



Worcester
CITY COUNCIL

Making Worcester a Great Place to Live, Work and Visit

STATEMENT OF ACCOUNTS 2009/10

**Final version 1.9 - 21st September 2010
(for Council approval)**

**WORCESTER CITY COUNCIL
DRAFT STATEMENT OF ACCOUNTS 2009/10**

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**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 2010.

As the responsible officer, I certify that in preparing this Draft Statement of Accounts for the year ended 31st March 2010, 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 2010 and its income and expenditure for the year then ended.

G. Lucas
Head of Financial Services
28th September 2010

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 28th September 2010.

Councillor Simon Geraghty
Leader of the Council
28th September 2010

WORCESTER CITY COUNCIL

EXPLANATORY FOREWORD

1. Introduction

This Statement of Accounts presents the financial position of the Council for the year ended 31 March 2010. 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 2009/10. 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 2010. 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 2009/10.

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 2009/10 was originally £15,095m. This was subsequently amended to £14,748m for approved spending plans from and proposed transfers to earmarked reserves. Actual net expenditure for the year was £14,171m an underspend of £577k which reduces to an underspend of £158k after the application of capital charges and a proposed transfer of £456k to earmarked reserves to meet ongoing commitments. Details are provided in Note 4 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 net contribution of £109k which increases the balance to £1.023m which is in accordance with the Council's policy to hold a General Fund balance of about £1m but not less than £600k. The net contribution of £109k is made up of a budgeted release of £79k to finance the 2009/10 budget plans, and an unbudgeted addition of £30k from earmarked reserves which are no longer required, and an unbudgeted surplus on the 2009/10 budgets of £158k.

The underspend of £158k in 2009/10 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 costs | (413) |
| Reduced car park income | 216 |
| Reduced legal and planning fees | 155 |
| Operational Services non-pay underspends | (92) |
| Premises related underspends | (244) |
| Office supplies and ICT software underspends | (225) |
| Shortfall on interest receivable income | 397 |

The key overspends in 2009/10 were highlighted in the Council's Medium Term Financial Strategy and were addressed as part of the 2010/11 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 2009/10 have been identified as savings in 2010/11 to help achieve the required balanced budget position.

4. Impact of the Economic Climate

The downturn in the economic climate has had 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 2009/10 has been compensated by savings elsewhere. Going forward, the Council has taken steps (in its Medium Term Financial Strategy) 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 2009/10 which amounts to £69.291m. This expenditure has been analysed by type as shown below:

| Expenditure Type | 2009/10 | 2008/09 |
|--|----------------|----------------|
| | £000 | £000 |
| Employee expenses | 11,989 | 14,926 |
| Premises related expenses | 2,932 | 3,327 |
| Property impairments | 8,426 | 1,640 |
| Transport related expenses | 1,598 | 1,905 |
| Supplies and services | 10,143 | 9,975 |
| Housing Benefit and Council Tax payments | 31,193 | 26,184 |
| Capital charges | 3,010 | 3,107 |
| Gross Cost of Services | 69,291 | 61,064 |

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 the implementation of a significant savings programme which the Council undertook in early 2009, resulting in a reduction of 86 posts across the Council. In addition, our Building Control Service and Customer Services Centre transferred to Malvern Hills District Council and Worcestershire County Council respectively, to form part of a wider shared service. The staff transferred to the shared services, and a compensating increase in the cost of Supplies and Services has occurred to reflect the fee payable to the host Councils.
- 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 increased significantly as a result of the downturn in the economic climate, which has had an adverse effect on property valuations. Property valuations are carried out by the Councils Estates Valuation Manager. 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 £47m and this is analysed by type as follows:

| Income Type | 2009/10 | 2008/09 |
|-----------------------|----------------|----------------|
| | £000 | £000 |
| Government Grants | 34,828 | 30,257 |
| Rent Income | 1,037 | 1,188 |
| Sales, Fees & Charges | 8,267 | 7,792 |
| Other Income | 2,872 | 4,035 |
| Total Income | 47,004 | 43,272 |

- Government grant income includes £31.778m 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 £6.169m to £33.787m, 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 2009/10 was £2.7m (2008/09: £5.8m). This compares with an original estimate of £3.5m for the year. The difference largely relates to two main schemes; the Riverside and Gheluvelt Park improvements which will be completed in 2010/11 and the budget will be carried forward to finance this.

A summary of the capital expenditure in 2009/10 is shown below. Of the £2.7m spend, £2.2m added to the value of the Council's 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 2009/10 are also shown below.

| <u>Capital Expenditure</u> | <u>£000</u> | <u>Source of Funding</u> | <u>£000</u> |
|--------------------------------|---------------------|--------------------------------|---------------------|
| Housing and building grants | 474 | Approved borrowing | 255 |
| Public conveniences | 50 | Usable capital receipts | 1,020 |
| ICT projects | 201 | Grants and other contributions | 963 |
| Theatre and Riverside projects | 795 | Earmarked reserves | 493 |
| Parks and play areas | 646 | | |
| Vehicles and equipment | 565 | | |
| Total | <u>2,731</u> | Total | <u>2,731</u> |

10. Significant Changes in Accounting Policies

In accordance with the Local Authority Accounting Code of Practice, the Council has adopted a change to accounting policies for 2009/10 as follows:

- Agency accounting for the Collection Fund which requires prior year adjustments to the 2008/09 comparative figures.

Also, to aid clarity, a new accounting policy on accounting for shared services is included.

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 of 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.

A copy of the Code is contained in the Council's Constitution on our website at <http://committee.cityofworchester.gov.uk/ecCatDisplay.asp?sch=doc&cat=367&path=0&J=7> or can be obtained from the Governance and Corporate Support Service located 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.

This statement has been amended to reflect compliance with the "Statement on the Role of the Chief Financial Officer in Local Government" as included in the "Application Note to Delivering Good Governance in Local Government: A Framework (March 2010)". This statement also voluntarily complies with the principles as outlined in the CIPFA / SOLACE March 2010 document entitled "Application Note to Delivering Good Governance in Local Government: A Framework", which builds on the "Statement on the Role of the Chief Financial Officer in Public Service Organisations" issued in June 2009 and serves to strengthen governance and financial management within Worcester City Council.

2. The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which Worcester City Council is directed and controlled and the activities through which it accounts to, and engages with and leads, the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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.

WORCESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT

The governance framework has been in place at Worcester City Council for the year ended 31 March 2010 and up to the date of approval of the annual report and statement of accounts.

3. The Governance Framework

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, KPIs and PIs takes place on a quarterly basis through 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 2009/2010, 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 monitor performance (see above). During 2009/2010 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.

4. The 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, six monthly Service Assurance Assessments, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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

Throughout 2009/10, the council adopted a robust approach to corporate governance, which has been advised through the work of the Standards Committee, Audit Committee

WORCESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT

and Overview and Scrutiny, the Corporate Governance Working Group, as well as the statutory roles of the Chief Finance Officer and Monitoring officer.

The approach taken to compiling this statement is summarised on the Annual Governance Statement framework diagram.

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 the key findings were reported in the "Annual Audit and Inspection Letter" (AAIL). This was reported to the Audit Committee on 9th March 2010 and an action plan to address the recommendations of the External Auditor were adopted by Councillors. More recently, improvements in "Use of Resources" scoring have been acknowledged by our Auditors.

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 2009/2010 was risk based (assessing reputation, complexity, materiality, impact of failure, staff morale/turnover 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. concessionary swimming, green waste) 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 2009/2010 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 2009/2010 in response to audit reports particularly on the major issues raised in year which were: Asset Management, S106 Agreements, Control of Passwords.

Corporate Governance Working Group: Worcester City Council has strengthened its governance arrangements by setting up the Corporate Governance Working Group. The purpose of the Group is to embed governance issues by implementing and measuring performance against the CIPFA/SOLACE Delivering Good Governance in Local Government Framework.

**WORCESTER CITY COUNCIL
ANNUAL GOVERNANCE STATEMENT**

The Standards Committee: This 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. There were no new complaints made to the Standards Committee in 2009/10 in respect of Worcester City Council Members. One complaint from 2008/09 referred for investigation by the Monitoring Officer was determined at a meeting of the Hearing Sub-Committee of the Standards Committee. The Member concerned was found to have breached the Code of Conduct in respect of one allegation (that he used or attempted to use his position as a Member improperly to confer on or secure for himself or another person an advantage or disadvantage) and not to have breached the Code in respect of the other allegation (that he failed to properly register an interest in the Register of Financial or Other Interests kept by the Monitoring Officer).

Other matters

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.

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 complies with CoCo (Government Connect Code of Connection) standards.

Shared Services governance arrangements are in place for new areas of collaborative working. These are in relation to the Museums and the ICT Services, and more recently to Internal Audit, Property and Regulatory Services.

