



**Worcester**  
CITY COUNCIL

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

**STATEMENT OF ACCOUNTS  
2010/11**

**Final Version v.3.2 - 6th September 2011  
(for Council approval)**

**WORCESTER CITY COUNCIL  
STATEMENT OF ACCOUNTS 2010/11**

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**WORCESTER CITY COUNCIL  
STATEMENT OF RESPONSIBILITIES**

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**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 Finance Services Manager.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts.

**The Finance Services Manager's responsibilities**

The Finance Services Manager 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 Finance Services Manager 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 2011.

**As the responsible officer, I certify that in preparing this Statement of Accounts for the year ended 31st March 2011, 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 2011 and its income and expenditure for the year then ended.

Lesley Meagher  
**Finance Services Manager**  
**27th September 2011**

**Approval by the Council**

I certify this Statement of Accounts including the Comprehensive Income and Expenditure Account and the Balance Sheet were approved by Council at its meeting held on 27th September 2011.

Councillor Simon Geraghty  
**Leader of the Council**  
**27th September 2011**

# WORCESTER CITY COUNCIL

## EXPLANATORY FOREWORD

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### 1. Introduction

This Draft Statement of Accounts presents the financial position of the Council for the year ended 31 March 2011. 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:

**Movement in Reserves Statement.** This shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus (or deficit) on the Provision of Services shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

**Comprehensive Income and Expenditure Statement.** This statement summarises the resources that have been generated and consumed in providing services and managing the Council during 2010/11. 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.

**Balance Sheet.** This shows the Council's financial position on 31 March 2011. 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 2010/11.

**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 2010/11 was £13.6m. The actual net expenditure for the year was £11.82m, a surplus on budget of £1.78m. This surplus reduces to an increase of £118k on the General Fund Balance after the transfer of £1.66m to earmarked reserves. The majority of this reserves transfer is to the newly created priority projects reserves, set aside to enable transformation within the Council to take place, through three main initiatives:

- 1) restructuring and organisational development;
- 2) capital replacement, and;
- 3) priority Worcester projects to improve Worcester for its citizens.

## WORCESTER CITY COUNCIL EXPLANATORY FOREWORD

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

The net impact on the General Fund balance is a contribution of £118k which increases the balance to £1.141m. This is in accordance with the Council's policy to hold a General Fund balance of about £1m (but not less than £600k), and it also enables a small release of £141k to the budget next year, in line with the approved Medium Term Financial Strategy.

The underspend of £1.78m in 2010/11 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<br>£000's |
|------------------------------------------|-------------------------------|
| Employee costs and shared services       | (210)                         |
| Reduced car park income                  | 191                           |
| Concessionary travel                     | (187)                         |
| Restructuring costs                      | 322                           |
| VAT reimbursement (Fleming case)         | (570)                         |
| Planning fees and appeals                | (150)                         |
| Early 2011/12 planned efficiency savings | (935)                         |
| Shared services savings                  | (110)                         |

The Council, in its Medium Term Financial Strategy, identified £1.372m of efficiency savings required in 2011/12. The early implementation of these savings by Officers has realised early efficiencies in 2010/11 of £935k. In achieving these recurring efficiencies, one-off restructuring costs of £322k in excess of budget, were incurred.

### 4. Impact of the Economic Climate

The continued downturn in the economic climate has had an impact on the Council's finances, particularly on reduced income generation in car parks and increases in the volumes and subsequent value of housing benefit claims. Any adverse financial performance arising in these areas in 2010/11 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 Comprehensive Income and Expenditure Account shows the gross cost of service provision for 2010/11 which amounts to £62.784m (2009: £69.088m). This expenditure has been analysed by type as shown below:

| Expenditure Type                         | 2010/11<br>£000 | 2009/10<br>£000 |
|------------------------------------------|-----------------|-----------------|
| Employee expenses                        | 11,565          | 11,989          |
| Premises related expenses                | 1,874           | 2,932           |
| Property impairments                     | 601             | 8,426           |
| Transport related expenses               | 969             | 1,598           |
| Supplies and services                    | 2,347           | 3,763           |
| Third party                              | 10,162          | 6,099           |
| Housing Benefit and Council Tax payments | 33,001          | 31,193          |
| Capital charges                          | 2,265           | 3,088           |
| <b>Gross Cost of Services</b>            | <b>62,784</b>   | <b>69,088</b>   |

## WORCESTER CITY COUNCIL EXPLANATORY FOREWORD

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### 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 two main areas, transfer of staff into new shared service arrangements (Property and ICT to the County Council, Regulatory to Bromsgrove District Council, and Internal Audit to Worcester City Council), and the early implementation of the 2011/12 efficiency programme.
- 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. The reductions in the former and increase in the latter is primarily due to the reclassification of costs due to the new shared service arrangements.
- Property impairments have stabilised following the significant increases last year, arising from the downturn in the economic climate and the 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 £53,974m and this is analysed by type as follows:

| <b>Income Type</b>  | <b>2010/11</b> | <b>2009/10</b> |
|---------------------|----------------|----------------|
|                     | <b>£000</b>    | <b>£000</b>    |
| Government Grants   | 35,540         | 32,900         |
| Rent Income         | 952            | 887            |
| Fees & Charges      | 7,972          | 8,268          |
| Other Income        | 9,510          | 4,800          |
| <b>Total Income</b> | <b>53,974</b>  | <b>46,855</b>  |

- Government grant income includes £34,831m 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 decreased by £8.903m to £24.884m, a further explanation can be found in Note 33 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

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### 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 15 (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 2010/11 was £1.7m (2009/10: £2.7m). This compares with an original estimate of £2.68m for the year. The difference largely relates to one main scheme; the Riverside improvement which will be completed early in 2011/12 and the budget will be carried forward to finance this.

A summary of the capital expenditure in 2010/11 is shown below. Of the £1.7m spend, £1.1m 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 2010/11 are also shown below.

| <u>Capital Expenditure</u>  | <u>£000</u>         | <u>Source of Funding</u> | <u>£000</u>         |
|-----------------------------|---------------------|--------------------------|---------------------|
| Housing and building grants | 554                 | Approved borrowing       | 261                 |
| Gheluvelt Park              | 446                 | Usable capital receipts  | 333                 |
| ICT projects                | 166                 | Grants and other         |                     |
| Riverside Improvements      | 148                 | contributions            | 933                 |
| CCTV                        | 111                 | Earmarked reserves       | 159                 |
| Vehicles and equipment      | 261                 |                          |                     |
| <b>Total</b>                | <b><u>1,686</u></b> | <b>Total</b>             | <b><u>1,686</u></b> |

### 10. Significant Changes in Accounting Policies

In accordance with the Local Authority Accounting Code of Practice and IFRS requirements, the Council has adopted a number of changes to accounting policies for 2010/11. The wording of the changed elements of the Accounting Policies is in accordance with that stipulated by the Code.

### 11. Further Information

Further information about the accounts is available from the Finance Service Manager, 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

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## 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 Legal Services Manager 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.

## 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.

The governance framework has been in place at Worcester City Council for the year ended 31 March 2011 and up to the date of approval of the annual report and statement of accounts.

## 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, service manager objectives and cascaded to service teams and staff objectives through the appraisals process.



## WORCESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT

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The Council's **performance management framework** sets out how its objectives and priorities are to be achieved. Monitoring of performance against agreed plans and performance indicators takes place on a quarterly basis through the Key Priority Groups (Cabinet Portfolio), Corporate Management Team, Cabinet, and Performance Management and Budget Scrutiny Committee.

