts have taken into consideration any material event after the balance sheet date i.e. those that:

- provide evidence of conditions that existed at the balance sheet date for which the City Council adjusts the amounts recognised in its financial statements or recognise items that were not previously recognised (adjusting events).
- are indicative of conditions that arose after the balance sheet date for which the City Council would not adjust the amounts recognised in its financial statements (non-adjusting events).

**21. Other Accounting Matters**

The Hopmarket Charity is administered by the Council as sole trustee. Once completed, summary accounts for this charity will be reported to the Hopmarket Charity and included for information at the end of the City Council's Accounts.

**WORCESTER CITY COUNCIL**  
**INCOME AND EXPENDITURE ACCOUNT**  
For the year ended 31st March 2009

Note	2008/09 Gross Expenditure £000s	2008/09 Gross Income £000s	2008/09 Net Expenditure £000s	2007/08 Net Expenditure £000s
<b>Expenditure on services</b>				
	8,974	(6,717)	2,257	1,972
6	18,839	(8,766)	10,073	9,808
	4,185	(4,115)	70	119
	24,795	(22,328)	2,467	1,706
8	4,142	(1,180)	2,962	2,485
	129	(166)	(37)	603
	<b>61,064</b>	<b>(43,272)</b>	<b>17,792</b>	<b>16,693</b>
			(1,833)	(919)
			95	92
4			(77)	(147)
			402	331
			50	5
			(736)	(738)
1			1,308	111
			<b>17,001</b>	<b>15,428</b>
<b>Sources of Finance</b>				
			(4,973)	(4,756)
			(991)	(1,201)
			(7,121)	(6,834)
			<b>3,916</b>	<b>2,637</b>

**WORCESTER CITY COUNCIL**

**Statement of Movement on the General Fund Balance**

**For the year ended 31st March 2009**

---

	<b>2008/09</b>	Restated
	<b>£000s</b>	2007/08
		£000s
Deficit for the year on the Income and Expenditure Account	<b>3,916</b>	2,637
Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance for the year (see page 21)	<b>(4,664)</b>	(1,824)
(Increase)/decrease in the General Fund Balance	<u><b>(748)</b></u>	813
General Fund Balance brought forward	<b>(166)</b>	(979)
General Fund Balance carried forward	<u><b>(914)</b></u>	<u>(166)</u>
<b>Amount of General Fund Balance generally available for new expenditure</b>	<u><b>(914)</b></u>	<u>(166)</u>

WORCESTER CITY COUNCIL

**Statement of Movement on the General Fund Balance - Detailed Reconciliation**  
**For the year ended 31st March 2009**

	2008/09 £000s	2007/08 £000s
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year:</b>		
Depreciation	(1,959)	(1,993)
Impairment of fixed assets	(1,640)	(587)
Net revenue expenditure funded from capital under statute	(1,091)	(497)
Deferred government grants amortisation	222	228
Net gain on sale of fixed assets	1,833	919
Net charges for retirement benefits in accordance with FRS17	(2,958)	(2,206)
	<u>(5,593)</u>	<u>(4,136)</u>
<b>Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year:</b>		
Minimum revenue provision for capital financing	405	228
Usable capital receipts transferred to meet payments to the Housing Capital Receipts Pool	(50)	(5)
Employer's contribution payable to the Worcestershire County Council Pension Fund	1,795	1,821
	<u>2,150</u>	<u>2,044</u>
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year:</b>		
Net transfer (from) / to Earmarked Reserves	<u>(1,221)</u>	268
	(1,221)	268
<b>Net additional amount required to be credited to the General Fund balance for the year.</b>	<u><b>(4,664)</b></u>	<u><b>(1,824)</b></u>

**WORCESTER CITY COUNCIL**  
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year ended 31st March 2009**

---

Note	2008/09 £000s	2007/08 £000s
Deficit for the year on the Income and Expenditure Account	<b>3,916</b>	2,637
18/30 Surplus arising on revaluation of fixed assets	<b>(3,423)</b>	(2,972)
1 Actuarial (gain) / loss on pension fund assets	<b>(512)</b>	9,820
Gain on the Collection Fund	<b>(147)</b>	(17)
Reduction in long term loans relating to house purchases	<b>26</b>	9
<b>Total recognised (gains) / losses for the year</b>	<b>(140)</b>	<b>9,477</b>

**Reconciliation:**

Opening reserves and balances	(35,739)	(45,312)
Pensions adjustment (see Accounting Policy 2)	-	96
Total recognised (gains) / losses for the year	(140)	9,477
<b>Closing reserves and balances</b>	<b>(35,879)</b>	<b>(35,739)</b>

**WORCESTER CITY COUNCIL**  
**BALANCE SHEET**  
**at 31st March 2009**

Note		2008/09 £000s	2007/08 £000s
14-18	<b>Fixed Assets</b>		
	Tangible assets - operational	64,902	61,321
	Tangible assets - non-operational	5,703	7,508
		<u>70,605</u>	<u>68,829</u>
	<b>Other assets</b>		
20	Long term debtors	11	37
	<b>Total long term assets</b>	<u>70,616</u>	<u>68,866</u>
	<b>Current assets</b>		
21	Stock	76	112
22	Debtors	5,913	8,434
23/24	Investments	6,158	4,961
	Cash and bank	248	12
		<u>12,395</u>	<u>13,519</u>
	<b>Current liabilities</b>		
26	Creditors	7,517	8,111
23	Short term borrowing	40	37
27	Bank overdraft	-	630
		<u>7,557</u>	<u>8,778</u>
	<b>Current assets less current liabilities</b>	<b>4,838</b>	<b>4,741</b>
	<b>TOTAL ASSETS less CURRENT LIABILITIES</b>	<b>75,454</b>	<b>73,607</b>
	<b>Long term liabilities</b>		
28	Capital contributions deferred	2,490	1,681
29	Capital contributions unapplied	1,763	1,508
25	Long term borrowing	7,704	7,713
1	Pensions liability	27,618	26,966
		<u>39,575</u>	<u>37,868</u>
	<b>TOTAL ASSETS less TOTAL LIABILITIES</b>	<b>35,879</b>	<b>35,739</b>
	<b>Financed by:</b>		
30	Revaluation reserve	6,395	2,972
31	Capital adjustment account	51,932	55,278
1	Pensions reserve	(27,618)	(26,966)
32	Usable capital receipts	2,125	100
33	Deferred capital receipts	11	18
34	Earmarked reserves	2,137	4,334
	General Fund balance	914	166
	Collection Fund balance	(16)	(163)
		<u>35,879</u>	<u>35,739</u>