5. Significant governance issues

The statutory duties of the Monitoring Officer and the Chief Finance Officer require them to draw to members' attention any improper practices, financial imprudence or problems with the systems of internal control. No significant weaknesses or issues have been identified.

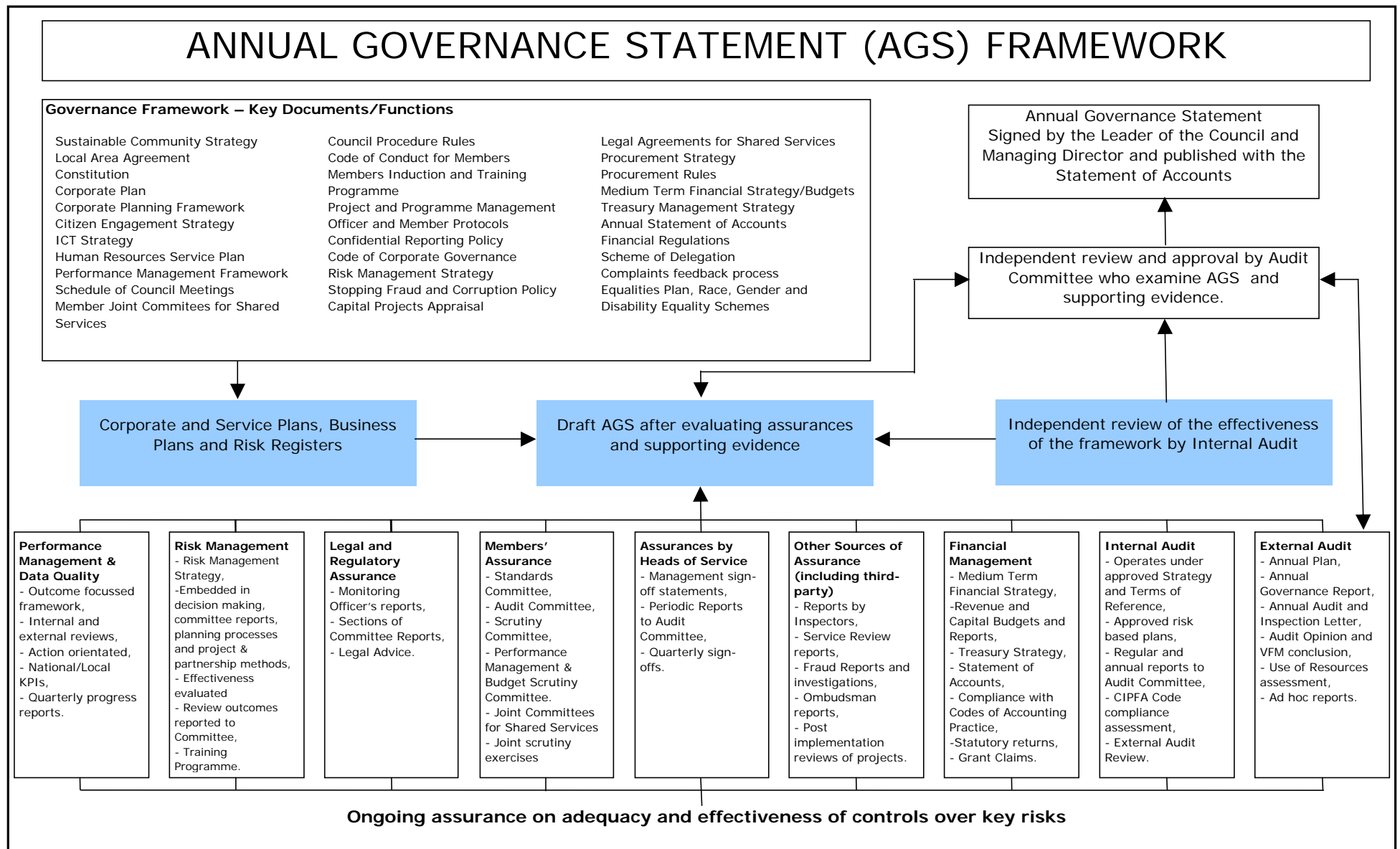
However, Worcester City Council seeks to strengthen its governance arrangements by focusing on the following areas of improvement in the coming year:

- Partnerships and corporate working
- Anti-Fraud and corruption and whistleblowing
- Developing the Local Code of Conduct
- Review of the Constitution.
- Improving risk management and business continuity plans through the Business Risk Group and on health and safety through the Corporate Health & Safety Group

.....
Duncan Sharkey,
Managing Director

.....
Simon Geraghty
Leader of the Council

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



WORCESTER CITY COUNCIL

STATEMENT OF ACCOUNTING POLICIES

1. General

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 and the Best Value Accounting Code of Practice (BVACOP) both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The code is supported by the Financial Reporting Standards (FRS) which are approved by the Accounting Standards Board. The accounting policies are selected, applied and reviewed in accordance with FRS18 Accounting Policies.

2. Significant Changes in Accounting Policies

It is a requirement of the Code of Practice on Local Authority Accounting that the Council adopts the following change of accounting policies within the Statement of Accounts for 2009/10:

- Agency accounting for the Collection Fund which requires prior year adjustments to the 2008/09 comparative figures.

Also, to aid clarity, a new accounting policy on accounting for shared services is included.

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. 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.

5. 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 Code of Practice on Local Authority Accounting 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.

**WORCESTER CITY COUNCIL
STATEMENT OF ACCOUNTING POLICIES**

1. General

WORCESTER CITY COUNCIL STATEMENT OF ACCOUNTING POLICIES

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 by either:

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

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.

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 90 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. Charges to Revenue for Fixed Assets

Service revenue accounts are charged with depreciation 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 or impairment losses.

8. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in a tangible asset for the Council, is charged as expenditure to the relevant service revenue account. Any associated grant funding to meet this expenditure is credited to the relevant service revenue account. This includes housing renovation grants and grants to other bodies for capital expenditure purposes.

WORCESTER CITY COUNCIL STATEMENT OF ACCOUNTING POLICIES

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 taxpayers.

9. Operating Leases

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

10. Reserves

In addition to its general revenue balances the Council has set aside specific 'earmarked reserves' for future identified expenditure. 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.

11. Stocks

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

12. Costs of Support Services

In compliance with the costing principles of the CIPFA BVACOP the cost of central support services and overheads are fully 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.

13. 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 FRS17 Retirement Benefits. Pension costs are assessed in accordance with the advice of an independent qualified actuary (Mercer Human Resource Consulting Ltd) using the projected unit method. A new actuarial valuation was carried out by the actuary as at 31st March 2010. This revises the contribution rates payable by the Council in future years.

As required by legislation, an appropriation to the Pension Reserve has been made which reverses out the FRS17 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 Superannuation Fund is available on request from Financial Services at Worcestershire County Council.

14. Bad debt provisions

Provision is made for bad and doubtful debts in relation to council tax, business rates, housing benefit overpayments and sundry debts. These provisions reduce the value of total debtors shown on the Balance Sheet. The provisions have been estimated in accordance with recommended practice and past experience and where necessary, 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.

WORCESTER CITY COUNCIL STATEMENT OF ACCOUNTING POLICIES

15. 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.

16. 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.

17. 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.

18. Associated and subsidiary companies, group accounts

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

19. 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).

20. Accounting for Council Tax

As a billing authority, the Council acts as an agent, collecting and distributing Council Tax income on behalf of its major preceptors - Worcestershire County Council, West Mercia Police Authority, Hereford and Worcester Fire Authority and itself.

Council Tax income for the year is the Council's accrued income for the year and not the amount required to be transferred from the Collection Fund under regulation. The difference between the amount included in the Income and Expenditure account and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund.

The cash collected by the Council from Council Tax debtors belongs proportionately to the billing authority and major preceptors. This results in a debtor/ creditor position between the Council and major preceptors for the difference between the cash collected from Council Tax debtors and the precept paid over during the year. The Balance Sheet includes the Council's share of Council Tax arrears and impairment for bad debts, Council Tax over payments and prepayments and the debtor/ creditor from the preceptors.

The Council's share of net cash collected from Council Tax debtors in the year is included within the Cash Flow Statement. The difference between the major preceptors' share of net cash collected and amounts paid to precepting authorities is included in the Net Increase/ Decrease in Other Liquid Resources within Management of Liquid Resources.

WORCESTER CITY COUNCIL STATEMENT OF ACCOUNTING POLICIES

21. Accounting for National Non-Domestic Rates

The Council acts as an agent, collecting National Non-Domestic Rates (NNDR) on behalf of Central Government. The cost of collection allowance is included within the Income and Expenditure Account. The difference between the cash collected from NNDR taxpayers and the amount paid to the Government is included within debtors or creditors as appropriate in the Balance Sheet.