**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. During 2010/2011 the Audit Committee received and reviewed reports on the work of Internal and External Audit.

A **revised senior management structure** was introduced in 2010/11 with clear lines of accountability for the three corporate directors and the ten service managers in the Council. The individual service managers are responsible for the performance and financial management of their services and activities delegated to them. As part of the senior management restructuring process, revised job descriptions were designed which clearly define and document these roles and responsibilities, and a three way inception meeting was held with each service manager, the managing director and portfolio holder to review and agree the details of these responsibilities.

During 2010/11 the Council launched and began the process of embedding its revised **Values**. These values were agreed by the new senior management team and Cabinet. The values comprise four main themes; Challenge to Improve; One Council; Delivering the Results People Want; and Empowerment and Accountability. A number of workshops and team management sessions and individual staff briefings were held to roll out and embed the values to ensure that they become the framework by which officers and members conduct their business within the council.

Worcester City Council has a **risk management strategy**. Risk management is a key element of service and financial planning. Responsibility for corporate risk management has been assigned to the new Performance, Improvement and Efficiency service manager, with extra staff resources identified to further strengthen and embed a risk management culture within executive decision making and service management.

The Council's **Constitution** sets out how the Council operates, how decisions are made, and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution sets out the basic rules governing the manner in which the Council conducts its business. The Constitution includes a Scheme of Delegation whereby functions and decision-making responsibilities are allocated between the full Council, the Cabinet, individual Cabinet Members, regulatory boards and committees and officers. The Council publishes a Forward Plan which contains details of key decisions to be made by the Cabinet.

The Council has designated the Corporate Director Commissioning, Customer Services and Communications as **Monitoring Officer**. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations.

### **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, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

## WORCESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT

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The review processes that have been applied in maintaining and reviewing the effectiveness of the governance framework are outlined below in relation to the following areas:

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. The audit committee is also responsible for ensuring the council secures value for money (VfM) in the use of its resources and during 2010/11 strengthened this area by approving a revised approach to VfM, following a review by internal audit and senior management. In addition, the audit 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.

The Management Team: was restructured and strengthened in year, with clarity of roles agreed upfront with the managing director and portfolio holders. The management team played a key role in defining and embedding the council's values, strengthening the corporate core of the council, improving transparency, and reviewing and improving officer decision making processes.

Improving our Organisation Programme: was launched in 2010/11 with 15 key projects identified, to be implemented in the short to medium term. In 2010/11 the Council has implemented a number of these projects ranging from new HR policies on a competencies and appraisals to embedding a new management structure and launching our Council 'Values'.

Improved performance management framework: was introduced during 2010/11 with a new financial system incorporating a streamlined chart of accounts and more structured financial reports based on the new management structure, as well as refreshed human resources policies on the competency framework, appraisals, and managing underperformance, all aimed at supporting staff to achieve their potential.

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 function was set up as a shared service in 2010/11, hosted by Worcester City, for 5 district councils. The shared service 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 2010/11 was risk based (assessing reputation, complexity, materiality, impact of failure, staff morale/turnover and quality of internal control), using a scoring system, and was approved by the Audit Committee. It included:

- a number of core systems which were designed to suitably assist the external auditors to reach their 'opinion'
- other corporate systems (e.g. ICT, governance) and a number of operational systems (e.g. Issue of Fuel, Concessionary Swimming, Asset Management, s106's) which assisted the council to either maintain and improve its control systems and risk management processes or reinforce its oversight of such systems.

## WORCESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT

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The shared service Internal Audit Manager has produced a report on the Council's governance framework and has concluded that the internal control arrangements during 2010/2011 have not always provided high assurance but outstanding issues were being addressed as part of a process of continuous improvement. This conclusion is based on assurances provided by management in 2010/11 in response to audit reports particularly on the major issues raised in year which were: Asset Management, S106 Agreements, Control of Passwords.

Governance Assurance Board: During 2010/11 the council replaced the Corporate Governance Working Group with the Governance Assurance Board to introduce a more strategic approach to governance. The Board is chaired by the monitoring officer and members comprise the managing director and other senior corporate managers. The Group aims to further embed governance issues and to implement improvements identified in this statement.

The Standards Committee: The role of this committee is to promote and maintain high standards of conduct by Members and to monitor the operation of the Members Code of Conduct. There were three new complaints made to the Standards Committee in 2010/11 in respect of Worcester City Council Members.

The first complaint was determined at a meeting of the Standards Committee Assessment Sub Committee. The member concerned was found not to have breached the code of conduct in respect of one allegation (that he failed to treat the complainant with respect). The complainant exercised her right to a review of that decision. The Standards Committee Review Sub Committee upheld the original decision.

The second complaint (an allegation that the member concerned had bullied the complainant in breach of the code of Conduct) was heard at a meeting of the Standards Committee Assessment Sub Committee. The Committee agreed that the complaint should be referred to the Monitoring Officer for a full investigation. The results of the investigation will be reported in the next Annual Governance Statement.

A third complaint was received in March 2011 and the results will be reported in the next Annual Governance Statement..

### **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 & Business Continuity group and the Corporate Health & Safety group have been combined to ensure one approach on managing key corporate risks going forward. The corporate health & safety group made progress in year on raising management awareness to health & safety issues and took steps to embed good practice through increased training. A number of Health & Safety Executive (HSE) investigations were undertaken during the year (Gheluvelt park footpaths, arboricultural services, refuse collection monitoring and manual handling and Heather Close play areas), all of which reached a satisfactory conclusion.

Information Governance: the Council has taken significant steps to comply with CoCo (Government Connect Code of Connection) standards. Most ICT infrastructure elements are in place, but more work is required on compliance on the non-ICT aspects.

Shared Services governance arrangements are in place for new areas of collaborative working. In addition the Council has invested in additional corporate resources to support a more effective client role in relation to the shared service arrangements.

## WORCESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT

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The transparency agenda has been reviewed during the year with the publishing of Payments greater than £500 and senior staff salaries.

The Council's Constitution is undergoing a wholesale review using external support to establish whether the Constitution is fit for purpose. A series of externally facilitated workshops were run for members and officers in March 2011. Between now and the autumn further individual political group sessions, and officer sessions will be held. The outcomes of these sessions will be presented at a facilitated workshop for all members. The feedback from this workshop will be compiled into a report to Full Council detailing any suggested changes to the Constitution.

### **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 and thereafter:

- Anti-Fraud and corruption, probity, whistleblowing and Bribery Act
- Partnerships
- Leadership development and investing in management to help change the culture to the agreed corporate approach
- Strengthening programme and project management
- Information governance and the role of the Chief Information Officer
- Implementing the review of the Constitution
- Improving risk management and business continuity planning

### **Leader and Managing Director Assurance Statement**

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Dated: 27th September 2011

**Duncan Sharkey, Managing Director**

Signed:

Dated: 27th September 2011

**Councillor Simon Geraghty, Leader of the Council**

# WORCESTER CITY COUNCIL

## STATEMENT OF ACCOUNTING POLICIES

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### 1. General

The Statement of Accounts summarises the Council's transactions for the 2010-11 financial year and its position as at 31st March 2011. The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting 2010-11, relevant International Financial Reporting Standards and the Best Value Accounting Code of Practice (BVACOP).

The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### 2. Accruals of Income and Expenditure

All revenue expenditure and capital transactions are accounted for on an accruals basis. That is, sums due to or from the Council during the year are recorded whether or not the cash has actually been received or paid during the year. In particular:

- Fees, charges, rents and other income are accounted for as income at the point the Council provides the goods or service;
- Supplies and services provided to the Council are treated as expenditure as they are consumed;
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the investment rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that a debtor balance will be recovered, the balance is written down and a charge made to revenue for the income that might not be collected.