**WORCESTER CITY COUNCIL**  
**CASH FLOW STATEMENT**  
For the year ended 31st March 2009

Note		<b>2008/09</b> <b>£000s</b>	2007/08 £000s
37	<b>Cash inflow / (outflow) from Revenue activities</b>	<b>2,230</b>	(1,093)
39	Returns on investments and servicing of finance	<b>334</b>	407
40	Capital activities	<b>(495)</b>	(1,624)
	Cash outflow before use of liquid resources and financing	<b>2,069</b>	(2,310)
41	Management of liquid resources	<b>(1,194)</b>	2,361
42	Financing	<b>(9)</b>	1
	<b>Increase in cash in the year</b>	<b><u>866</u></b>	<b><u>52</u></b>
43	<b>Reconciliation of net cash flow to movement in net debt</b>		
	Increase in cash in the year	<b>866</b>	52
	Movement on debt financing	<b>9</b>	(1)
	Increase / (reduction) in liquid resources	<b><u>1,194</u></b>	<b><u>(2,361)</u></b>
	Movement in net debt in year	<b>2,069</b>	(2,310)
	Opening net debt at 1 April	<b>(3,407)</b>	(1,097)
	<b>Closing net debt at 31 March</b>	<b>(1,338)</b>	(3,407)

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
**For the year ended 31st March 2009**

**1. Pension Costs**

As part of the terms and conditions of employment, the Council offers retirement benefits to its employees. Although these benefits will not be payable until the employee retires, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Worcestershire County Council Pension Fund, which is a defined benefit scheme. This means that retirement benefits are determined independently of the investments of the fund and the Council has an obligation to make contributions where assets are insufficient to meet employee benefits. The Council and employees pay contributions into the fund which are calculated at a level intended to balance pensions liabilities and investment assets.

**Transactions Relating to Retirement Benefits**

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account during 2008/09:

<b>Income and Expenditure Account</b>	<b>2008/09</b>	2007/08
	<b>£000's</b>	£000's
<b>Net cost of Service</b>		
Current service cost	<b>1,629</b>	1,610
Past service and curtailment costs	<b>21</b>	485
<b>Net operating expenditure</b>		
Return on assets	<b>(3,199)</b>	(3,768)
Interest on pension liabilities	<b>4,507</b>	3,879
<b>Appropriations</b>		
Movement on pensions reserve	<b>(1,163)</b>	(385)
<b>Net charge to the Income and Expenditure Account</b>	<b>1,795</b>	1,821
<u>Amount charged against Council Tax</u>		
Employer's contribution payable to the scheme	<b>1,795</b>	1,821

**Assets and Liabilities in Relation to Retirement Benefits**

The underlying assets and liabilities for retirement benefits attributable to the Council at 31st March are as follows:

	<b>31st March</b>	31st March	31st March	31st March	31st March
	<b>2009</b>	2008	2007	2006	2005
	<b>£000's</b>	£000's	£000's	£000's	£000's
Market value of assets	<b>35,606</b>	47,221	55,442	52,206	41,942
Estimated liabilities	<b>(63,224)</b>	(74,187)	(72,107)	(72,078)	(63,134)
<b>Net liability</b>	<b>(27,618)</b>	(26,966)	(16,665)	(19,872)	(21,192)

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

---

**1. Pension Costs (cont'd)**

The net liability of £27.618m is a measure of the extent to which the pension fund's existing assets do not meet estimated future liabilities. The deficit in the scheme is not payable immediately and it will be made good by future pension contributions made over the remaining working lives of employees, as estimated by the schemes actuaries.

The Worcester City Council Pension fund is managed over a significant period and an estimated deficit position on the pension fund at this stage has no direct impact upon the level of the Council's General Fund reserves.

**Basis for Estimating Assets and Liabilities**

The pension fund liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions including the future number of pensioners and salary levels etc. The pension fund liabilities have been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries, the estimates for the fund are based upon the latest full valuation of the scheme as at 1st April 2007.

The principal assumptions used by the actuary are:

	<b>2008/09</b>	2007/08
	%	%
Rate of inflation	<b>3.3</b>	3.6
Rate of increase in salaries	<b>4.8</b>	5.1
Rate of increase in pensions	<b>3.3</b>	3.6
Discount rate on liabilities	<b>7.1</b>	6.1

	<b>Expected</b>	<b>Proportion</b>	Expected	Proportion
	<b>Rate of Return</b>	<b>of assets</b>	Rate of Return	of assets
	<b>2008/09</b>	<b>2008/09</b>	2007/08	2007/08
	%	%	%	%
Equities	<b>7.5</b>	<b>85.6</b>	7.5	88.6
Bonds - Government	<b>4.0</b>	<b>8.4</b>	4.6	4.7
Bonds - Other	<b>6.0</b>	<b>3.2</b>	6.1	3.8
Cash / Liquidity	<b>0.5</b>	<b>2.8</b>	5.3	2.9

<b>Mortality assumptions:</b>	<b>2008/09</b>	2007/08
Life expectancy at 65 for <b>current</b> pensioners		
Men	<b>21.2</b>	21.1
Women	<b>24.0</b>	24.0
Life expectancy at 65 for <b>future</b> pensioners		
Men	<b>22.2</b>	22.2
Women	<b>25.0</b>	25.0
Commutation of pension for lump sum at retirement	<b>50%</b>	50%

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
**For the year ended 31st March 2009**

**1. Pension Costs (cont'd)**

<b>Movement in Liability</b>	<b>2008/09</b> £000's	2007/08 £000's
Net pensions liability at 1st April	<b>(26,966)</b>	(16,665)
Current service costs	<b>(1,629)</b>	(1,610)
Employer's contributions	<b>1,795</b>	1,821
Past service / curtailment cost	<b>(21)</b>	(485)
Net interest / return on assets	<b>(1,308)</b>	(111)
Adjustment (see accounting policy 2)	-	(96)
Actuarial gain / (loss)	<b>512</b>	(9,820)
<b>Net pensions liability at 31st March</b>	<b><u>(27,617)</u></b>	<u>(26,966)</u>

The actuarial losses and gains can be analysed into the following categories, measured by amount and as a percentage of assets or liabilities on 31st March:

	<b>31st March</b> <b>2009</b> %	31st March 2008 %	31st March 2007 %	31st March 2006 %	31st March 2005 %
Difference between expected and actual return on assets	<b>(40.4)</b>	(24.4)	0.2	15.0	3.9
Experience Gains/losses on Liabilities	<b>0.0</b>	(7.9)	4.8	(9.5)	(14.2)

The total contributions expected to the Local Government Pension Scheme by the Council in the year to 31st March 2010 is £1,829m.