The cash received in respect of cost of collection allowance is included within Revenue Activities in the Cash Flow Statement. The difference between the amount of cash collected from NNDR taxpayers and the amount paid over to central government is included in the Net Increase/Decrease in Other Liquid Resources within Management of Liquid Resources.

22. Prior Year Adjustments

Prior year adjustments are included within the financial statements to reflect the changes in accounting for Council Tax and National Non-Domestic Rates as follows:

Council Tax

Within the Income and Expenditure Account, income from Council Tax Payers has been amended to reflect the amount of surplus carried forward attributable to the Council. Within the Balance Sheet the Council Tax Arrears, Impairment for Bad Debts and Council Tax Overpayments and Prepayments have been amended to include only the Council's share of the balance, with the preceptors' share being derecognised. A debtor has been created for the difference between the preceptors' share of Council Tax receipts and the precepts paid over to the preceptors and the preceptors' share of the Collection Fund surplus for the year.

The Cash Flow Statement has been amended to derecognise the preceptors' share of movement in net debtors and creditors and to include the preceptor debtor balance within Management of Liquid Resources.

NNDR

Within the Balance Sheet the NNDR Arrears and Provision for Impairment of Bad Debts have been derecognised as they do not relate to the Council. The Contribution to the National Pool balance within Creditors has been amended to reflect the creditor due to the Government for the cash collected from NNDR taxpayers not yet paid over to Central Government.

Within the Cash Flow Statement net debtors for NNDR arrears and prepayments and the contribution to the NNDR pool have been derecognised from Revenue Activities. The Central Government creditor for cash collected but not yet paid over is shown within Management of Liquid Resources.

23. Accounting for Shared Services

The Council receives three Services: Revenues and Benefits, Building Control and the Worcestershire Hub under a separate shared services contract, from the relevant host Council within Worcestershire. These partnership contractual arrangements are defined as a 'Joint Arrangement that is not an entity'. Under these partnership arrangements, each Council accounts separately for its own transactions arising within the agreement, including the assets, liabilities, income, expenditure and cash flows.

However, assets and liabilities of the pension scheme for these Services are the joint responsibility of the partnerships. The amounts have been accounted for in the full accounts of the relevant host Council. However, our Pension Scheme note gives details of the amounts attributable to Worcester City Council, as defined by the partnership agreement.

24. 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.

WORCESTER CITY COUNCIL
INCOME AND EXPENDITURE ACCOUNT
For the year ended 31st March 2010

| Note | 2009/10 Gross Expenditure £000s | 2009/10 Gross Income £000s | 2009/10 Net Expenditure £000s | Restated 2008/09 Net Expenditure £000s |
|--------------------------------|--|-------------------------------------|--|--|
| Expenditure on services | | | | |
| | 8,950 | (6,958) | 1,992 | 2,257 |
| | 21,871 | (9,115) | 12,756 | 10,073 |
| | 7,649 | (4,121) | 3,528 | 70 |
| | 28,881 | (26,401) | 2,480 | 2,467 |
| | 1,826 | (260) | 1,566 | 2,962 |
| | 114 | - | 114 | (37) |
| | 69,291 | (46,855) | 22,436 | 17,792 |
| | | | (255) | (1,833) |
| | | | 95 | 95 |
| 4 | | | (149) | (77) |
| | | | 327 | 402 |
| | | | 3 | 50 |
| | | | (206) | (736) |
| 1 | | | 2,131 | 1,308 |
| | | | 24,382 | 17,001 |
| Sources of Finance | | | | |
| | | | (5,281) | (4,971) |
| | | | (1,529) | (991) |
| | | | (6,623) | (7,121) |
| | | | 10,949 | 3,918 |

The 2008/09 accounts are restated to reflect the changes in accounting policy for Council Tax and National Non-Domestic Rates. See Accounting policy number 22.

WORCESTER CITY COUNCIL

Statement of Movement on the General Fund Balance

For the year ended 31st March 2010

| | 2009/10 | Restated |
|--|-----------------|----------|
| | £000s | 2008/09 |
| | | £000s |
| Deficit for the year on the Income and Expenditure Account | 10,949 | 3,918 |
| Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance for the year (see page 18) | (11,127) | (4,664) |
| Collection Fund Adjustment Account | 69 | (2) |
| (Increase)/decrease in the General Fund Balance | (109) | (748) |
| General Fund Balance brought forward | (914) | (166) |
| General Fund Balance carried forward | (1,023) | (914) |
| Amount of General Fund Balance generally available for new expenditure | (1,023) | (914) |

The 2008/09 accounts are restated to reflect the changes in accounting policy for Council Tax and National Non-Domestic Rates. See Accounting policy number 22.

Statement of Movement on the General Fund Balance - Detailed Reconciliation
For the year ended 31st March 2010

| | 2009/10 £000s | 2008/09 £000s |
|--|------------------------|-----------------------|
| Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year: | | |
| Depreciation | (2,425) | (1,959) |
| Impairment of fixed assets | (8,426) | (1,640) |
| Net revenue expenditure funded from capital under statute | (146) | (1,091) |
| Deferred government grants amortisation | 297 | 222 |
| Collection Fund Adjustment | | 0 |
| Net gain on sale of fixed assets | 255 | 1,833 |
| Net charges for retirement benefits in accordance with FRS17 | (3,261) | (2,958) |
| | <u>(13,706)</u> | <u>(5,593)</u> |
| Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year: | | |
| Minimum revenue provision for capital financing | 472 | 405 |
| Usable capital receipts transferred to meet payments to the Housing Capital Receipts Pool | (3) | (50) |
| Employer's contribution payable to the Worcestershire County Council Pension Fund | 1,795 | 1,795 |
| | <u>2,264</u> | <u>2,150</u> |
| 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: | | |
| Net transfer (from) / to Earmarked Reserves | <u>316</u> | <u>(1,221)</u> |
| | 316 | (1,221) |
| Net additional amount required to be credited to the General Fund balance for the year. | <u><u>(11,127)</u></u> | <u><u>(4,664)</u></u> |

WORCESTER CITY COUNCIL
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31st March 2010

| Note | 2009/10 £000s | Restated 2008/09 £000s |
|--|------------------|------------------------------|
| Deficit for the year on the Income and Expenditure Account | 10,949 | 3,918 |
| 16/28 Surplus arising on revaluation of fixed assets | (3,871) | (3,423) |
| 1 Actuarial loss / (gain) on pension fund assets | 4,703 | (512) |
| Reduction in long term loans relating to house purchases | 2 | 26 |
| Total recognised (gains) / losses for the year | 11,783 | 9 |

Reconciliation:

| | | |
|--|-----------------|-----------------|
| Opening reserves and balances | (35,893) | (35,902) |
| Total recognised (gains) / losses for the year | 11,783 | 9 |
| Closing reserves and balances | (24,110) | (35,893) |

The 2008/09 accounts are restated to reflect the changes in accounting policy for Council Tax and National Non-Domestic Rates. See Accounting policy number 22.

WORCESTER CITY COUNCIL
BALANCE SHEET
at 31st March 2010

| Note | | 2009/10 £000s | Restated 2008/09 £000s |
|-------|--|------------------|------------------------------|
| 12-16 | Fixed Assets | | |
| | Tangible assets - operational | 60,351 | 64,902 |
| | Tangible assets - non-operational | 4,857 | 5,356 |
| | | 65,477 | 70,605 |
| | Other assets | | |
| 18 | Long term debtors | 7 | 11 |
| | Total long term assets | 65,484 | 70,616 |
| | Current assets | | |
| 19 | Stock | 59 | 76 |
| 20 | Debtors | 6,913 | 5,119 |
| 21-22 | Investments | 6,157 | 6,158 |
| | Cash and bank | 766 | 248 |
| | | 13,895 | 11,601 |
| | Current liabilities | | |
| 24 | Creditors | 9,220 | 6,709 |
| 21 | Short term borrowing | 38 | 40 |
| 25 | Bank overdraft | - | - |
| | | 9,258 | 6,749 |
| | Current assets less current liabilities | 4,637 | 4,852 |
| | TOTAL ASSETS less CURRENT LIABILITIES | 70,121 | 75,468 |
| | Long term liabilities | | |
| 26 | Capital contributions deferred | 4,007 | 2,490 |
| 27 | Capital contributions unapplied | 513 | 1,763 |
| 23 | Long term borrowing | 7,704 | 7,704 |
| 1 | Pensions liability | 33,787 | 27,618 |
| | | 46,011 | 39,575 |
| | TOTAL ASSETS less TOTAL LIABILITIES | 24,110 | 35,893 |
| | Financed by: | | |
| 28 | Revaluation reserve | 10,266 | 6,395 |
| 29 | Capital adjustment account | 42,882 | 51,932 |
| 1 | Pensions reserve | (33,787) | (27,618) |
| 30 | Usable capital receipts | 1,692 | 2,125 |
| 31 | Deferred capital receipts | 7 | 11 |
| 32 | Earmarked reserves | 1,961 | 2,137 |
| | General Fund balance | 1,023 | 914 |
| | Collection Fund balance | 67 | (2) |
| | | 24,110 | 35,893 |

The 2008/09 accounts are restated to reflect the changes in accounting policy for Council Tax and National Non-Domestic Rates. See Accounting policy number 22.