### 3. Government Grants

Government grants and other contributions in relation to revenue expenditure are accounted for on an accruals basis and recognised in the accounting statements when there is reasonable assurance that the Council will comply with any conditions attached to the payments and that the payments will be received.

Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Account until any conditions attached to the grant or contribution have been satisfied. If conditions have not been satisfied the amounts are carried in the balance sheet as a creditor. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to fund capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Revenue Support Grant is a general grant allocated by central government. As such it is non-ringfenced and credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. Area Based Grant is allocated against the relevant service within net cost of services.

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

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### **4. 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.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. A component is classed as significant if it's value is greater than 20% of the total value of the asset or is over £200,000, whichever is higher.

### **5. Property, Plant & Equipment**

Assets that have physical substance and are held for use in the supply of goods and services, for rental to others or for administrative purposes and that are expected to be used in more than one financial year are classified as Property, Plant and Equipment.

#### **Recognition**

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment has been capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. This excludes expenditure on repairs and maintenance which is charged direct to revenue accounts. Capital expenditure on assets which is less than £5,000 is treated as de minimis and is charged to services in the year that it is incurred.

#### **Measurement**

Property, Plant and Equipment are initially measured at cost including purchase price and any costs attributable to bringing the asset into use.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Community assets – depreciated historical cost;
- All other assets – fair value, determined as the amount that would be paid for the asset in existing use (existing use value).

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

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Assets included in the balance sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains.

The Revaluation Reserve contains revaluation gains since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **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 it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. If there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are only recognised up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Assets that are abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any receipts from disposal are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts as prescribed by the Local Government Act 2003. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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

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### **6. 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.

### **7. Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any receipts, the Capital Receipts Account.

### **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. 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.



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

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### **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, employee benefit reserve and capital adjustment account do not represent useable revenue resources for the Council.

### **11. Estimation Techniques**

In line with FRS18, a distinction is made between accounting policies and estimation techniques. Estimation techniques are the methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves. Throughout the notes to the accounts, reference is made to the bases of any estimation techniques used. There have not been any material changes to the basis of the estimation techniques used since the preparation of the last Statement of Accounts.

### **12. Inventories**

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

### **13. Costs of Support Services**

In compliance with the costing principles of the CIPFA 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.

### **14. Employee Benefits**

#### Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

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

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### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement age or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of employment of an officer or a group of officers.

When termination benefits involve the enhancement of pension benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits or the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

### **Post Employment Benefits**

The Council participates in one defined benefits scheme for its employees, administered by Worcestershire County Council. Pension costs are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. A new actuarial valuation was undertaken by the funds actuaries Mercer Human Resource Consulting Limited as at 31 March 2011. This has revised contribution rates payable by the Council in future financial years.

The liabilities of the Worcester County Council Local Government Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – an assessment of future payments based on assumptions. Liabilities are discounted to their value at current prices using a discount rate prescribed by the actuary.

The assets of the pension scheme are included in the Balance Sheet at their fair value.

The change in the net pensions liability is analysed into seven components:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

## **WORCESTER CITY COUNCIL**

### **STATEMENT OF ACCOUNTING POLICIES**

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- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve;
- Contributions paid to the pension scheme – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with the debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Further information can be found in Worcestershire County Council’s Superannuation Fund Annual Report, available on request from:

Mr P. Birch C.P.F.A., Director of Resources, Worcestershire County Council, County Hall, Spetchley Road, Worcester, WR5 2NP. [www.worcestershire.gov.uk](http://www.worcestershire.gov.uk)

#### **15. 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.

#### **16. Financial Liabilities (loans)**

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

#### **17. Financial Assets (investments)**

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

#### **18. VAT**

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

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

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### **19. 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.

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

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

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

### **21. 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 Movement in Reserves Statement.

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.

### **22. 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.

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

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### **23. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

### **24. Accounting for Jointly Controlled Operations**

The Council receives Shared Services for: Revenues and Benefits, Building Control, Regulatory, ICT 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.

The Council hosts the Internal Audit Shared Service and as such accounts for the expenditure incurred for Malvern Hills District Council, Bromsgrove District Council, Worcestershire County Council and Wychavon District Council, its partners in the arrangement. However assets and liabilities of the pension scheme are the joint responsibility of the partnership. These have been accounted for in the full accounts of the Council as host and the notes to the Pension Scheme give details of the amounts attributable to the partners as defined by the partnership agreement.

The arrangement is consolidated into the Council's accounts, however where appropriate, the notes to the accounts show both the details to support the accounts and the comparative details excluding the amounts for the Shared Service.

### **25. 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**  
**MOVEMENT IN RESERVES STATEMENT**  
**For the year ended 31st March 2011**

|                                                                          | General<br>Fund<br>Balance<br>£'000 | Earmarked<br>Reserves<br>£'000 | Capital<br>Receipts<br>Reserve<br>£'000 | Capital<br>Grants<br>Unapplied<br>£'000 | <b>Total<br/>Usable<br/>Reserves<br/>£'000</b> | Total<br>Unusable<br>Reserves<br>£'000 | <b>Total<br/>Authority<br/>Reserves<br/>£'000</b> |
|--------------------------------------------------------------------------|-------------------------------------|--------------------------------|-----------------------------------------|-----------------------------------------|------------------------------------------------|----------------------------------------|---------------------------------------------------|
| <b>Balance at 31 March 2009</b>                                          | <b>915</b>                          | <b>2,137</b>                   | <b>2,125</b>                            | <b>1,763</b>                            | <b>6,940</b>                                   | <b>33,012</b>                          | <b>39,952</b>                                     |
| <b><u>Movement in Reserves During 2009/10</u></b>                        |                                     |                                |                                         |                                         |                                                |                                        |                                                   |
| Deficit on the provision of services                                     | (10,747)                            |                                |                                         |                                         | <b>(10,747)</b>                                |                                        | <b>(10,747)</b>                                   |
| Other Comprehensive Income and Expenditure                               |                                     |                                |                                         |                                         | <b>0</b>                                       | (758)                                  | <b>(758)</b>                                      |
| <b>Total Comprehensive Income and Expenditure</b>                        | <b>(10,747)</b>                     | <b>0</b>                       | <b>0</b>                                | <b>0</b>                                | <b>(10,747)</b>                                | <b>(758)</b>                           | <b>(11,505)</b>                                   |
| Adjustments between accounting basis and funding basis under regulations | 11,171                              |                                | (433)                                   | (1,250)                                 | <b>9,488</b>                                   | (9,488)                                | <b>0</b>                                          |
| <b>Net Increase/(Decrease) before Transfer to Earmarked Reserve</b>      | <b>424</b>                          | <b>0</b>                       | <b>(433)</b>                            | <b>(1,250)</b>                          | <b>(1,259)</b>                                 | <b>(10,246)</b>                        | <b>(11,505)</b>                                   |
| Transfers (to)/from Earmarked Reserves                                   | (316)                               | (176)                          |                                         |                                         | <b>(492)</b>                                   | 492                                    | <b>0</b>                                          |
| <b>Increase/(Decrease) in 2009-10</b>                                    | <b>108</b>                          | <b>(176)</b>                   | <b>(433)</b>                            | <b>(1,250)</b>                          | <b>(1,751)</b>                                 | <b>(9,754)</b>                         | <b>(11,505)</b>                                   |
| <b>Balance at 31st March 2010</b>                                        | <b>1,023</b>                        | <b>1,961</b>                   | <b>1,692</b>                            | <b>513</b>                              | <b>5,189</b>                                   | <b>23,257</b>                          | <b>28,446</b>                                     |
| <b>Balance at 31st March 2010</b>                                        | 1,023                               | 1,961                          | 1,692                                   | 513                                     | <b>5,189</b>                                   | 23,257                                 | <b>28,446</b>                                     |
| <b><u>Movement in Reserves During 2010/11</u></b>                        |                                     |                                |                                         |                                         |                                                |                                        |                                                   |
| Surplus on the provision of services                                     | 3,801                               |                                |                                         |                                         | <b>3,801</b>                                   |                                        | <b>3,801</b>                                      |
| Other Comprehensive Income and Expenditure                               |                                     |                                |                                         |                                         | <b>0</b>                                       | 6,640                                  | <b>6,640</b>                                      |
| <b>Total Comprehensive Income and Expenditure</b>                        | <b>3,801</b>                        | <b>0</b>                       | <b>0</b>                                | <b>0</b>                                | <b>3,801</b>                                   | <b>6,640</b>                           | <b>10,441</b>                                     |
| Adjustments between accounting basis and funding basis under regulations | (2,251)                             |                                | 22                                      | (513)                                   | <b>(2,742)</b>                                 | 2,742                                  | <b>0</b>                                          |
| <b>Net Increase/(Decrease) before Transfer to Earmarked Reserve</b>      | <b>1,550</b>                        | <b>0</b>                       | <b>22</b>                               | <b>(513)</b>                            | <b>1,059</b>                                   | <b>9,382</b>                           | <b>10,441</b>                                     |
| Transfers (to)/from Earmarked Reserves                                   | (1,432)                             | 1,272                          |                                         |                                         | <b>(160)</b>                                   | 160                                    | <b>0</b>                                          |
| <b>Increase/ Decrease in 2010-11</b>                                     | <b>118</b>                          | <b>1,272</b>                   | <b>22</b>                               | <b>(513)</b>                            | <b>899</b>                                     | <b>9,542</b>                           | <b>10,441</b>                                     |
| <b>Balance at 31st March 2011</b>                                        | <b>1,141</b>                        | <b>3,233</b>                   | <b>1,714</b>                            | <b>0</b>                                | <b>6,088</b>                                   | <b>32,799</b>                          | <b>38,887</b>                                     |