**Pensions Liability Relating to Shared Services**

As part of the Revenue and Benefits Shared Service this Council transferred its staff to the host authority (Wychavon District Council) on a fully funded basis for pension's purchases. The shared service was admitted to the pensions fund as a ghost admitted body, as such any liability or surplus that accrues is the responsibility of the partners to that shared service.

The table below shows the overall deficit of the admitted body together with this Council's share of 41.1% as defined by the partnership legal agreement.

	<b>31st March</b> <b>2009</b>	31st March 2008
Present value of liabilities	<b>(6,674)</b>	(7,603)
Fair value of assets	<b>5,157</b>	6,400
Deficit in scheme	<b>(1,517)</b>	(1,203)
Worcester City Council share of deficit @ 41.1%	<b>(623)</b>	(495)

No provision is made to recover this deficit within these accounts. The deficit will be made good over time, either through improved fund performance or through higher contribution rates being paid into the fund, on the advice of the independent actuaries.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

**2. Comparison with Revenue Budget**

The following table details the Council's final net revenue expenditure analysed by its key priority groups. This differs from the totals shown as 'Net Cost of Services' in the Income and Expenditure Account by the exclusion of costs relating to capital and the addition of trading undertakings.

	<b>Net Budget 2008/09 £000's</b>	<b>Net Expenditure 2008/09 £000's</b>	<b>Net Expenditure 2007/08 £000's</b>
Head of Paid Service/Central	2,566	2,417	2,747
Cleaner and Greener City	5,722	5,321	5,425
Urban Renaissance	2,225	2,187	2,305
Governance and Corporate Support	(717)	(815)	(769)
Safer and Stronger Communities	3,478	3,362	3,482
Performance, Innovation and Efficiency	(4)	(206)	(92)
Financial Services	3,398	3,779	3,373
<b>Net Expenditure by Service</b>	<b>16,668</b>	<b>16,045</b>	<b>16,471</b>
Less net capital charges	(2,386)	(2,486)	(2,867)
Less budgeted use of reserves	(1,197)	(1,135)	(374)
Add transfers to Earmarked Reserves	-	205	-
<b>General Fund budget requirement</b>	<b>13,085</b>	<b>12,629</b>	<b>13,230</b>
<b>Funded by:</b>			
Council Tax - Collection Fund	(4,973)	(4,973)	(4,756)
Non-domestic Rates Redistribution	(7,121)	(7,121)	(6,834)
Central government grants	(991)	(991)	(1,201)
<b>Unbudget</b>	<b>-</b>	<b>(456)</b>	<b>439</b>

The Council's financial performance in 2008/09 was £488k better than budget. This £488k underspend has restored the General Fund balance to within the targeted level of £0.6m - £1m. Further details are provided in the Explanatory Foreword.

**3. External Audit and Inspection**

Grant Thornton are the Council's appointed Auditors for 2008/09. The Audit Commission undertake the Statutory Inspection role. The Council incurred the following fees in relation to external audit and inspection:

	<b>2008/09 £000's</b>	<b>2007/08 £000's</b>
Accrued external audit fees - Grant Thornton	124	120
Accrued external audit fees - Audit Commission	-	4
Statutory inspection fees and N.F.I.	8	8
Certification of grant claims fees	26	25
	<b>158</b>	<b>157</b>

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

**2008/09**      2007/08  
**£000's**      £000's

**4. Trading Undertakings**

The Council owns various markets in Worcester which provide a surplus which is taken to the General Fund.

Rents and charges income	(150)	(150)
Property impairments	70	-
Expenditure	3	3
<b>Surplus taken to the General Fund</b>	<b>(77)</b>	<b>(147)</b>

**5. Expenditure on Publicity**

The Council's expenditure on publicity is set out below as per the requirements of section 5(1) of the Local Government Act 1986.

Recruitment advertising	13	43
Other advertising	27	41
Other publicity	85	75
<b>Total</b>	<b>125</b>	<b>159</b>

**6. Building Regulations Charging Account**

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. Certain activities performed by the building control function cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total income and expenditure of all activities undertaken by the building control function.

	Non-Chargeable		Chargeable	
	2008/09	2007/08	2008/09	2007/08
	£000's	£000's	£000's	£000's
Income	-	-	(323)	(254)
Expenditure	143	100	237	236
<b>Deficit / (Surplus)</b>	<b>143</b>	100	<b>(86)</b>	<b>(18)</b>

**7. Section 137 Expenditure**

Section 137 of the Local Authority Act 1972 empowers Local Authorities to incur expenditure which is in the interests of their area or its inhabitants. In 2008/09 the Council incurred £135,388 (2007/08: £138,335) on grants to voluntary bodies serving the community.

**8. Land Charges**

From 2007 the amended Local Land Charges Act requires that, taking one financial year with another, local authority fee income in respect of local land charge search fees should not exceed the cost of providing the service.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

	2008/09 £000's	2007/08 £000's
<b>8. Land Charges (cont'd)</b>		
The statement below shows the total income and expenditure of the Council's Land Charges service:		
Income on search fees	(133)	(114)
Expenditure on search fees	136	89
Deficit from / (Surplus to) earmarked reserve	3	(25)

**9. Local Authority (Goods and Services) Act 1970**

Under this Act the Council supplies goods and services to other public bodies. The details of the income received which covered costs is shown below:

Internal Audit	To other District Councils	169	150
Property Services	To other District Councils	97	65
Procurement Services	To other District Councils	-	17
Community Devt	To other District Councils	10	-
Parks & Open Spaces	Worcestershire County Council	36	50
Planning	To other District Councils	24	23
Operational Services	Districts/County/Parish Councils	118	51
Strategic Housing	To other District Councils	6	-
Customer Services	Worcestershire County Council	249	236
		709	592

**10. Area Based Grant**

The Council received Area Based Grant of £22,500 in 2008/9. This allocation is not ringfenced although it will be used by the Council as intended, to meet the additional costs of addressing Climate Change issues arising from the latest planning legislation.

**11. Members Allowances**

The amount paid to members for basic allowances, special responsibility allowances and attendance allowances in 2008/09 was £194,501 (2007/08: £191,476).

**12. Employees' Remuneration**

The number of employees whose remuneration (excluding pension costs) was more than £50,000 was:

Remuneration band	Number of employees	
	2008/09	2007/08
£50,000 - £59,999	1	1
£60,000 - £69,999	5	6
£70,000 - £79,999	-	-
£80,000 - £89,999	2	-
£90,000 - £99,999	-	1
	8	8

**13. Related Party Transactions**

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
**For the year ended 31st March 2009**

---

**13. Related Party Transactions (cont'd)**

Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates. It provides the majority of its funding in the form of grants and it prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits).

Members of the Council have direct control over the Council's financial and operating policies. The Council maintains a register of interests for Councillors which is regularly updated and available for public inspection.