WORCESTER CITY COUNCIL
CASH FLOW STATEMENT
For the year ended 31st March 2010

| Note | | 2009/10 | Restated |
|------|--|----------------|------------|
| | | £000s | 2008/09 |
| | | | £000s |
| 35 | Cash inflow from Revenue activities | 1,855 | 2,246 |
| 37 | Returns on investments and servicing of finance | (121) | 334 |
| 38 | Capital activities | (1,146) | (495) |
| | Cash outflow before use of liquid resources and financing | 588 | 2,085 |
| 39 | Management of liquid resources | (70) | (1,210) |
| 40 | Financing | - | (9) |
| | Increase in cash in the year | 518 | 866 |
| 41 | Reconciliation of net cash flow to movement in net debt | | |
| | Increase in cash in the year | 518 | 866 |
| | Movement on debt financing | - | 9 |
| | Increase / (reduction) in liquid resources | 70 | 1,210 |
| | Movement in net debt in year | 588 | 2,085 |
| | Opening net debt at 1 April | (1,340) | (3,425) |
| | Closing net debt at 31 March | (752) | (1,340) |

The 2008/09 accounts are restated to reflect the changes in accounting policy for Council Tax and National Non-Domestic Rates. See Accounting policy number 22.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

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 2009/10:

| Income and Expenditure Account | 2009/10 | 2008/09 |
|---|----------------|---------|
| | £000's | £000's |
| Net cost of Service | | |
| Current service cost | 914 | 1,629 |
| Past service and curtailment costs | 216 | 21 |
| Net operating expenditure | | |
| Return on assets | (2,291) | (3,199) |
| Interest on pension liabilities | 4,422 | 4,507 |
| Appropriations | | |
| Movement on pensions reserve | (1,466) | (1,163) |
| Net charge to the Income and Expenditure Account | 1,795 | 1,795 |
| <u>Amount charged against Council Tax</u> | | |
| Employer's contribution payable to the scheme | 1,795 | 1,795 |

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:

| | 31st March | 31st March | 31st March | 31st March | 31st March |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | £000's | £000's | £000's | £000's | £000's |
| Market value of assets | 50,812 | 35,606 | 47,221 | 55,442 | 52,206 |
| Estimated liabilities | (84,599) | (63,224) | (74,187) | (72,107) | (72,078) |
| Net liability | (33,787) | (27,618) | (26,966) | (16,665) | (19,872) |

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

1. Pension Costs (cont'd)

The net liability of £33.787m 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:

| | 2009/10 | 2008/09 |
|------------------------------|----------------|------------|
| | % | % |
| Rate of inflation | 3.3 | 3.3 |
| Rate of increase in salaries | 4.8 | 4.8 |
| Rate of increase in pensions | 3.3 | 3.3 |
| Discount rate on liabilities | 5.6 | 7.1 |

| | Expected | Proportion | Expected | Proportion |
|--------------------|-----------------------|-------------------|----------------|------------|
| | Rate of Return | of assets | Rate of Return | of assets |
| | 2009/10 | 2009/10 | 2008/09 | 2008/09 |
| | % | % | % | % |
| Equities | 7.5 | 92.3 | 7.5 | 85.6 |
| Bonds - Government | 4.5 | 2.8 | 4.0 | 8.4 |
| Bonds - Other | 5.2 | 3.9 | 6.0 | 3.2 |
| Cash / Liquidity | 0.5 | 1.0 | 0.5 | 2.8 |

Mortality assumptions:

| | 2009/10 | 2008/09 |
|---|----------------|---------|
| Life expectancy at 65 for current pensioners | | |
| Men | 21.2 | 21.2 |
| Women | 24.1 | 24.0 |
| Life expectancy at 65 for future pensioners | | |
| Men | 22.2 | 22.2 |
| Women | 25.0 | 25.0 |
| Commutation of pension for lump sum at retirement | 50% | 50% |

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

1. Pension Costs (cont'd)

| Movement in Liability | 2009/10 £000's | 2008/09 £000's |
|---|--------------------------|-------------------|
| Net pensions liability at 1st April | (27,618) | (26,966) |
| Current service costs | (914) | (1,629) |
| Employer's contributions | 1,795 | 1,795 |
| Past service / curtailment cost | (216) | (21) |
| Net interest / return on assets | (2,131) | (1,308) |
| Actuarial (loss) / gain | (4,703) | 512 |
| Net pensions liability at 31st March | (33,787) | (27,617) |

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:

| | 31st March 2010 % | 31st March 2009 % | 31st March 2008 % | 31st March 2007 % | 31st March 2006 % |
|---|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Difference between expected and actual return on assets | (27.4) | (40.4) | (24.4) | 0.2 | 15.0 |
| Experience Gains/losses on Liabilities | 0.0 | 0.0 | (7.9) | 4.8 | (9.5) |

The total contributions expected to the Local Government Pension Scheme by the Council in the year to 31st March 2011 is £1.827m.

Inflation Impact on Pension Fund Liabilities

Annual pension increases are based on a measure of price inflation. In its budget on 22 June 2010 the Government announced a move to using the Consumer Price Index (CPI) as the measure of price inflation for public sector schemes from April 2011. Currently the Retail Price Index (RPI) is the measure used. This change will affect the valuation of pension fund liabilities in the future.

CPI is generally lower than RPI. As a result, over an extended period, pension increases will be lower than might have previously been expected. Consequently, the actuarial gross liabilities will reduce as will the net pension deficit on the balance sheet.

Pensions Liability Relating to Shared Services

As part of the South Worcestershire Shared Service Partnership this Council transferred its staff to the host authorities (Wychavon District Council - Revenues and Benefits, Malvern Hills District Council - Building Control, and Worcestershire County Council - Worcestershire Hub) on a fully funded basis for pension's purchases. The shared services were admitted to the pensions fund as ghost admitted bodies, and any liability or surplus that accrues is the responsibility of the partners to that shared service.

The tables that follow show the overall deficits or surpluses of the admitted bodies together with this Council's share, as defined by the partnership legal agreements (42.7% for Revenues and Benefits, 28.7% for Building Control and 17.4% for Worcestershire Hub) .

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

1. Pension Costs (cont'd)

| Revenues and Benefits | 31st March 2010 | 31st March 2009 |
|---|----------------------------|--------------------|
| Present value of liabilities | (9,473) | (6,674) |
| Fair value of assets | 7,888 | 5,157 |
| Deficit in scheme | (1,585) | (1,517) |
| Worcester City Council share of deficit @ 42.7% | (677) | (623) |

| Building Control | 31st March 2010 |
|--|----------------------------|
| Present value of liabilities | (1,810) |
| Fair value of assets | 2,231 |
| Surplus in scheme | 421 |
| Worcester City Council share of surplus @ 28.74% | 121 |

| Worcestershire Hub | 31st March 2010 |
|---|----------------------------|
| Present value of liabilities | (4,154) |
| Fair value of assets | 4,756 |
| Surplus in scheme | 602 |
| Worcester City Council share of surplus @ 17.4% | 104 |

No provision is made to recover the 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 as advised by the independent actuaries.

2. Trading Undertakings

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

| | | |
|--|--------------|-------------|
| Rents and charges income | (149) | (150) |
| Property impairments | - | 70 |
| Expenditure | - | 3 |
| Surplus taken to the General Fund | (149) | (77) |

3. 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 | 1 | 13 |
| Other advertising | 28 | 27 |
| Other publicity | 135 | 85 |
| Total | 164 | 125 |

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

4. 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.

| | Net Budget 2009/10 £000's | Net Expenditure 2009/10 £000's | Net Expenditure 2008/09 £000's |
|---|--|---|---|
| Head of Paid Service/Corporate | 821 | 736 | 2,417 |
| Cleaner and Greener City | 3,800 | 3,573 | 5,321 |
| Urban Renaissance | 1,500 | 1,556 | 2,187 |
| Governance and Corporate Support | 834 | 819 | (815) |
| Safer and Stronger Communities | 2,186 | 2,108 | 3,362 |
| Performance, Innovation and Efficiency | 1,819 | 1,673 | (206) |
| Financial Services | 3,788 | 3,706 | 3,779 |
| Net Expenditure by Service | 14,748 | 14,171 | 16,045 |
| Interest Payable/Receivable | (276) | 121 | (329) |
| Less net capital charges | (1,471) | (1,449) | (2,157) |
| Less budgeted use of reserves | (188) | (188) | (1,135) |
| Add transfers to Earmarked Reserves | 456 | 456 | 205 |
| General Fund budget requirement | 13,269 | 13,111 | 12,629 |
| Funded by: | | | |
| Council Tax - Collection Fund | (5,117) | (5,117) | (4,971) |
| Non-domestic Rates Redistribution | (6,623) | (6,623) | (7,121) |
| Central government grants | (1,529) | (1,529) | (991) |
| Unbudgeted contribution (to) / from General Fund | - | (158) | (454) |

The Council's financial performance in 2009/10 was £158k better than budget. This £158k underspend has maintained the General Fund balance to within the targeted level of £0.6m - £1m. Further details are provided in the Explanatory Foreword.