**WORCESTER CITY COUNCIL**  
**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**  
For the year ended 31st March 2011

|                                                          | 2010/11<br>Gross<br>Expenditure<br>£000s | 2010/11<br>Gross<br>Income<br>£000s | 2010/11<br>Net<br>Expenditure<br>£000s | Restated<br>2009/2010<br>Net<br>Expenditure<br>£000s |
|----------------------------------------------------------|------------------------------------------|-------------------------------------|----------------------------------------|------------------------------------------------------|
| <b>Service Expenditure Analysis</b>                      |                                          |                                     |                                        |                                                      |
| Central services to the public                           | 10,016                                   | (7,540)                             | 2,476                                  | 2,433                                                |
| Cultural, environmental and planning                     | 17,488                                   | (8,430)                             | 9,058                                  | 12,489                                               |
| Highways/roads and transport                             | 4,047                                    | (4,477)                             | (430)                                  | 3,527                                                |
| Housing services                                         | 29,965                                   | (28,710)                            | 1,255                                  | 2,480                                                |
| Corporate and democratic core                            | 1,212                                    | (58)                                | 1,154                                  | 1,190                                                |
| Non distributed costs                                    | 56                                       | (4,759)                             | (4,703)                                | 114                                                  |
| <b>NET COST of SERVICES</b>                              | <b>62,784</b>                            | <b>(53,974)</b>                     | <b>8,810</b>                           | <b>22,233</b>                                        |
| 8 Other operating expenditure                            |                                          |                                     | 102                                    | 98                                                   |
| 9 Financing and investment income and expenditure        |                                          |                                     | 1,051                                  | 2,103                                                |
| 8 Profit on discontinued operations                      |                                          |                                     | (175)                                  | (255)                                                |
| 10 Taxation and non-specific grant income                |                                          |                                     | (13,589)                               | (13,432)                                             |
| <b>(SURPLUS)/DEFICIT ON PROVISION OF SERVICES</b>        |                                          |                                     | <b>(3,801)</b>                         | <b>10,747</b>                                        |
| Surplus on revaluation of non current assets             |                                          |                                     | (1,316)                                | (3,949)                                              |
| Actuarial (gains)/losses on pension assets/liabilities   |                                          |                                     | (5,225)                                | 4,703                                                |
| Reduction in long term loans relating to house purchases |                                          |                                     | 2                                      | 2                                                    |
| Other Comprehensive Income and Expenditure               |                                          |                                     | (6,539)                                | 756                                                  |
| <b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>        |                                          |                                     | <b>(10,340)</b>                        | <b>11,503</b>                                        |

The 2009/10 accounts have been restated as part of the transition to International Financial Reporting Standards (see Note 1).

**WORCESTER CITY COUNCIL**  
**BALANCE SHEET**  
**at 31st March 2011**

| Note                         | 2010/11<br>£000s            | Restated<br>2009/10<br>£000s | Restated<br>2008/09<br>£000s |        |
|------------------------------|-----------------------------|------------------------------|------------------------------|--------|
| <b>Long term assets</b>      |                             |                              |                              |        |
| 11                           | Property, plant & equipment | 61,809                       | 61,948                       | 66,353 |
| 11                           | Investment property         | 3,579                        | 3,260                        | 3,905  |
|                              | Long term debtors           | 5                            | 7                            | 11     |
|                              |                             | <b>65,393</b>                | 65,215                       | 70,269 |
| <b>Current assets</b>        |                             |                              |                              |        |
| 16                           | Inventories                 | 45                           | 59                           | 76     |
| 17                           | Short term debtors          | 4,864                        | 6,913                        | 5,120  |
| 14                           | Short term investments      | 3,150                        | 3,557                        | 1,150  |
| 18                           | Cash and cash equivalents   | 6,771                        | 3,366                        | 5,256  |
| 19                           | Assets held for sale        | 100                          | 269                          | 347    |
|                              |                             | <b>14,930</b>                | 14,164                       | 11,949 |
| <b>Current liabilities</b>   |                             |                              |                              |        |
| 20                           | Creditors                   | 8,881                        | 9,404                        | 6,906  |
|                              | Short term borrowing        | -                            | 38                           | 40     |
|                              |                             | <b>8,881</b>                 | 9,442                        | 6,946  |
| <b>Long term liabilities</b> |                             |                              |                              |        |
| 15                           | Long term borrowing         | 7,671                        | 7,704                        | 7,704  |
| 33                           | Pensions liability          | 24,884                       | 33,787                       | 27,618 |
|                              |                             | <b>32,555</b>                | 41,491                       | 35,322 |
| <b>NET ASSETS</b>            |                             |                              |                              |        |
|                              |                             | <b>38,887</b>                | 28,446                       | 39,950 |
| <b>Financed by:</b>          |                             |                              |                              |        |
|                              | Usable reserves             | 6,088                        | 5,189                        | 6,940  |
| 21                           | Unusable reserves           | 32,799                       | 23,257                       | 33,010 |
| <b>RESERVES</b>              |                             |                              |                              |        |
|                              |                             | <b>38,887</b>                | 28,446                       | 39,950 |

The prior year accounts have been restated as part of the transition to International Financial Reporting Standards (see Note 1).