The Council has member representation on Worcestershire County Council, St Peter's and Warndon Parish Councils, West Mercia Police Authority and Hereford and Worcester Fire and Rescue Authority. The Council collects and distributes precepts on behalf of these bodies.

The South Worcestershire Revenues and Benefits Shared Services Organisation (SWR&BSSO) was formed on the 2nd July 2007 and is hosted by Wychavon District Council. The Council has member representation on the Joint Committee of this organisation.

The Council also has member representatives on various outside bodies, such as the Horizon Worcester Ltd., NEXUS Housing Association, Worcester Community Housing, St Richard's Hospice, Worcester Racecourse, Worcester Racial Equality Council Ltd., Worcestershire Telecare Services, and The Hopmarket Charity. The Council's Chief Executive is a representative member of Worcestershire Partnership Board, Safer Communities Board and South Worcestershire Community Safety Partnership.

Material transactions with related parties are as follows:

	<b>2008/09</b>	<b>2008/09</b>	2007/08
	<b>Payments</b>	<b>Receipts</b>	Net
	<b>£000's</b>	<b>£000's</b>	£000's
<b>Grants from Central Government - Revenue</b>			
DCLG Revenue Support Grant		991	1,147
DCLG Housing Benefit Grants		27,316	24,657
DCLG Homelessness Grant		115	115
DCLG Planning Delivery Grant		167	283
DCLG Humanitarian Relief Grant/Belwin/Floods		51	76
DCLG LABGI		195	252
<b>Grants from Central Government - Capital</b>			
DCLG Regional Housing Grant		192	287
DCLG Housing Subsidy (DFG)		282	338
<b>Other</b>			
Worcestershire County Council (excluding precepts)	(1,012)	504	(584)
Worcestershire County Council - Pension Service	(2,215)		(2,227)
Worcester Community Housing		156	658
Wychavon District Council	(261)		(209)
SW Revenue & Benefits Shared Service (hosted by Wychaven District Council)	(1,833)		(557)

WORCESTER CITY COUNCIL  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

**14. Movement on Fixed Assets**

	Land and Buildings £000	Vehicles, Plant & Equipment £000	Community Assets £000	Subtotal £000
Cost or valuation at 1 April 2008	56,716	9,080	379	66,175
Cumulative depreciation	(2,258)	(2,596)	-	(4,854)
<b>Net book value 1 April 2008</b>	<b>54,458</b>	<b>6,484</b>	<b>379</b>	<b>61,321</b>

**Movement in 2008/09**

Additions	3,195	774	-	3,969
Disposals	(439)	(203)	-	(642)
Cumulative depreciation on disposals	36	145	-	181
Transfers	(129)	33	-	(96)
Revaluation gains/(losses)	3,479	-	-	3,479
Impairment losses	(1,351)	-	-	(1,351)
Depreciation charge for year	(921)	(1,038)	-	(1,959)
	3,870	(289)	0	3,581
<b>Net book value 31 March 2009</b>	<b>58,328</b>	<b>6,195</b>	<b>379</b>	<b>64,902</b>

**Analysis at 31st March 2009**

Book value	61,285	9,684	379	71,348
Cumulative depreciation	(2,957)	(3,489)	-	(6,446)
<b>Net book value</b>	<b>58,328</b>	<b>6,195</b>	<b>379</b>	<b>64,902</b>

	Investment Properties £000	Assets under Construction (AUC) £000	<b>Total Fixed Assets £000</b>
Cost or valuation at 1 April 2008	5,605	1,903	<b>73,683</b>
Cumulative depreciation	-	-	<b>(4,854)</b>
<b>Net book value 1 April 2008</b>	<b>5,605</b>	<b>1,903</b>	<b>68,829</b>

**Movement in 2008/09**

Additions	-	220	<b>4,189</b>
Disposals	(1,708)	-	<b>(2,350)</b>
Cumulative depreciation on disposals	-	-	<b>181</b>
Transfers	1,758	(1,730)	<b>(68)</b>
Revaluation gains/(losses)	(56)	-	<b>3,423</b>
Impairment losses	(289)	-	<b>(1,640)</b>
Depreciation charge for year	-	-	<b>(1,959)</b>
	(295)	(1,510)	1,776
<b>Net book value 31 March 2009</b>	<b>5,310</b>	<b>393</b>	<b>70,605</b>

**Analysis at 31st March 2009**

Book value	5,310	393	<b>77,051</b>
Cumulative depreciation	-	-	<b>(6,446)</b>
<b>Net book value</b>	<b>5,310</b>	<b>393</b>	<b>70,605</b>

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

	2008/09 £000's	2007/08 £000's
<b>15. Capital Expenditure and Financing</b>		
<b>Capital expenditure adding to fixed asset valuation</b>		
Land and buildings	3,195	755
Vehicles, plant and equipment	774	1,503
Community assets	-	32
Work in progress	220	944
<b>Additions to fixed assets</b>	<b>4,189</b>	<b>3,234</b>
<b>Capital expenditure not adding to fixed asset valuation</b>		
Revenue expenditure funded from capital under statute	1,598	864
<b>Total Capital Expenditure</b>	<b>5,787</b>	<b>4,098</b>
<b>Financed by:</b>		
Approved borrowing	1,093	1,914
Usable capital receipts	2,070	814
Grants and other contributions	2,095	1,065
Section 106 funds	529	305
<b>Total Capital Financing</b>	<b>5,787</b>	<b>4,098</b>

**16. Capital Commitments**

	at 31 March 2009		at 31 March 2008	
	Approved Schemes £000	Contractual Commitments £000	Approved Schemes £000	Contractual Commitments £000
	Housing renovation	1,130	40	1,350
Homelessness schemes	834	35	900	-
Depot replacement	-	-	1,079	420
Riverside Improvements	907	-	902	-
Toilet Improvements	50	50	-	-
It Investment	900	57	-	-
Vehicle/Plant/Bin replacements	2,774	374	-	-
Gheluvelt Park	976	49	984	-
Fort Royal improvements	434	-	440	-
Swan Theatre	515	209	585	-
King George V playing fields	-	-	1,331	1,331
	<b>8,520</b>	<b>814</b>	<b>7,571</b>	<b>1,993</b>

**17. Information on Assets Held**

The number and value of the main fixed assets of the Council include the following:

	2008/09 value £000	2008/09 number	2007/08 value £000	2007/08 number
<b>Operational Assets</b>				
Offices	6,913	2	8,472	2
Car parks	20,908	14	22,015	15
Hostel	470	1	470	1
Community centres	9,078	8	7,390	8
Leisure and sports facilities	13,232	3	8,858	3
Museums	3,900	2	3,900	2
Shared ownership dwellings	1,235	20	1,447	21