5. External Audit and Inspection

Grant Thornton are the Council's appointed Auditors for 2009/10. The Audit Commission undertake the Statutory Inspection role. The Council incurred the following fees in relation to external audit and inspection:

| | 2009/10 £000's | 2008/09 £000's |
|--|---------------------------|---------------------------|
| Accrued external audit fees - Grant Thornton | 120 | 124 |
| Statutory inspection fees and N.F.I. | 9 | 8 |
| Certification of grant claims fees | 33 | 26 |
| | 162 | 158 |

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

2009/10 2008/09
£000's £000's

6. 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.

The statement below shows the total income and expenditure of the Council's Land Charges service:

| | | |
|---|--------------|----------|
| Income on search fees | (135) | (133) |
| Expenditure on search fees | 117 | 136 |
| Deficit from / (Surplus to) earmarked reserve | (18) | <u>3</u> |

7. Area Based Grant

The Council received Area Based Grant of £22k in 2009/10. 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.

8. Members Allowances

The amount paid to members for basic allowances, special responsibility allowances and attendance allowances in 2009/10 was £185,551 (2008/09: £194,501).

9. Employees' Remuneration

The number of Council employees whose remuneration (excluding employers pension contributions) was in excess of £50,000, was:

| Remuneration Band | Number of employees | |
|--------------------------|----------------------------|---------------------|
| | 2009/10 | Restated 2008/09 |
| £50,000 - £54,999 | - | - |
| £54,999 - £59,999 | 1 | - |
| £60,000 - £64,999 | 1 | 1 |
| £65,000 - £69,999 | - | - |
| £70,000 - £74,999 | - | 6 |
| £75,000 - £79,999 | 5 | - |
| £80,000 - £84,999 | 1 | - |
| £85,000 - £89,999 | - | - |
| £105,000 - £109,999 * | 1 | 1 |
| | <u>9</u> | <u>8</u> |

* The Chief Executive was in post for 11 months in 2008/09. These duties were covered by the Acting Head of Paid Service and the other Heads of Service (numbers shown in the other remuneration bands in 2009/10), until the appointment of the Managing Director in March 2010. The headcount shown in this band for 2009/10 is for one month of the year only.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

10. Senior Employees' Remuneration

The total remuneration of senior employees (including employers pension contributions) earning between £50,000 and £150,000 per year was:

| Post Title | 2008/09 | | | | | |
|---|---------------------|----------------|-------------------------------|----------------|-----------------------|----------------|
| | Salary & Allowances | Loss of Office | Benefits in Kind ³ | Sub Total | Pension Contributions | Total |
| | £ | £ | £ | £ | £ | £ |
| Chief Executive ¹ | 97,005 | | | 97,005 | 26,237 | 123,242 |
| Acting Head of Paid Service ² | 7,257 | | | 7,257 | 1,313 | 8,570 |
| Head of Cleaner & Greener | 72,857 | | 4,246 | 77,103 | 13,187 | 90,290 |
| Head of Governance & Corporate Support | 72,857 | | 4,935 | 77,791 | 13,187 | 90,978 |
| Head of Performance Innovation & Efficiency | 72,857 | | | 72,857 | 13,187 | 86,044 |
| Head of Safer & Stronger | 66,415 | | 4,543 | 70,957 | 12,020 | 82,977 |
| Head of Urban Environment | 72,676 | | | 72,676 | 13,187 | 85,863 |
| Head of Financial Services | 73,952 | | | 73,952 | 13,187 | 87,139 |
| | 535,874 | 0 | 13,724 | 549,598 | 105,506 | 655,104 |

¹ The Chief Executive took early retirement under the 85 year pensions rule on 28th February 2009. His annual salary was £105,824.

² Acting Head of Paid Service in post from 1st March 2009.

³ Benefits in kind relate to the Council's contribution for lease car arrangements. The Council discontinued its lease car scheme in August 2008.

| Post Title | 2009/10 | | | | | |
|---|---------------------|----------------|------------------|----------------|-----------------------|----------------|
| | Salary & Allowances | Loss of Office | Benefits in Kind | Sub Total | Pension Contributions | Total |
| | £ | £ | £ | £ | £ | £ |
| Managing Director ¹ | 6,902 | | | 6,902 | 1,318 | 8,220 |
| Acting Head of Paid Service ³ | 82,041 | | | 82,041 | 16,095 | 98,136 |
| Head Cleaner & Greener | 77,114 | | | 77,114 | 14,729 | 91,843 |
| Head of Governance & Corporate Support ³ | 77,114 | | | 77,114 | 14,729 | 91,843 |
| Head Performance Innovation & Efficiency ³ | 72,430 | | | 72,430 | 14,539 | 86,969 |
| Head Safer & Stronger ² | 0 | 66,022 | | 66,022 | | 66,022 |
| Assistant Head Safer & Stronger ³ | 55,842 | | | 55,842 | 10,068 | 65,911 |
| Head Urban Environment ³ | 77,114 | | | 77,114 | 14,729 | 91,843 |
| Head Financial Services ³ | 77,296 | | | 77,296 | 14,729 | 92,025 |
| | 525,853 | 66,022 | 0 | 591,875 | 100,935 | 692,810 |

¹ Managing Director appointed from 9th March 2010 on an annual salary of £105,824.

² The Head of Safer & Stronger was the Acting Head of Paid Service until 7th March 2010, whereupon his substantive post was deleted and he was made redundant.

³ These postholders were in receipt of an honorarium payment for the year, to cover the additional duties undertaken prior to the Managing Director joining the Council.

WORCESTER CITY COUNCIL
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For the year ended 31st March 2010

11. 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.

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:

| | 2009/10 | 2009/10 | 2008/09 |
|---|-----------------|-----------------|----------|
| | Payments | Receipts | Net |
| | £000's | £000's | £000's |
| Grants from Central Government - Revenue | | | |
| DCLG Revenue Support Grant | | (1,528) | (991) |
| DCLG Housing Benefit Grants | | (32,928) | (27,316) |
| DCLG Homelessness Grant | | (115) | (115) |
| DCLG Planning Delivery Grant | | (310) | (167) |
| DCLG Humanitarian Relief Grant/Belwin/Floods | | - | (51) |
| DCLG LABGI | | (27) | (195) |
| DCLG Empty Shops | | (53) | - |
| DFT Concessionary Fares | | (397) | (388) |
| DCMS Free Swimming | | (82) | - |
| DWP Discretionary Housing Payments | | (27) | (19) |
| Grants from Central Government - Capital | | | |
| DCLG Regional Housing Grant | | (194) | (192) |
| DCLG Housing Subsidy (DFG) | | (225) | (282) |
| Continued overleaf... | | | |

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

11. Related Party Transactions (cont'd)

| | 2009/10 Payments £000's | 2009/10 Receipts £000's | 2008/09 Net £000's |
|--|-------------------------------|-------------------------------|--------------------------|
| Other | | | |
| Worcestershire County Council (excluding precepts) | 2,341 | (1,138) | 508 |
| Worcestershire County Council - Pension Service | 2,006 | | 2,215 |
| Worcester Community Housing | | (464) | (156) |
| Wychavon District Council | 405 | (88) | (261) |
| Wychavon District Council - Shared Service | 1,622 | | 1,833 |
| Malvern Hills Council | 189 | (143) | 0 |

12. Movement on Fixed Assets

| | Land and Buildings £000 | Vehicles, Plant & Equipment £000 | Community Assets £000 | Subtotal £000 |
|--------------------------------------|----------------------------------|---|-----------------------------|------------------|
| Cost or valuation at 1 April 2009 | 61,285 | 9,684 | 379 | 71,348 |
| Cumulative depreciation | (2,957) | (3,489) | - | (6,446) |
| Net book value 1 April 2009 | 58,328 | 6,195 | 379 | 64,902 |