**WORCESTER CITY COUNCIL**  
**CASH FLOW STATEMENT**  
For the year ended 31st March 2011

| Note                                                                                                                             | 2010/11<br>£000s | 2009/10<br>£000s |
|----------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Net (surplus)/deficit on the provision of services</b>                                                                        | <b>(3,801)</b>   | 10,747           |
| Adjust net surplus or deficit on the provision of services for noncash movements                                                 | <b>(970)</b>     | (13,598)         |
| Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | <b>1,281</b>     | 1,030            |
| 22 Net cash flows from operating activities                                                                                      | <b>(75)</b>      | 121              |
| 23 Investing activities                                                                                                          | <b>496</b>       | 1,181            |
| 24 Financing activities                                                                                                          | <b>(336)</b>     | 2,409            |
| Net (increase) or decrease in cash and cash equivalents                                                                          | <b>(3,405)</b>   | 1,890            |
| Cash and cash equivalents at the beginning of the reporting period                                                               | <b>3,366</b>     | 5,256            |
| <b>Cash and cash equivalents at the end of the reporting period</b>                                                              | <b>6,771</b>     | 3,366            |

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as; operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2011

**1. Transition to IFRS**

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Account for 2009/10.

The following tables explain the effect of the transition to IFRS on the opening balance sheet at 1st April 2009, the balance sheet as at 31st March 2010 and the comprehensive income for the year ended 31st March 2010.

**Balance Sheet as at 1st April 2009**

|                                                     | UK GAAP<br>(IFRS<br>Format)<br>£000s | IFRS<br>£000s | Note | Differences<br>£000s |
|-----------------------------------------------------|--------------------------------------|---------------|------|----------------------|
| <b>Long term assets</b>                             |                                      |               |      |                      |
| Property plant & equipment                          | 65,642                               | 66,353        | (1)  | 711                  |
| Investment Properties                               | 4,963                                | 3,905         | (2)  | (1,058)              |
| Long term debtors                                   | 11                                   | 11            |      | 0                    |
|                                                     | <b>70,616</b>                        | <b>70,269</b> |      | <b>(347)</b>         |
| <b>Current assets</b>                               |                                      |               |      |                      |
| Inventories                                         | 76                                   | 76            | (4)  | 0                    |
| Short term debtors                                  | 5,120                                | 5,120         |      | 0                    |
| Short term investments                              | 6,158                                | 1,150         | (5)  | (5,008)              |
| Cash & cash equivalents                             | 248                                  | 5,256         | (5)  | 5,008                |
| Assets held for sale                                | 0                                    | 347           | (3)  | 347                  |
|                                                     | <b>11,602</b>                        | <b>11,949</b> |      | <b>347</b>           |
| <b>Current liabilities</b>                          |                                      |               |      |                      |
| Creditors                                           | 6,709                                | 6,906         | (6)  | 197                  |
| Short Term Borrowing                                | 40                                   | 40            |      | 0                    |
|                                                     | <b>6,749</b>                         | <b>6,946</b>  |      | <b>197</b>           |
| <b>Long term liabilities</b>                        |                                      |               |      |                      |
| Long term borrowing                                 | 7,704                                | 7,704         |      | 0                    |
| Government Grants Deferred                          | 4,253                                | 0             | (7)  | (4,253)              |
| Pensions liability                                  | 27,618                               | 27,618        |      | 0                    |
|                                                     | <b>39,575</b>                        | <b>35,322</b> |      | <b>(4,253)</b>       |
| <b>NET ASSETS</b>                                   | <b>35,894</b>                        | <b>39,950</b> |      | <b>(4,056)</b>       |
| <b>Financed by:</b>                                 |                                      |               |      |                      |
| <b>Usable reserves</b>                              |                                      |               |      |                      |
| General fund                                        | 915                                  | 915           |      | 0                    |
| Earmarked                                           | 2,137                                | 2,137         |      | 0                    |
| Usable capital receipts                             | 2,125                                | 2,125         |      | 0                    |
| Capital grants unapplied                            | 0                                    | 1,763         | (7)  | 1,763                |
| <b>Unusable reserves</b>                            |                                      |               |      |                      |
| Capital adjustment account                          | 51,931                               | 54,516        | (7)  | 2,585                |
| Collection fund adjustment account                  | (2)                                  | (2)           |      | 0                    |
| Accumulated compensated absences adjustment account | 0                                    | (197)         | (6)  | (197)                |
| Pensions reserve                                    | (27,618)                             | (27,618)      |      | 0                    |
| Deferred capital receipts                           | 11                                   | 11            |      | 0                    |
| Revaluation reserve                                 | 6,395                                | 6,300         | (2)  | (95)                 |
| <b>RESERVES</b>                                     | <b>35,894</b>                        | <b>39,950</b> |      | <b>4,056</b>         |

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2011

**1. Transition to IFRS (cont)**

**Balance Sheet as at 31st March 2010**

|                                                        | UK GAAP<br>(IFRS<br>Format)<br>£000s | IFRS<br>£000s | Note | Differences<br>£000s |
|--------------------------------------------------------|--------------------------------------|---------------|------|----------------------|
| <b>Long term assets</b>                                |                                      |               |      |                      |
| Property plant & equipment                             | 61,472                               | 61,948        | (1)  | 476                  |
| Investment Properties                                  | 4,005                                | 3,260         | (2)  | (745)                |
| Long term debtors                                      | 7                                    | 7             |      | 0                    |
|                                                        | <b>65,484</b>                        | <b>65,215</b> |      | <b>(269)</b>         |
| <b>Current assets</b>                                  |                                      |               |      |                      |
| Inventories                                            | 59                                   | 59            | (4)  | 0                    |
| Short term debtors                                     | 6,913                                | 6,913         |      | 0                    |
| Short term investments                                 | 6,157                                | 3,557         | (5)  | (2,600)              |
| Cash & cash equivalents                                | 766                                  | 3,366         | (5)  | 2,600                |
| Assets held for sale                                   | 0                                    | 269           | (3)  | 269                  |
|                                                        | <b>13,895</b>                        | <b>14,164</b> |      | <b>269</b>           |
| <b>Current liabilities</b>                             |                                      |               |      |                      |
| Creditors                                              | 9,220                                | 9,404         | (6)  | 184                  |
| Short Term Borrowing                                   | 38                                   | 38            |      | 0                    |
|                                                        | <b>9,258</b>                         | <b>9,442</b>  |      | <b>184</b>           |
| <b>Long term liabilities</b>                           |                                      |               |      |                      |
| Long term borrowing                                    | 7,704                                | 7,704         |      | 0                    |
| Government Grants Deferred                             | 4,520                                | 0             | (7)  | (4,520)              |
| Pensions liability                                     | 33,787                               | 33,787        |      | 0                    |
|                                                        | <b>46,011</b>                        | <b>41,491</b> |      | <b>(4,520)</b>       |
| <b>NET ASSETS</b>                                      | <b>24,110</b>                        | <b>28,446</b> |      | <b>(4,336)</b>       |
| <b>Financed by:</b>                                    |                                      |               |      |                      |
| <b>Usable reserves</b>                                 |                                      |               |      |                      |
| General fund                                           | 1,023                                | 1,023         |      | 0                    |
| Earmarked                                              | 1,961                                | 1,961         |      | 0                    |
| Usable capital receipts                                | 1,692                                | 1,692         |      | 0                    |
| Capital grants unapplied                               | 0                                    | 513           | (7)  | 513                  |
| <b>Unusable reserves</b>                               |                                      |               |      |                      |
| Capital adjustment account                             | 42,898                               | 46,905        | (7)  | 4,007                |
| Collection fund adjustment account                     | 67                                   | 67            |      | 0                    |
| Accumulated compensated absences<br>adjustment account | 0                                    | (184)         | (6)  | (184)                |
| Pensions reserve                                       | (33,787)                             | (33,787)      |      | 0                    |
| Deferred capital receipts                              | 7                                    | 7             |      | 0                    |
| Revaluation reserve                                    | 10,249                               | 10,249        |      | 0                    |
| <b>RESERVES</b>                                        | <b>24,110</b>                        | <b>28,446</b> |      | <b>4,336</b>         |