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

**17. Information on Assets Held (cont'd)**

	2008/09 value £000	2008/09 number	2007/08 value £000	2007/08 number
Cemetries and crematorium	1,740	2	1,740	2
Depots	950	1	82	1
Public conveniences	843	5	728	5
Bus shelters	240	80	226	76
Vehicles	2,279	35	2,363	37
	<b>60,048</b>	<b>171</b>	55,951	171
<b>Community Assets</b>				
Sports pitches	711	37	711	37
Allotment sites	198	15	198	15
	<b>909</b>	<b>52</b>	909	52
<b>Non-operational Assets</b>				
Commercial units and shops	1,788	20	1,907	20
Worcester Racecourse freehold	200	1	200	1
Ex-Public convenience	-	-	86	1
	<b>1,988</b>	<b>21</b>	2,193	22
<b>Total</b>	<b>62,945</b>	<b>244</b>	59,053	245

**18. Asset Valuation**

The Council's property portfolio is valued by Andrew Harding, the Council's Estates Valuation Manager, who is a member of the Royal Institute of Chartered Surveyors (RICS). The valuations are carried out in accordance with the requirements of the RICS Appraisal and Valuation Manual and the Accounting Code of Practice. Asset valuations are reviewed on a regular basis having regard to use and type of asset. Plant and machinery are included in the valuation of buildings.

Revaluations were:	2008/09 Increase/ (decrease) £000	2007/08 Increase/ (decrease) £000
<u>Operational Properties</u>		
Community centres	-	996
Sports Centres	3,479	-
Museums	-	(416)
Depots	(397)	-
Offices	(674)	-
Other	(155)	32
<u>Non-operational Properties</u>		
Land (various locations)	(136)	1,373
Buildings	80	400

**19. Leases**

The Council uses leased commercial vehicles, computers, sports and office equipment under the terms of an operating lease. Operating lease payments in 2008/09 are £43,220 (2007/08: £25,300). The Council's outstanding liabilities under these lease arrangements as at 31 March are £32,116 for 2009/10.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

---

**20. Long Term Debtors**

These debts relate to loans for the purchase and improvement of private housing and Council dwellings. Loans are no longer given for these purposes. The outstanding debts do not fall due for a period of at least one year and in some cases the debt is for the life of the borrower, unless the house is sold beforehand.

	<b>2008/09</b>	2007/08
	<b>£000's</b>	£000's
Private house purchasers	-	19
Council house purchasers	<b>11</b>	18
<b>Balance outstanding at 31 March</b>	<b>11</b>	<b>37</b>

**21. Stock**

Stationery and consumables	<b>21</b>	24
Fuel	-	20
Stock for resale	<b>18</b>	25
Other operations stock	<b>37</b>	43
	<b>76</b>	112

**22. Debtors**

	<b>2008/09</b>	2007/08
	<b>£000's</b>	£000's
Council taxpayers	<b>2,168</b>	2,507
National non-domestic ratepayers	<b>652</b>	478
Government departments	<b>1,677</b>	3,440
Local authorities	<b>243</b>	297
Worcester Community Housing	<b>401</b>	898
Payments in advance	<b>278</b>	433
Other debtors	<b>2,024</b>	1,891
	<b>7,443</b>	9,944
Less: provision for doubtful debts	<b>(1,530)</b>	(1,510)
	<b>5,913</b>	8,434

The amount due from Worcester Community Housing is the City Council's share of the proceeds from the sale of former Council dwellings.

The provision for doubtful debts is based upon an age analysis of the arrears. 100% is provided on sundry debts that are over one year old, and 100% is provided on Council Tax arrears, Housing Benefit overpayments and National Non-Domestic Rates arrears that are over eight years old. The percentage provision on debts that are more recent is based on a sliding scale according to the year due.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
**For the year ended 31st March 2009**

---

**23. Financial Instruments**

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice, and has set treasury management indicators to control key financial instruments risks in accordance with CIPFA's Prudential Code

The Council's **investments** (financial assets) are detailed in **note 24**. The Council has short term investments but no long term investments. The Council's **borrowings** (financial liabilities) are detailed in **note 25**. The Council has both short term and long term borrowings.

Financial assets and financial liabilities represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value has been assessed by calculating the net present value of the cash flows that will take place over the term of the instruments using the following assumptions:

- Interest is calculated using the most common market convention ACT/365
- Where interest is paid/received every 6 months on a day basis interest is rounded to 2 equal instalments
- For fixed term deposits it is assumed that interest is received on maturity
- Interest value and date has not been adjusted where a relevant date occurs on a non working day.

The discount rate used in the present value calculation is the rate applicable in the market on the date of valuation (31 March 2008) for an instrument with the same duration, same structure and terms (or as similar as possible).

Accrued interest to 31 March 2008 has been included in the fair value calculation in order to provide a comparison with the Balance Sheet carrying value. The interest rates quoted in the calculation were provided by Sector, the Council's treasury management advisors, from the market on 31 March 2009 using bid prices where applicable.

Fair values as at 31 March 2009 are set out below:

	Nominal Value £000	<b>Balance Sheet £000</b>	Fair Value £000
Financial asset - investments	6,100	<b>6,158</b>	6,168
Financial liability - short term borrowing	38	<b>40</b>	40
Financial liability - LOBO loan	5,000	<b>5,056</b>	5,393
Financial liability - PWLB loan	2,620	<b>2,648</b>	2,950

The fair value of the LOBO loan is higher than the carrying amount because it has been calculated over the full term of the loan which is 50 years. The carrying amount has been calculated over the term up until the first option to break the loan in 2009.

The new borrowing rate has been used as the discount factor for PWLB loans. The fair value is higher than the carrying value because the Council's portfolio of PWLB loans include a number of fixed rate loans where the interest rate is lower than the new borrowing rate used in the fair value calculation.

## 23. Financial Instruments (cont'd)

### Risk Management

The Council's financial instrument activities expose it to a variety of financial risks:

- Credit risk- the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk- the possibility that the Council might not have funds available to meet its commitments to make payments
- Re-financing risk - the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk- the possibility that financial loss might arise from changes such as interest rates and stock market movements.

The Council's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are through a legal framework set out in the Local Government Act 2004 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act.

These procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
  - o The Council's overall borrowing;
  - o Its maximum and minimum exposures to fixed and variable rates;
  - o Its maximum and minimum for exposures to the maturity structure of its debt;
  - o Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparts in compliance with Government Guidance.

The Council's Treasury Management Strategy and Prudential Indicators are approved by Council annually prior to the start of the year to which they relate. This document outlines the detailed approach to managing risk in relation to the Council's treasury activity and any financial instrument exposure.