Movement in 2009/10

| | | | | |
|--------------------------------------|---------------|--------------|------------|---------------|
| Additions | - | 917 | - | 917 |
| Disposals | - | (172) | - | (172) |
| Cumulative depreciation on disposals | - | 172 | - | 172 |
| Transfers | 811 | - | - | 811 |
| Revaluation gains/(losses) | 3,899 | - | 30 | 3,929 |
| Impairment losses | (7,783) | - | - | (7,783) |
| Depreciation charge for year | (868) | (1,557) | - | (2,425) |
| | (3,941) | (640) | 30 | (4,551) |
| Net book value 31 March 2010 | 54,387 | 5,555 | 409 | 60,351 |

| | Assets Held for Sale £000 | Investment Properties £000 | Assets under Construction (AUC) £000 | Total Fixed Assets £000 |
|--------------------------------------|---------------------------------|----------------------------------|---|----------------------------------|
| Cost or valuation at 1 April 2009 | 347 | 4,963 | 393 | 77,051 |
| Cumulative depreciation | | - | - | (6,446) |
| Net book value 1 April 2009 | 347 | 4,963 | 393 | 70,605 |

Movement in 2009/10

| | | | | |
|--------------------------------------|------------|--------------|------------|---------------|
| Additions | - | - | 1,270 | 2,187 |
| Disposals | - | (335) | - | (507) |
| Cumulative depreciation on disposals | - | - | - | 172 |
| Transfers | - | 0 | (811) | 0 |
| Revaluation gains/(losses) | - | (58) | - | 3,871 |
| Impairment losses | (78) | (565) | - | (8,426) |
| Depreciation charge for year | - | - | - | (2,425) |
| | (78) | (958) | 459 | (5,128) |
| Net book value 31 March 2010 | 269 | 4,005 | 852 | 65,477 |

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

| | 2009/10 £000's | 2008/09 £000's |
|--|-------------------|-------------------|
| 13. Capital Expenditure and Financing | | |
| Capital expenditure adding to fixed asset valuation | | |
| Land and buildings | - | 3,195 |
| Vehicles, plant and equipment | 917 | 774 |
| Community assets | - | - |
| Work in progress | 1,270 | 220 |
| Additions to fixed assets | 2,186 | 4,189 |
| Capital expenditure not adding to fixed asset valuation | | |
| Revenue expenditure funded from capital under statute | 545 | 1,598 |
| Total Capital Expenditure | 2,731 | 5,787 |
| Financed by: | | |
| Approved borrowing | 255 | 1,093 |
| Usable capital receipts | 1,020 | 2,070 |
| Grants and other contributions | 944 | 2,095 |
| Capital reserves | 493 | - |
| Section 106 funds | 19 | 529 |
| Total Capital Financing | 2,731 | 5,787 |

14. Capital Commitments

| | at 31 March 2010 | | at 31 March 2009 | |
|--------------------------------|-----------------------------|------------------------------------|-----------------------------|------------------------------------|
| | Approved Schemes £000 | Contractual Commitments £000 | Approved Schemes £000 | Contractual Commitments £000 |
| | Housing renovation | 577 | 21 | 1,130 |
| Homelessness schemes | - | - | 834 | 35 |
| Riverside Improvements | 717 | 1 | 907 | - |
| Toilet Improvements | - | - | 50 | 50 |
| ICT Investment | 875 | 130 | 900 | 57 |
| Vehicle/Plant/Bin replacements | 2,459 | 56 | 2,774 | 374 |
| Gheluvelt Park | 531 | 73 | 976 | 49 |
| Play Areas | 300 | 2 | 434 | - |
| Swan Theatre | - | 11 | 515 | 209 |
| King George V playing fields | - | 1 | - | - |
| | 5,459 | 295 | 8,520 | 814 |

15. Information on Assets Held

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

| | 2009/10 value £000 | 2009/10 number | 2008/09 value £000 | 2008/09 number |
|-------------------------------|--------------------------|-------------------|--------------------------|-------------------|
| Operational Assets | | | | |
| Offices | 5,250 | 2 | 6,913 | 2 |
| Car parks | 21,155 | 14 | 20,908 | 14 |
| Hostel | 300 | 1 | 470 | 1 |
| Community centres | 7,545 | 8 | 9,078 | 8 |
| Leisure and sports facilities | 11,100 | 3 | 13,232 | 3 |
| Museums | 3,450 | 2 | 3,900 | 2 |
| Shared ownership dwellings | 1,235 | 20 | 1,235 | 20 |

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

15. Information on Assets Held (cont'd)

| | 2009/10 value £000 | 2009/10 number | 2008/09 value £000 | 2008/09 number |
|-------------------------------|--------------------------|-------------------|--------------------------|-------------------|
| Cemetries and crematorium | 1,120 | 2 | 1,740 | 2 |
| Depots | 950 | 1 | 950 | 1 |
| Public conveniences | 845 | 5 | 843 | 5 |
| Bus shelters | 240 | 80 | 240 | 80 |
| Vehicles | 2,489 | 37 | 2,279 | 35 |
| | 54,559 | 173 | 60,048 | 171 |
| Community Assets | | | | |
| Sports pitches | 647 | 37 | 711 | 0 |
| Allotment sites | 198 | 15 | 198 | 0 |
| | 845 | 52 | 909 | 0 |
| Non-operational Assets | | | | |
| Commercial units and shops | 1788 | 20 | 1,788 | 0 |
| Worcester Racecourse freehold | 200 | 1 | 200 | 0 |
| Ex-Public convenience | | | - | - |
| | 1,988 | 21 | 1,988 | 0 |
| Total | 57,392 | 246 | 62,945 | 171 |

16. 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.

| | 2009/10 Increase/ (decrease) £000 | 2008/09 Increase/ (decrease) £000 |
|------------------------------------|--|--|
| Revaluations and impairments were: | | |
| <u>Operational Properties</u> | | |
| Community centres | (1,363) | - |
| Sports Centres/Swimming Pool | (1,431) | 3,479 |
| Car Parks | 1,081 | - |
| Depots | (476) | (397) |
| Offices | (1,347) | (674) |
| Other | (331) | (155) |
| <u>Non-operational Properties</u> | | |
| Land (various locations) | - | (136) |
| Buildings | (702) | 80 |

17. Leases

The Council uses leased commercial vehicles, computers, sports and office equipment under the terms of an operating lease. Operating lease payments in 2009/10 are £39,530 (2008/09: £43,220). The Council's outstanding liabilities in future years under these lease arrangements is £5,830.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

18. Long Term Debtors

These debts relate to loans for the purchase and improvement of Council House 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.

| | 2009/10 | 2008/09 |
|--|----------------|---------|
| | £000's | £000's |
| Council house purchasers | 7 | 11 |
| Balance outstanding at 31 March | 7 | 11 |

19. Stock

| | 2009/10 | 2008/09 |
|------------------------|----------------|---------|
| | £000's | £000's |
| IT consumables | 12 | 21 |
| Stock for resale | 20 | 18 |
| Other operations stock | 27 | 37 |
| | 59 | 76 |

20. Debtors

| | 2009/10 | Restated 2008/09 |
|------------------------------------|----------------|---------------------|
| | £000's | £000's |
| Council taxpayers | 267 | 241 |
| National non-domestic ratepayers | - | - |
| Government departments | 3,998 | 2,531 |
| Local authorities | 58 | 243 |
| Worcester Community Housing | 324 | 401 |
| Payments in advance | 89 | 278 |
| Other debtors | 2,810 | 2,024 |
| | 7,546 | 5,718 |
| Less: provision for doubtful debts | (633) | (599) |
| | 6,913 | 5,119 |

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.

The 2008/09 accounts are restated to reflect the changes in accounting policy for Council Tax and National Non-Domestic Rates. See Accounting policy number 22.

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

21. 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 22**. The Council has short term investments but no long term investments. The Council's **borrowings** (financial liabilities) are detailed in **note 23**. 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 2009) for an instrument with the same duration, same structure and terms (or as similar as possible).

Accrued interest to 31 March 2010 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 2010 using bid prices where applicable.

Fair values as at 31 March 2010 are set out below:

| | Nominal Value £000 | Balance Sheet £000 | Fair Value £000 |
|--|--------------------------|-----------------------------------|-----------------------|
| Financial asset - investments | 6,150 | 6,157 | 6,168 |
| Financial liability - short term borrowing | 38 | 38 | 38 |
| Financial liability - LOBO loan | 5,000 | 5,073 | 6,031 |
| Financial liability - PWLB loan | 2,603 | 2,631 | 2,789 |

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 2010.

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.

21. 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:
 - The Council's overall borrowing
 - Its maximum and minimum exposures to fixed and variable rates
 - Its maximum and minimum for exposures to the maturity structure of its debt
 - 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.