WORCESTER CITY COUNCIL  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2011

1. Transition to IFRS (cont)

Reconciliation of comprehensive income for the year ended 31st March 2010

| UK GAAP                                                  | £000s         | IFRS<br>Comprehensive Income and Expenditure<br>Statement | £000s         | Note    | Differences<br>£000s |
|----------------------------------------------------------|---------------|-----------------------------------------------------------|---------------|---------|----------------------|
| <b>Income &amp; Expenditure Account</b>                  |               |                                                           |               |         |                      |
| <b>Service Expenditure Analysis</b>                      |               | <b>Service Expenditure Analysis</b>                       |               |         |                      |
| Central services to the public                           | 2,433         | Central services to the public                            | 2,433         |         | 0                    |
| Cultural, environmental and planning                     | 12,756        | Cultural, environmental and planning                      | 12,489        | (7)     | (267)                |
| Highways/roads and transport                             | 3,527         | Highways/roads and transport                              | 3,527         |         | 0                    |
| Housing services                                         | 2,480         | Housing services                                          | 2,480         |         | 0                    |
| Corporate and democratic core                            | 1,125         | Corporate and democratic core                             | 1,190         | (2)/(6) | 65                   |
| Non distributed costs                                    | 114           | Non distributed costs                                     | 114           |         | 0                    |
| <b>Net Cost of Services</b>                              | <b>22,435</b> |                                                           | <b>22,233</b> |         | <b>(202)</b>         |
| Other operating expenditure                              | 98            | Other operating expenditure                               | 98            |         | 0                    |
| Financing and investment income and expenditure          | 2,103         | Financing and investment income and expenditure           | 2,103         |         | 0                    |
| Profit on discontinued operations                        | (255)         | Profit on discontinued operations                         | (255)         |         | 0                    |
| Taxation and non-specific grant income                   | (13,432)      | Taxation and non-specific grant income                    | (13,432)      |         | 0                    |
| <b>Deficit for the year</b>                              | <b>10,949</b> | <b>Deficit on provision of services</b>                   | <b>10,747</b> |         | <b>(202)</b>         |
| <b>Statement of total recognised gains and losses</b>    |               |                                                           |               |         |                      |
| Deficit for the year in Income and Expenditure account   | 10,949        |                                                           |               |         |                      |
| Surplus arising on valuation fixed assets                | (3,871)       | Surplus arising on valuation fixed assets                 | (3,949)       | (2)     | (78)                 |
| Actuarial loss/gain on pension fund assets               | 4,703         | Actuarial loss/gain on pension fund assets                | 4,703         |         | 0                    |
| Reduction in long term loans relating to house purchases | 2             | Reduction in long term loans relating to house purchases  | 2             |         | 0                    |
| <b>Total recognised (gains)/losses for the year</b>      | <b>11,783</b> | <b>Total Comprehensive Income &amp; Expenditure</b>       | <b>11,503</b> |         | <b>(280)</b>         |

## **1. Transition to IFRS (cont)**

(1) All categories of operational assets now fall within Property, Plant and Equipment in accordance with IAS 16. All operational assets have been reclassified as property, plant and equipment.

(2) Under the code and IAS 40 Investment Properties, all income and expenditure relating to Investment Properties, including revaluations and impairments is included within Financing and Other Investment Income and Expenditure within the Comprehensive Income and Expenditure Account. Any revaluations gains and losses within the Revaluation Reserve relating to prior to 2009-10 have been transferred to the Capital Adjustment Account.

(3) Surplus properties are no longer recognised as a separate class of assets. If property, plant and equipment assets will be sold within the next financial year they are classified as assets held for sale within current assets. Investment Properties which will be sold within the next financial year are held as a subcategory within Investment Properties. The two properties held within surplus properties have been transferred back to Property, Plant and Equipment and Investment Properties.

(4) Stock and WIP have been reclassified as Inventories in line with IAS 1 Presentation of Financial Statements.

(5) IFRS has introduced a new classification of "cash and cash equivalents". The Council includes investments maturing within 3 months within this category.

(6) Employees build up an entitlement to paid holidays as they work. Under the IAS 19 Employee Benefits and the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required. The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Reserve until the benefits are used.

(7) Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund. As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet and balance sheet at 31 March 2010.
- Portions of government grants deferred were previously recognised as income in 2009/10 within Net Cost of Services; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- Capital grants unapplied were previously held Grants Unapplied Account and Receipts in Advance respectively within the liabilities section of the balance sheet. Following the change in accounting policy, the balances have been recognised in full, and transferred into the Capital Grants Unapplied Reserve within the reserves section of the balance sheet. The amounts of capital grants received and applied during the year have been included as income within Taxation and Non Specific Grant Income.

(8) Under IAS 1 Presentation of Financial Statements, the Income and Expenditure Account has been changed to a Comprehensive Income and Expenditure Statement (CIES). The CIES includes a category for Financing and Investment Income and Expenditure which encompasses a number of items previously shown individually in the Income and Expenditure Account, including investment interest, pension interest cost, and return on pension assets and also income and expenditure in relation to Investment Properties.

(9) Sources of Finance in the Income and Expenditure Account has been replaced by Taxation and Non Specific Grant Income in the Comprehensive Income Statement. This includes Demand on the Collection Fund (previously Council Tax Payers Income), Revenue Support Grant and Non Domestic Rates Redistribution and also Capital Grants Applied.

**1. Transition to IFRS (cont)**

(10) The Statement of Total Recognised Gains and Losses has been removed from the principle statements. Other Comprehensive Income and Expenditure within the CIES includes items previously included within the Statement of Total Recognised Gains and Losses including Surplus on Revaluation of Long-term Assets and Financial Instruments and Actuarial Gains and Losses on Pension Assets and Liabilities.

**2. Critical judgements in applying accounting policies**

In applying the accounting policies set out in the Statement of Accounting Policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The Council has determined that the South Worcestershire Shared Services Joint Committee and the Worcestershire Shared Services Joint Committee both meet the definition of a Jointly Controlled Operation. The Council has therefore accounted for its share of the Joint Committee's assets and liabilities and income and expenditure as documented in the Legal Agreement.
- The Council has not consolidated the Hopmarket Charity accounts under IAS27 *Consolidated and separate financial statements* as these balances are not material to the accounts as a whole.
- the valuation of certain assets (such as sports centres) based upon Modern Equivalent Asset method of valuation are subject to significant estimation uncertainty.