#### **i. Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the annual investment strategy which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with credit ratings from recognised credit rating agencies. The annual investment strategy also imposes a maximum amount and time to be invested within each category. Investments must be in sterling and have a maturity of no more than one year.

## **23. Financial Instruments (cont'd)**

### **i. Credit risk (cont'd)**

Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. The Council has no experience of default concerning its investments. The Council does not generally allow credit for its trade debtors. The Council's approach to determining appropriate provisions for bad and doubtful debts is outlined in note 22 above.

### **ii. Liquidity risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the PWLB provides access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

### **iii. Re-financing Risk**

The Council currently has long term debt and a limited investment portfolio, with all investments being in sterling and short term. Financial liabilities also include operating leases and short-term creditors. Cash flow procedures are in place and the approved treasury and investment strategies address the main risks around re-financing and maturity. The Finance Service manage the operational risks within the treasury management portfolio through monitoring investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs.

### **iv. Market risk**

Interest rate risk - the Council is exposed to interest rate movements on its investments and borrowings (upon maturity). The Council has strategies in place for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. The Finance Service monitor market and forecast interest rates within the year to adjust exposures appropriately.

Price risk - the Council, excluding the pension fund, does not generally invest in equity shares but it does hold 19% of the issued share capital (19 shares at £1 each) in Worcester Racecourse Limited. The holding is generally illiquid but the Council is exposed to decreases in the value of shareholders funds.

Foreign exchange risk - the Council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

---

**24. Investments**

Worcester Racecourse Ltd (WRL) is a joint venture company owned 81% by Arena Leisure Plc and 19% by Worcester City Council. The purpose of the venture is to operate National Hunt Racing at the Racecourse on Pitchcroft, an activity which is authorised by the Worcester City Council Act 1985. The Council has 19 £1 shares with voting rights. The latest set of Audited Accounts is as at 31st December 2007. They show that the company has a shareholders deficit at that time of £1,873,484. Therefore, the council has not revalued the fair value of the investment.

WRL is a company with limited liability and as such the Council's liability is restricted to the value of its shareholding in the event of losses or deficits. Copies of the audited accounts for WRL are available from Companies House.

The Council does not have any long term investments. The Councils short term investments on 31st March were:

	<b>2008/09</b>	2007/08
	<b>£000's</b>	£000's
Bank/Building Society balances at amortised cost	<b>6,158</b>	4,961
	<u><b>6,158</b></u>	<u>4,961</u>

**25. Long term borrowing**

An analysis of loans by lender category and by maturity is as follows:

	<b>2008/09</b>	2007/08
	<b>£000's</b>	£000's
P.W.L.B.	<b>2,648</b>	2,656
Money Market	<b>5,056</b>	5,057
	<u><b>7,704</b></u>	<u>7,713</u>
Maturing within one year	<b>5,101</b>	93
Maturing in 1-2 years	<b>33</b>	5,017
Maturing in 2-5 years	<b>81</b>	98
Maturing in 5-10 years	<b>195</b>	171
Maturing in more than 10 years	<b>2,294</b>	2,334
	<u><b>7,704</b></u>	<u>7,713</u>

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
**For the year ended 31st March 2009**

	<b>2008/09</b>	2007/08
	<b>£000's</b>	£000's
<b>26. Creditors</b>		
Government departments	<b>600</b>	291
Local Authorities	<b>532</b>	346
Receipts in advance	<b>2,337</b>	3,807
Section 106 planning obligations	<b>1,431</b>	1,917
Other creditors	<b>2,617</b>	1,750
	<u><b>7,517</b></u>	<u>8,111</u>

Within the receipts in advance figure, £545k (2007/08: £890k) relates to council tax and £324k (2007/08: £692k) relates to national non-domestic rates.

**27. Bank overdraft**

This figure represents the amount that the Council would be overdrawn if all cheques drawn by 31st March had been cashed.

**28. Capital contributions deferred**

Opening balance at 1st April	<b>1,681</b>	1,964
Transfer in year from 'capital contributions unapplied'	<b>1,088</b>	54
Released to revenue in year	<b>(222)</b>	(337)
Write out on sale of asset	<b>(57)</b>	
Closing balance at 31st March	<u><b>2,490</b></u>	<u>1,681</u>

Capital grants and contributions are applied to finance capital expenditure. When the asset to which the contribution relates comes into use and is depreciated, the contribution is transferred from this account to the Income and Expenditure account to offset the depreciation charge.

**29. Capital contributions unapplied**

Opening balance at 1st April	<b>1,508</b>	912
Additions in year	<b>1,343</b>	650
Transfer in year to 'capital contributions deferred'	<b>(1,088)</b>	(54)
Closing balance at 31st March	<u><b>1,763</b></u>	<u>1,508</u>

When capital grants and contributions are received they are initially applied to this account. Once the scheme to which they relate requires financing, the contribution is transferred to the capital contributions deferred account prior to being released to the Income and Expenditure account to offset the associated depreciation charge.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
**For the year ended 31st March 2009**

**30. Revaluation Reserve**

This account was introduced in 2007/08 to replace the Fixed Asset Restatement Account. The closing balance on the Revaluation Reserve at 31 March 2009 shows revaluation gains accumulated since 1 April 2007.

	<b>2008/09</b>	2007/08
	<b>£000</b>	£000
Opening balance on 1st April	<b>2,972</b>	-
Land (various locations)	<b>(136)</b>	1,374
Buildings (cemeteries)	-	400
Community centres	-	996
Sports Centres	<b>3,479</b>	-
Other	<b>80</b>	202
<b>Closing balance on 31st March</b>	<b><u>6,395</u></b>	<b><u>2,972</u></b>

**31. Capital Adjustment Account**

<b>Opening balance on 1st April</b>	<b>55,278</b>	56,735
Depreciation of fixed assets	<b>(1,959)</b>	(1,993)
Minimum revenue position	<b>405</b>	228
Revenue expenditure funded from capital under statute	<b>(1,091)</b>	(497)
Disposal of fixed assets	<b>(2,111)</b>	-
Impairment losses	<b>(1,640)</b>	(587)
<b>Subtotal</b>	<b><u>48,882</u></b>	<b><u>53,886</u></b>

**Capital Financing**

Useable capital receipts	<b>2,070</b>	814
Mortgages	<b>(19)</b>	(3)
Government grants - released	<b>222</b>	228
Earmarked reserves	<b>777</b>	353
<b>Subtotal</b>	<b><u>3,050</u></b>	<b><u>1,392</u></b>

<b>Closing balance on 31st March</b>	<b><u>51,932</u></b>	<b><u>55,278</u></b>
--------------------------------------	----------------------	----------------------

**32. Useable Capital Receipts**

The useable capital receipts reserve represents capital receipts available to finance future capital expenditure.