21. 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 20 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
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22. 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 2009. They show that the company has a shareholders deficit at that time of £2,890,575. 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 Council's short term investments on 31st March were:

| | 2009/10 | 2008/09 |
|--|---------------------|--------------|
| | £000's | £000's |
| Bank/Building Society balances at amortised cost | 6,157 | 6,158 |
| | <u>6,157</u> | <u>6,158</u> |

23. Long term borrowing

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

| | 2009/10 | 2008/09 |
|--------------------------------|---------------------|--------------|
| | £000's | £000's |
| P.W.L.B. | 2,631 | 2,648 |
| Money Market | 5,073 | 5,056 |
| | <u>7,704</u> | <u>7,704</u> |
| Maturing within one year | 5,134 | 5,101 |
| Maturing in 1-2 years | 65 | 33 |
| Maturing in 2-5 years | 138 | 81 |
| Maturing in 5-10 years | 220 | 195 |
| Maturing in more than 10 years | 2,147 | 2,294 |
| | <u>7,704</u> | <u>7,704</u> |

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
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| | 2009/10 £000's | Restated 2008/09 £000's |
|----------------------------------|-------------------|-------------------------------|
| 24. Creditors | | |
| Government departments | 1,492 | 600 |
| Local Authorities | 776 | 532 |
| Receipts in advance | 1,773 | 1,529 |
| Section 106 planning obligations | 2,356 | 1,431 |
| Other creditors | 2,823 | 2,617 |
| | <u>9,220</u> | <u>6,709</u> |

Within the receipts in advance figure, £68k (2008/09: £59k) relates to council tax.

The 2008/09 accounts are restated to reflect the changes in accounting policy for Council Tax and National Non-Domestic Rates. See Accounting policy number 22.

25. Bank overdraft

The Council had an overdraft facility in 2009/10. There was no overdraft in place at the balance sheet date and there were sufficient bank balances to cover all cheques drawn by 31st March.

| | 2009/10 £000's | 2008/09 £000's |
|---|-------------------|-------------------|
| 26. Capital contributions deferred | | |
| Opening balance at 1st April | 2,490 | 1,681 |
| Transfer in year from 'capital contributions unapplied' | 1,814 | 1,088 |
| Released to revenue in year | (297) | (222) |
| Write out on sale of asset | - | (57) |
| Closing balance at 31st March | <u>4,007</u> | <u>2,490</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.

| | 2009/10 £000's | 2008/09 £000's |
|--|-------------------|-------------------|
| 27. Capital contributions unapplied | | |
| Opening balance at 1st April | 1,763 | 1,508 |
| Additions in year | 564 | 1,343 |
| Transfer in year to 'capital contributions deferred' | (1,814) | (1,088) |
| Closing balance at 31st March | <u>513</u> | <u>1,763</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
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28. Revaluation Reserve

The closing balance on the Revaluation Reserve at 31 March 2010 shows revaluation gains accumulated since 1 April 2007.

| | 2009/10 | 2008/09 |
|--------------------------------------|----------------------|--------------|
| | £000's | £000's |
| Opening balance on 1st April | 6,395 | 2972 |
| Land (various locations) | - | (136) |
| Community Centres | (703) | - |
| Car Parks | 4,358 | - |
| Investment Properties | (58) | - |
| Sports Centres | - | 3479 |
| Other | 274 | 80 |
| Closing balance on 31st March | <u>10,266</u> | <u>6,395</u> |

29. Capital Adjustment Account

| | 2009/10 | 2008/09 |
|---|----------------------|---------------|
| | £000's | £000's |
| Opening balance on 1st April | 51,932 | 55,278 |
| Depreciation of fixed assets | (2,425) | (1,959) |
| Government grants - released | 297 | 222 |
| Minimum revenue position | 472 | 405 |
| Revenue expenditure funded from capital under statute | (146) | (1,091) |
| Disposal of fixed assets | (335) | (2,111) |
| Impairment losses | (8,426) | (1,640) |
| Subtotal | <u>41,369</u> | <u>49,104</u> |
| Capital Financing | | |
| Useable capital receipts | 1,020 | 2,051 |
| Earmarked reserves | 493 | 777 |
| Subtotal | <u>1,513</u> | <u>2,828</u> |
| Closing balance on 31st March | <u>42,882</u> | <u>51,932</u> |

30. Useable Capital Receipts

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

| | 2009/10 | 2008/09 |
|--|---------------------|--------------|
| | £000's | £000's |
| Opening balance on 1st April | 2,125 | 100 |
| Add transfers from earmarked reserve | - | 200 |
| Useable capital receipts received | 590 | 3,945 |
| Useable capital receipts transferred to the Housing Pool | (3) | (50) |
| Capital receipts used to finance capital expenditure | (1,020) | (2,070) |
| Closing balance on 31st March | <u>1,692</u> | <u>2,125</u> |

31. 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.

WORCESTER CITY COUNCIL
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For the year ended 31st March 2010

32. Earmarked Reserves

| | Balance at 1st April 2009 £000's | Transferred From Revenue £000's | Transferred To Revenue £000's | Transferred To Capital £000's | Balance at 31st March 2010 £000's |
|--|---|--|--|--|--|
| <u>Revenue Reserves</u> | | | | | |
| Pension Backfunding | | 106 | | | 106 |
| Planning | | 58 | | | 58 |
| Environmental Health | 15 | 3 | (4) | | 14 |
| Operational Services | 88 | 5 | (31) | | 62 |
| Parks & Open Spaces | 40 | | (21) | | 19 |
| Planning Appeals | 4 | | (4) | | 0 |
| Mayor's Allowance | 3 | | (3) | | 0 |
| Land Charges | 22 | 18 | | | 40 |
| Building Control | 104 | 9 | | | 113 |
| Recreational Improvements | 136 | 30 | (59) | | 107 |
| Occupational Health | 18 | | (18) | | 0 |
| Three Choir/Elgar Choral Festivals | | 8 | | | 8 |
| Central Training | 11 | 15 | | | 26 |
| Art & Museum Specimens | 15 | | | | 15 |
| Business Transformation | | 130 | | | 130 |
| Climate Change Initiatives | 23 | 17 | | | 40 |
| Revenues & Benefits | 30 | | | | 30 |
| Environment Warranty Insurance | 928 | 57 | | | 985 |
| Subtotal Revenue Reserves | 1,437 | 456 | (140) | | 1,753 |
| <u>Capital/Other Reserves</u> | | | | | |
| IT Investment | 342 | | | (183) | 159 |
| Vehicle Replacement | 310 | | | (310) | 0 |
| Nunnery Lane Deposits | 18 | 1 | | | 19 |
| Guildhall Floodlights & Tourism | 30 | | | | 30 |
| Subtotal Capital/Other Reserves | 700 | 1 | 0 | (493) | 208 |
| Total Earmarked Reserves | 2,137 | 457 | (140) | (493) | 1,961 |

The reserves have been established for the following purposes:

| Reserve | Purpose |
|---------------------------------|--|
| Pension Backfunding | for future liability due to be paid in 2010/11. |
| Planning | for Town centre improvement scheme |
| 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 |
| Land Charges | for a ring-fenced programme |
| Building Control | for a rolling 3 year ring-fenced programme |
| Recreational Improvements | for recreational improvements plan |
| Three Choirs/Elgar Choral | for agreed contribution |
| Central Training | for central training plan including H&S training |
| Art & Museum Specimens | for acquisition of exhibits and initiatives |
| Business Transformation | for Business transformation and implementation of financial system |
| Climate Change Initiatives | for initiatives to improve climate change performance |
| Revenue & 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 |
| Nunnery Lane Deposits | for developer deposits towards making up road |
| Guildhall Floodlights & Tourism | for Guildhall improvements |

33. 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 2009/10 Statement of Accounts.