**3. Assumptions made about the future and other major sources of estimation uncertainty**

| Item               | Uncertainties                                                                                                                                                                                                                                                                                                                                                                                          | Effect if actual results differ from assumptions                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the the discount rate used, the rate at which salaries are projected to rise, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries are engaged to provide the Council with expert advice about the assumptions to be applied. | The effects on the net pensions liability of changes in individual assumptions can be measured. As an example a 0.1% increase in the discount rate would result in a £1.247m decrease in pension liability. However the assumptions interact in complex ways. During 2010-11, the Council's actuaries advised that the net pensions liability had reduced by £4.775m as a result of the change from RPI to CPI as the rate of increase of pension payments. |

**4. Material items of income and expenditure**

During the year the Council received £568k from HMRC in relation to a claim for overpaid VAT following the Fleming case. This has been treated as income within the Comprehensive Income and Expenditure Statement.

**5. Events after the Balance Sheet date**

The Statement of Accounts was authorised for issue by the Finance Service Manager on 30 June 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2011

**6. Adjustments between accounting basis and funding basis under regulations**

The following table details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

|                                                                                                                                                                                                           | Usable Reserves 2010/11       |                                   |                                   |                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-----------------------------------|-----------------------------------|-----------------------------------------|
|                                                                                                                                                                                                           | General Fund Balance<br>£000s | Capital Receipts Reserve<br>£000s | Capital Grants Unapplied<br>£000s | Movements in unusable reserves<br>£000s |
| <b>Adjustments involving the Capital Adjustment Account</b>                                                                                                                                               |                               |                                   |                                   |                                         |
| <i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i>                                                                                                       |                               |                                   |                                   |                                         |
| Changes for depreciation and impairment of non current assets                                                                                                                                             | 2,256                         |                                   |                                   | (2,256)                                 |
| Revenue expenditure funded from capital under statute                                                                                                                                                     | 57                            |                                   |                                   | (57)                                    |
| Statutory Provision for repayment of Debt                                                                                                                                                                 | (502)                         |                                   |                                   | 502                                     |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement                                                  |                               | 179                               |                                   | (179)                                   |
| <i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>                                                                                                  |                               |                                   |                                   |                                         |
| Payments to Housing Capital Receipts Pool                                                                                                                                                                 | 1                             | (1)                               |                                   |                                         |
| <b>Adjustments involving the capital grants unapplied account</b>                                                                                                                                         |                               |                                   |                                   |                                         |
| Capital grants and contributions unapplied credited to the CIES                                                                                                                                           | (337)                         |                                   | 337                               |                                         |
| Application of grants to capital financing transferred to the Capital Adjustment Account                                                                                                                  |                               |                                   | (850)                             | 850                                     |
| <b>Adjustments involving the capital receipts reserve</b>                                                                                                                                                 |                               |                                   |                                   |                                         |
| Transfer of sale proceeds as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement                                                                                      | (175)                         | 175                               |                                   |                                         |
| Transfer from Deferred Capital Receipts Reserve                                                                                                                                                           |                               | 2                                 |                                   | (2)                                     |
| Use of the Capital Receipts Reserve to finance capital expenditure                                                                                                                                        |                               | (333)                             |                                   | 333                                     |
| <b>Adjustments involving the pensions reserve</b>                                                                                                                                                         |                               |                                   |                                   |                                         |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement.                                                                              | (2,221)                       |                                   |                                   | 2,221                                   |
| Employers' pension contributions and direct payments to pensioners payable in the year                                                                                                                    | (1,457)                       |                                   |                                   | 1,457                                   |
| <b>Adjustments involving the Collection Fund adjustment account</b>                                                                                                                                       |                               |                                   |                                   |                                         |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements. | 112                           |                                   |                                   | (112)                                   |
| <b>Adjustment primarily involving the accumulated absences account</b>                                                                                                                                    |                               |                                   |                                   |                                         |
| Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements                   | 15                            |                                   |                                   | (15)                                    |
| <b>Total adjustments</b>                                                                                                                                                                                  | <b>(2,251)</b>                | <b>22</b>                         | <b>(513)</b>                      | <b>2,742</b>                            |

WORCESTER CITY COUNCIL  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2011

**6. Adjustments between accounting basis and funding basis under regulations (cont'd)**

|                                                                                                                                                                                                           | Usable Reserves 2009/10       |                                   |                                   |                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-----------------------------------|-----------------------------------|-----------------------------------------|
|                                                                                                                                                                                                           | General Fund Balance<br>£000s | Capital Receipts Reserve<br>£000s | Capital Grants Unapplied<br>£000s | Movements in unusable reserves<br>£000s |
| <b>Adjustments involving the Capital Adjustment Account</b>                                                                                                                                               |                               |                                   |                                   |                                         |
| <i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i>                                                                                                       |                               |                                   |                                   |                                         |
| Changes for depreciation and impairment of non current assets                                                                                                                                             | 10,929                        |                                   |                                   | (10,929)                                |
| Revenue expenditure funded from capital under statute                                                                                                                                                     | 146                           |                                   |                                   | (146)                                   |
| Statutory Provision for repayment of Debt                                                                                                                                                                 | (472)                         |                                   |                                   | 472                                     |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement                                                  |                               | 335                               |                                   | (335)                                   |
| <i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>                                                                                                  |                               |                                   |                                   |                                         |
| Payments to Housing Capital Receipts Pool                                                                                                                                                                 | 3                             | (3)                               |                                   |                                         |
| <b>Adjustments involving the capital grants unapplied account</b>                                                                                                                                         |                               |                                   |                                   |                                         |
| Capital grants and contributions unapplied credited to the CIES                                                                                                                                           | (564)                         |                                   | 564                               |                                         |
| Application of grants to capital financing transferred to the Capital Adjustment Account                                                                                                                  |                               |                                   | (1,814)                           | 1,814                                   |
| <b>Adjustments involving the capital receipts reserve</b>                                                                                                                                                 |                               |                                   |                                   |                                         |
| Transfer of sale proceeds as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement                                                                                      | (255)                         | 255                               |                                   |                                         |
| Use of the Capital Receipts Reserve to finance new capital expenditure                                                                                                                                    |                               | (1,020)                           |                                   | 1,020                                   |
| <b>Adjustments involving the pensions reserve</b>                                                                                                                                                         |                               |                                   |                                   |                                         |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement.                                                                              | 3,261                         |                                   |                                   | (3,261)                                 |
| Employers' pension contributions and direct payments to pensioners payable in the year                                                                                                                    | (1,795)                       |                                   |                                   | 1,795                                   |
| <b>Adjustments involving the Collection Fund adjustment account</b>                                                                                                                                       |                               |                                   |                                   |                                         |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements. | (69)                          |                                   |                                   | 69                                      |
| <b>Adjustment primarily involving the accumulated absences account</b>                                                                                                                                    |                               |                                   |                                   |                                         |
| Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements                   | (13)                          |                                   |                                   | 13                                      |
| <b>Total Adjustments</b>                                                                                                                                                                                  | <b>11,171</b>                 | <b>(433)</b>                      | <b>(1,250)</b>                    | <b>(9,488)</b>                          |



**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2011

**7. Earmarked Reserves**

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back earmarked reserves to meet General Fund expenditure in 2011/12.