	<b>2008/09</b>	£000's
	<b>£000's</b>	£000's
Opening balance on 1st April	<b>100</b>	-
Add transfers from earmarked reserve	<b>200</b>	-
Useable capital receipts received	<b>3,945</b>	919
Useable capital receipts transferred to the Housing Pool	<b>(50)</b>	(5)
Capital receipts used to finance capital expenditure	<b>(2,070)</b>	(814)
<b>Closing balance on 31st March</b>	<b><u>2,125</u></b>	<b><u>100</u></b>

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
**For the year ended 31st March 2009**

**33. Deferred Capital Receipts**

Deferred capital receipts derive from mortgages on the sale of council houses. They represent the amounts to be received in instalments in future periods.

**34. Earmarked Reserves**

	Balance at 1st April £000's	Transferred From Revenue £000's	Transferred To Revenue £000's	Transferred To Capital £000's	Balance at 31st March £000's
<b>Revenue Reserves</b>					
Budget Action Plan 2008/9	1,042		(1,042)		-
Agreed Budget Funding 2007/8	138		(138)		-
Section 106 Interest	24		(24)		-
Environmental Health	-	15			15
Operational Services	-	88			88
Parks & Open Spaces	-	40			40
Planning Appeals	4				4
Mayor's Allowance	-	3			3
Land Charges	26		(4)		22
Building Control	18	86			104
Recreational Improvements	193		(56)		137
Occupational Health	28		(10)		18
Three Choir/Elgar Choral Festivals	31		(31)		-
Central Training	56	5	(50)		11
Art & Museum Specimens	33		(18)		15
Internal Audit	25		(25)		-
Climate Change Initiatives		23			23
Revenues & Benefits	-	30			30
Environment Warranty Insurance	934		(6)		928
Pre LSVT Housing Contracts	107		(107)		-
<b>Subtotal Revenue Reserves</b>	<b>2,659</b>	<b>290</b>	<b>(1,511)</b>		<b>1,438</b>
<b>Capital/Other Reserves</b>					
Depot Replacement	1,629		(652)	(977)	-
IT Investment	-	342			342
Vehicle Replacement	-	310			310
Nunnery Lane Deposits	16	1			17
Guildhall Floodlights & Tourism	30				30
<b>Subtotal Capital/Other Reserves</b>	<b>1,675</b>	<b>653</b>	<b>(652)</b>	<b>(977)</b>	<b>699</b>
<b>Total Earmarked Reserves</b>	<b>4,334</b>	<b>943</b>	<b>(2,163)</b>	<b>(977)</b>	<b>2,137</b>

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

---

**34. Earmarked Reserves (cont'd)**

The reserves have been established for the following purposes:

<b>Reserve</b>	<b>Purpose</b>
Environmental Health	for air noise, quality and pollution initiatives
Operational Services	for various initiatives to improve cleaner & greener portfolio
Parks & Open Spaces	for crematorium and parks improvements
Planning Appeals	for abnormal planning appeal costs
Mayor's Allowance	for final payments relating to outgoing Mayor
Land Charges	for a ring-fenced programme
Building Control	for a rolling 3 year ring-fenced programme
Recreational Improvements	for recreational improvements plan
Occupational Health	for future Occupational Health initiatives
Central Training	for central training plan including H&S training
Art & Museum Specimens	for acquisition of exhibits and initiatives
Climate Change Initiatives	for initiatives to improve climate change performance
Revenues & Benefits	for support to deal with increased workload on claims
Environment Warranty Insurance	for insurance premiums and claims on former housing land
IT Investment	for investment to improve IT systems and infrastructure
Vehicle Replacement	for planned vehicle replacement programme
Nunnery Lane Deposits	for developer deposits towards making up road
Guildhall Floodlights & Tourism	for Guildhall improvements

**35. Contingent Liabilities**

The Council is liable for any pension fund deficit in respect of the accrued pension rights of previous employees transferred to Worcester Racecourse Ltd in the year 2000. This liability is estimated at a maximum of £200k. Should it crystallise, it will be reflected in the Council's overall pension fund liability. This liability is not reflected in the 2008/9 Statement of Accounts.

**36. Post balance sheet events**

There are no post balance sheet events to report.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

	2008/09 £000's	2007/08 £000's
<b>37. Reconciliation of the deficit on the Income and Expenditure Account to the net cash movement on Revenue activities</b>		
Income and Expenditure Account deficit for the year	(3,916)	(2,637)
<b>Net additional amount required to be credited to the General Fund Balance for the year</b>		
Depreciation	1,959	1,993
Capital contributions deferred	(222)	(228)
Fixed asset impairments	1,640	587
Pension costs less contributions paid	1,163	385
Transfers from reserves	1,221	(268)
Minimum revenue provision	(405)	(228)
Payments to capital receipts pool	50	5
Disposal of fixed assets	(1,833)	(919)
Revenue expenditure funded from capital under statute	1,091	497
	<u>4,664</u>	<u>1,824</u>
Collection Fund surplus	(147)	(17)
<b>Surplus / (deficit) for the year</b>	<u>601</u>	<u>(830)</u>
Interest receivable	(736)	(738)
Interest payable	402	331
<b>Items on an accruals basis</b>		
(Increase) / decrease in stocks	36	(2)
(Increase) / decrease in debtors	2,521	32
Increase / (decrease) in creditors	(594)	114
<b>Cash inflow / (outflow) from Revenue activities</b>	<u>2,230</u>	<u>(1,093)</u>
<b>38. Cashflow - analysis of government grants</b>		
	2008/09 £000's	2007/08 £000's
<b>Revenue Activities</b>		
DWP Housing/CT benefit grants	27,316	24,657
DCLG Revenue Support Grant	991	1,147
DCLG Homelessness Grant	115	115
DFT concessionary fares	388	103
DCLG LA business growth incentives	195	252
DCLG planning delivery grant	167	284
Other grants	106	76
<b>Capital Activities</b>		
DCLG Housing Subsidy (DFG)	282	338
DCLG Regional Housing Pot	192	287
<b>Total government grants</b>	<u>29,752</u>	<u>27,259</u>
<b>39. Returns on investments and servicing of finance</b>		
Interest received	736	738
Interest paid	(402)	(331)
<b>Net</b>	<u>334</u>	<u>407</u>