34. 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 2010

| | 2009/10 £000's | Restated 2008/09 £000's |
|---|-------------------|-------------------------------|
| 35. Reconciliation of the deficit on the Income and Expenditure Account to the net cash movement on Revenue activities | | |
| Income and Expenditure Account deficit for the year | (10,949) | (3,918) |
| Net additional amount required to be credited to the General Fund Balance for the year | | |
| Depreciation | 2,425 | 1,959 |
| Capital contributions deferred | (297) | (222) |
| Fixed asset impairments | 8,426 | 1,640 |
| Pension costs less contributions paid | 1,466 | 1,163 |
| Transfers from/(to) reserves | 316 | 1,221 |
| Minimum revenue provision | (472) | (405) |
| Payments to capital receipts pool | 3 | 50 |
| Disposal of fixed assets | (255) | (1,833) |
| Revenue expenditure funded from capital under statute | 146 | 1,091 |
| | 11,758 | 4,664 |
| Collection Fund surplus / (deficit) | 69 | 16 |
| Surplus / (deficit) for the year | 877 | 762 |
| Interest receivable | (206) | (736) |
| Interest payable | 327 | 402 |
| Items on an accruals basis | | |
| (Increase) / decrease in stocks | 17 | 36 |
| (Increase) / decrease in debtors | (1,671) | 3,184 |
| Increase / (decrease) in creditors | 2,511 | (1,402) |
| Cash inflow / (outflow) from Revenue activities | 1,855 | 2,246 |

The 2008/09 accounts are restated to reflect the changes in accounting policy for Council Tax and National Non-Domestic Rates. See Accounting policy number 22.

| | 2009/10 £000's | 2008/09 £000's |
|---|-------------------|-------------------|
| 36. Cashflow - analysis of government grants | | |
| Revenue Activities | | |
| DWP Housing/CT benefit grants | 32,928 | 27,316 |
| DCLG Revenue Support Grant | 1,528 | 991 |
| DCLG Homelessness Grant | 115 | 115 |
| DFT concessionary fares | 397 | 388 |
| DCLG LA business growth incentives | 27 | 195 |
| DCLG planning delivery grant | 310 | 167 |
| Other grants | 162 | 106 |
| Capital Activities | | |
| DCLG Housing Subsidy (DFG) | 225 | 282 |
| DCLG Regional Housing Pot | 194 | 192 |
| Total government grants | 35,886 | 29,752 |

WORCESTER CITY COUNCIL
NOTES TO THE CORE FINANCIAL STATEMENTS
For the year ended 31st March 2010

| | 2009/10 £000's | Restated 2008/09 £000's |
|--|-------------------|-------------------------------|
| 37. Returns on investments and servicing of finance | | |
| Interest received | 206 | 736 |
| Interest paid | (327) | (402) |
| Net cash inflow from returns on investment and servicing of finance | (121) | 334 |

38. Capital activities

| | | |
|---|----------------|--------------|
| Purchase of fixed assets | (2,186) | (4,189) |
| Other capital payments | (545) | (1,598) |
| Payments to capital receipts pool | (3) | (50) |
| Sales of tangible fixed assets | 590 | 3,942 |
| Write out capital contribution on sale of asset | - | 57 |
| Capital grants received | 599 | 836 |
| Other capital receipts | 399 | 507 |
| Net cash outflow from capital activities | (1,146) | (495) |

39. Management of liquid resources

| | | |
|--|-------------|----------------|
| Increase / (decrease) in short term borrowing | (2) | 3 |
| (Increase) / decrease in short term investments | 1 | (1,197) |
| (Increase) / decrease in other liquid assets | (69) | (16) |
| Net cash (outflow) / inflow from the management of liquid resources | (70) | (1,210) |

The 2008/09 accounts for Management of Liquid Resources are restated to reflect the changes in accounting policy for Council Tax and National Non-Domestic Rates. See Accounting policy number 22.

40. Long term financing

| | | |
|---|----------|------------|
| (Decrease) / increase in long term borrowing | - | (9) |
| Net cash (outflow) / inflow from financing | - | (9) |

41. Analysis of changes in net debt

| | At 1st April 2009 £000 | Cashflows £000 | At 31st March 2010 £000 |
|---------------------------|------------------------------|-------------------|----------------------------------|
| Cash in hand, and at bank | 248 | 518 | 766 |
| Bank overdraft | - | - | - |
| | <u>248</u> | <u>518</u> | <u>766</u> |
| Borrowings - long term | (7,704) | - | (7,704) |
| Borrowings - short term | (40) | 2 | (38) |
| Collection Fund | (2) | 69 | 67 |
| Investments | 6,158 | (1) | 6,157 |
| Net debt | (1,340) | 588 | (752) |

**WORCESTER CITY COUNCIL
COLLECTION FUND**
For the year ended 31st March 2010

| | | 2009/10 £000's | 2008/09 £000's |
|-------|---|-------------------|-------------------|
| Note | | | |
| | Income | | |
| 1,2,6 | Council Tax | (46,664) | (44,541) |
| 3 | National Non-Domestic Rates | <u>(34,893)</u> | <u>(35,469)</u> |
| | | <u>(81,557)</u> | <u>(80,010)</u> |
| | Expenditure | | |
| 1 | Precepts and demands | | |
| | County council | 32,798 | 31,861 |
| | City council and parishes | 5,212 | 4,973 |
| | Police authority | 5,617 | 5,353 |
| | Fire authority | <u>2,316</u> | <u>2,207</u> |
| | | 45,943 | 44,394 |
| | Non-domestic rates | | |
| | Payments to national pool | 34,747 | 35,335 |
| | Cost of collection allowance | <u>146</u> | <u>146</u> |
| | | 80,836 | 79,875 |
| | Bad and doubtful debt provisions | | |
| 5 | Council Tax | 100 | - |
| 5 | National Non-Domestic Rates | <u>-</u> | <u>(12)</u> |
| | | 100 | (12) |
| 4 | Surplus for the Year | (621) | (147) |
| | Deficit as at 1 April | 16 | 163 |
| | Fund (surplus) / deficit as at 31 March | <u>(605)</u> | <u>16</u> |

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 (£1417.06 for 2009/2010 and £1,369.19 for 2008/2009) 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 2010**

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 | 4,241 | 6/9 | 944.70 |
| Band B | 9,400 | 7/9 | 1,102.17 |
| Band C | 8,499 | 8/9 | 1,259.62 |
| Band D | 4,592 | 1 | 1,417.06 |
| Band E | 3,556 | 11/9 | 1,731.96 |
| Band F | 1,738 | 13/9 | 2,046.86 |
| Band G | 561 | 15/9 | 2,361.78 |
| Band H | 7 | 18/9 | 2,834.12 |

2. Council Tax

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

| | 2009/10 £000's | 2008/09 £000's |
|--------------------------|---------------------------------|----------------------|
| Due from taxpayers | 40,328 | 38,983 |
| Council Tax benefit | 6,336 | 5,558 |
| Total Council Tax | <u>46,664</u> | <u>44,541</u> |

3. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies an amount (48.5p in 2009/2010 and 48.5p in 2008/2009) 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 £35.449m for 2009/2010 (£35.469m for 2008/2009) was based on an average rateable value for the Council's area. The rateable value was £86.754m at 31st March 2010. (£86.388m at 31st March 2009).

WORCESTER CITY COUNCIL
COLLECTION FUND
For the year ended 31st March 2010

4. Collection Fund surpluses and deficits for Council Tax

The surplus on the Fund of £605k at 31st March 2010 in respect of Council Tax transactions will be distributed in subsequent financial years to 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:

| | 2009/10 £000's Surplus | 2008/09 £000's Deficit |
|--|---|------------------------------|
| Worcestershire County Council | (433) | 11 |
| West Mercia Police Authority | (74) | 2 |
| Hereford and Worcester Fire and Rescue Authority | (31) | 1 |
| Worcester City Council | (67) | 2 |
| | <u>(605)</u> | <u>16</u> |

5. Provision for Bad Debts and Write Offs

The Provision for Bad Debts and Write Offs as at 31 March 2010 is as follows:

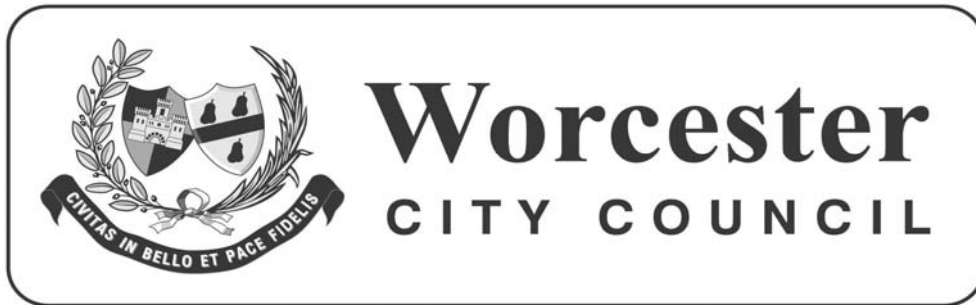
| | Council Tax £000's |
|-----------------------------|-------------------------------------|
| Brought forward at 1 April | 639 |
| Credit (benefit) for year | 100 |
| Carried forward at 31 March | <u>739</u> |

6. Write Offs

The amounts written off were as follows:

| | 2009/10 £000's | 2008/09 £000's |
|-------------|---------------------------------|-------------------|
| Council Tax | 15 | 99 |
| NNDR | 7 | 55 |

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 2009/10

I confirm that this Statement of Accounts including the Annual Governance Statement were approved by Council at its meeting held on 28th September 2010.

Signed on behalf of Worcester City Council

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**Councillor Mike Layland
Mayor and Chairman of the Council**