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2009

	2008/09 £000's	2007/08 £000's	
<b>40. Capital activities</b>			
Purchase of fixed assets	(4,189)	(3,234)	
Other capital payments	(1,598)	(864)	
Payments to capital receipts pool	(50)	(5)	
Sales of tangible fixed assets	3,942	1,414	
Write out capital contribution on sale of asset	57	-	
Capital grants received	836	698	
Other capital receipts	507	367	
<b>Net cash outflow from capital activities</b>	<b>(495)</b>	<b>(1,624)</b>	
<b>41. Management of liquid resources</b>			
Increase / (decrease) in short term borrowing	3	-	
(Increase) / decrease in short term investments	(1,197)	2,361	
<b>Net</b>	<b>(1,194)</b>	<b>2,361</b>	
<b>42. Long term financing</b>			
(Decrease) / increase in long term borrowing	(9)	1	
<b>Net cash (outflow) / inflow from financing</b>	<b>(9)</b>	<b>1</b>	
<b>43. Analysis of changes in net debt</b>			
	At 1st April	Cashflows	At 31st March 2009
	2008		£000
	£000	£000	
Cash in hand, and at bank	12	236	248
Bank overdraft	(630)	630	-
	<u>(618)</u>	<u>866</u>	<u>248</u>
Borrowings - long term	(7,713)	9	(7,704)
Borrowings - short term	(37)	(3)	(40)
Investments	4,961	1,197	6,158
<b>Net debt</b>	<b><u>(3,407)</u></b>	<b><u>2,069</u></b>	<b><u>(1,338)</u></b>

**WORCESTER CITY COUNCIL  
COLLECTION FUND  
For the year ended 31st March 2009**

		<b>2008/09</b>	2007/08
		<b>£000's</b>	£000's
Note			
	<b>Income</b>		
1,2,6	Council Tax	<b>(44,541)</b>	(42,194)
3	National Non-Domestic Rates	<b>(35,469)</b>	(33,136)
		<b>(80,010)</b>	(75,330)
	<b>Expenditure</b>		
1	<b>Precepts and demands</b>		
	County council	<b>31,861</b>	30,468
	City council and parishes	<b>4,973</b>	4,756
	Police authority	<b>5,353</b>	5,090
	Fire authority	<b>2,207</b>	2,099
		<b>44,394</b>	42,413
	<b>Non-domestic rates</b>		
	Payments to national pool	<b>35,335</b>	33,041
	Cost of collection allowance	<b>146</b>	146
		<b>79,875</b>	75,600
	<b>Bad and doubtful debt provisions</b>		
5	Council Tax	<b>0</b>	(235)
5	National Non-Domestic Rates	<b>(12)</b>	(52)
		<b>(12)</b>	(287)
4	Surplus for the Year	<b>(147)</b>	(17)
	Deficit as at 1 April	<b>163</b>	180
	Fund deficit as at 31 March	<b>16</b>	163

**1. Council Tax: basic amounts**

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands, based on estimated valuations as at 1st April 1991.

Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Worcestershire County Council, West Mercia Police Authority, Hereford & Worcester Fire and Rescue Authority and the City Council for the forthcoming year and dividing this by the Council Tax base. The Council Tax base is the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts.

This basic amount of Council Tax for a Band D property (£1,369.19 for 2008/2009 and £1,310.96 for 2007/2008) is multiplied by the proportion specified by legislation for the particular band to give an individual amount due.

**WORCESTER CITY COUNCIL  
COLLECTION FUND  
For the year ended 31st March 2009**

---

**1. Council Tax: basic amounts (cont'd)**

Council Tax bills were based on the following proportions for Bands A to H:

	Number of properties Band D equivalents	Proportion	Amount £
Band A	4,249	6/9	912.79
Band B	9,407	7/9	1,064.93
Band C	8,500	8/9	1,217.06
Band D	4,577	1	1,369.19
Band E	3,569	11/9	1,673.45
Band F	1,720	13/9	1,977.72
Band G	565	15/9	2,281.98
Band H	8	18/9	2,738.37

**2. Council Tax**

The Council Tax debit is made up of the following amounts:

	<b>2008/09</b> <b>£000's</b>	2007/08 £000's
Due from taxpayers	<b>38,983</b>	36,980
Council Tax benefit	<b>5,558</b>	5,214
<b>Total Council Tax</b>	<b><u>44,541</u></b>	<u>42,194</u>

**3. National Non-Domestic Rates (NNDR)**

NNDR is organised on a national basis. The Government specifies an amount (48.5p in 2008/2009 and 44.4p in 2007/2008) and, subject to the effects of the transition arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

The Council is responsible for collecting rates due from the ratepayers in its areas but pays the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the Pool back to local authorities' General Funds on the basis of a fixed amount per head of population.

The NNDR income (after reliefs and provisions) of £35.469m for 2008/2009 (£33.136m for 2007/2008) was based on an average rateable value for the Council's area. The rateable value was £86.388m at 31st March 2009 (£87.792m at 31st March 2008).

**WORCESTER CITY COUNCIL**  
**COLLECTION FUND**  
**For the year ended 31st March 2009**

---

**4. Collection Fund surpluses and deficits for Council Tax**

The deficit on the Fund of £16k at 31st March 2009 in respect of Council Tax transactions will be collected in subsequent financial years from Worcestershire County Council, West Mercia Police Authority, Hereford & Worcester Fire and Rescue Authority and the City Council in proportion to the value of the respective precepts and demands made by the Councils on the Collection Fund. The allocations are as follows:

	<b>2008/09</b> <b>£000's</b>	2007/08 £000's
Worcestershire County Council	<b>11</b>	117
West Mercia Police Authority	<b>2</b>	20
Hereford and Worcester Fire and Rescue Authority	<b>1</b>	8
Worcester City Council	<b>2</b>	18
	<b><u>16</u></b>	<b><u>163</u></b>

**5. Provision for Bad Debts and Write Offs**

The Provisions for Bad Debts and Write Offs as at 31 March 2009 are as follows:

	<b>Council Tax</b> <b>£000's</b>	<b>NNDR</b> <b>£000's</b>
Brought forward at 1 April	<b>639</b>	<b>375</b>
Credit (benefit) for year	<b>-</b>	<b>(12)</b>
Carried forward at 31 March	<b><u>639</u></b>	<b><u>363</u></b>

**6. Write Offs**

The amounts written off were as follows:

	<b>2008/09</b> <b>£000's</b>	2007/08 £000's
Council Tax	<b>99</b>	255
NNDR	<b>55</b>	256

Financial regulation 11.10 allows for the writing off of debts deemed irrecoverable. Although written out of the accounts, the debts are still due in law and recovery action will continue.



**Making Worcester a Great Place to Live, Work and Visit**

**Approval of Statement of Accounts 2008/9**

I confirm that this Statement of Accounts including the Annual Governance Statement were approved by Council at its meeting held on 29th September 2009.

Signed on behalf of Worcester City Council

.....

**Councillor Andy Roberts**  
**Mayor and Chairman of the Council**