|                                      | Balance at<br>31st March<br>2009<br>£000's | Transferred<br>in<br>£000's | Transferred<br>out<br>£000's | Balance at<br>31st March<br>2010<br>£000's | Transferred<br>in<br>£000's | Transferred<br>out<br>£000's | Balance at<br>31st March<br>2011<br>£000's | Purpose of reserve                                           |
|--------------------------------------|--------------------------------------------|-----------------------------|------------------------------|--------------------------------------------|-----------------------------|------------------------------|--------------------------------------------|--------------------------------------------------------------|
| <b><u>Revenue Reserves</u></b>       |                                            |                             |                              |                                            |                             |                              |                                            |                                                              |
| Pension Backfunding                  |                                            | 106                         |                              | <b>106</b>                                 | <b>144</b>                  |                              | <b>250</b>                                 | for pension liability funding                                |
| Planning                             |                                            | 58                          |                              | <b>58</b>                                  |                             | (10)                         | <b>48</b>                                  | for town centre improvement scheme                           |
| Environmental Health                 | 15                                         | 3                           | (4)                          | <b>14</b>                                  |                             | (14)                         | <b>41</b>                                  | for various initiatives to improve cleaner & greener service |
| Operational Services                 | 88                                         | 5                           | (31)                         | <b>62</b>                                  | <b>2</b>                    | (23)                         | <b>41</b>                                  | for crematorium and parks improvements                       |
| Parks & Open Spaces                  | 40                                         |                             | (21)                         | <b>19</b>                                  |                             | (11)                         | <b>8</b>                                   |                                                              |
| Planning Appeals                     | 4                                          |                             | (4)                          | <b>0</b>                                   |                             |                              |                                            |                                                              |
| Mayor's Allowance                    | 3                                          |                             | (3)                          | <b>0</b>                                   |                             |                              |                                            |                                                              |
| Land Charges                         | 22                                         | 18                          |                              | <b>40</b>                                  |                             |                              | <b>40</b>                                  | for a ring-fenced programme                                  |
| Building Control                     | 104                                        | 9                           |                              | <b>113</b>                                 |                             | (30)                         | <b>83</b>                                  | for a rolling 3 year ring-fenced programme                   |
| Recreational Improvements            | 136                                        | 30                          | (59)                         | <b>107</b>                                 | <b>30</b>                   | (18)                         | <b>119</b>                                 | for recreational improvements plan                           |
| Occupational Health                  | 18                                         |                             | (18)                         | <b>0</b>                                   |                             |                              |                                            |                                                              |
| Three Choir/Elgar Choral Festivals   |                                            | 8                           |                              | <b>8</b>                                   | <b>8</b>                    |                              | <b>16</b>                                  | for agreed contribution                                      |
| Central Training                     | 11                                         | 15                          |                              | <b>26</b>                                  |                             | (26)                         | <b>15</b>                                  | for acquisition of exhibits and initiatives                  |
| Art & Museum Specimens               | 15                                         |                             |                              | <b>15</b>                                  |                             |                              | <b>15</b>                                  |                                                              |
| Business Transformation              |                                            | 130                         |                              | <b>130</b>                                 |                             | (130)                        | <b>29</b>                                  | for initiatives to improve climate change performance        |
| Climate Change Initiatives           | 23                                         | 17                          |                              | <b>40</b>                                  |                             | (11)                         | <b>29</b>                                  |                                                              |
| Revenues & Benefits                  | 30                                         |                             |                              | <b>30</b>                                  |                             | (30)                         |                                            |                                                              |
| Priority Projects Reserve            |                                            |                             |                              | <b>0</b>                                   | <b>1,550</b>                |                              | <b>1,550</b>                               | for priority investments for Worcester                       |
| Environment Warranty Insurance       | 928                                        | 57                          |                              | <b>985</b>                                 |                             |                              | <b>985</b>                                 | for insurance premiums and claims on former housing land     |
| Subtotal Revenue Reserves            | 1,437                                      | 456                         | (140)                        | <b>1,753</b>                               | 1,734                       | (303)                        | <b>3,184</b>                               |                                                              |
| <b><u>Capital/Other Reserves</u></b> |                                            |                             |                              |                                            |                             |                              |                                            |                                                              |
| IT Investment                        | 342                                        |                             | (183)                        | <b>159</b>                                 |                             | (159)                        |                                            |                                                              |
| Vehicle Replacement                  | 310                                        |                             | (310)                        | <b>0</b>                                   |                             |                              |                                            |                                                              |
| Nunnery Lane Deposits                | 18                                         | 1                           |                              | <b>19</b>                                  |                             |                              | <b>19</b>                                  | for developer deposits towards making up road                |
| Guildhall Floodlights & Tourism      | 30                                         |                             |                              | <b>30</b>                                  |                             |                              | <b>30</b>                                  | for Guildhall improvements                                   |
| Subtotal Capital/Other Reserves      | 700                                        | 1                           | (493)                        | <b>208</b>                                 | <b>0</b>                    | (159)                        | <b>49</b>                                  |                                                              |
| <b>Total Earmarked Reserves</b>      | <b>2,137</b>                               | <b>457</b>                  | <b>(633)</b>                 | <b>1,961</b>                               | <b>1,734</b>                | <b>(462)</b>                 | <b>3,233</b>                               |                                                              |

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|                                                               | 2010/11<br>£000's | 2009/10<br>£000's |
|---------------------------------------------------------------|-------------------|-------------------|
| <b>8. Other operating expenditure</b>                         |                   |                   |
| Parish council precepts                                       | 101               | 95                |
| Payments to the Government Housing Capital Receipts Pool      | 1                 | 3                 |
| Gains on the disposal of non-current assets                   | (175)             | (255)             |
| Total                                                         | <u>(73)</u>       | <u>(157)</u>      |
| <b>9. Financing and investment income and expenditure</b>     |                   |                   |
| Interest payable and similar charges                          | 371               | 327               |
| Pensions interest cost and expected return on pensions assets | 1,275             | 2,131             |
| Interest receivable and similar income                        | (446)             | (206)             |
| Other investment income                                       | (149)             | (149)             |
| Total                                                         | <u>1,051</u>      | <u>2,103</u>      |
| <b>10. Taxation and non specific grant incomes</b>            |                   |                   |
| Council tax income                                            | (5,396)           | (5,281)           |
| Non-domestic rates                                            | (7,154)           | (6,623)           |
| Non-ringfenced government grants                              | (1,039)           | (1,528)           |
| Total                                                         | <u>(13,589)</u>   | <u>(13,432)</u>   |

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**11. Movement on non-current assets**

The movement in the Council's non-current asset base is detailed in the table below. All of the assets of the Council were employed in 2010/11 by services contained within the Comprehensive Income and Expenditure Statement.

|                                                                            | Land and Buildings | Vehicles, Plant & Equipment | Community Assets | Assets under Construction | Total Property Plant & Equipment | Investment Assets |
|----------------------------------------------------------------------------|--------------------|-----------------------------|------------------|---------------------------|----------------------------------|-------------------|
|                                                                            | £000               | £000                        | £000             | £000                      | £000                             | £000              |
| <b><u>Cost or valuation</u></b>                                            |                    |                             |                  |                           |                                  |                   |
| <b>At 1 April 2010</b>                                                     | <b>58,957</b>      | <b>10,429</b>               | <b>409</b>       | <b>852</b>                | <b>70,647</b>                    | <b>3,260</b>      |
| Additions                                                                  |                    | 538                         |                  | 594                       | 1,132                            |                   |
| Revaluation increases/(decreases) to revaluation reserve                   | 884                |                             |                  |                           | 884                              | (130)             |
| Revaluation increases/(decreases) to surplus/deficit on provision services | (123)              | (378)                       |                  |                           | (501)                            | 449               |
| Derecognition - disposals                                                  |                    | (9)                         |                  |                           | (9)                              |                   |
| Derecognitions - other                                                     |                    | (10)                        |                  |                           | (10)                             |                   |
| Other reclassifications                                                    |                    | 1,003                       |                  | (1,003)                   | -                                |                   |
| <b>At 31 March 2011</b>                                                    | <b>59,718</b>      | <b>11,573</b>               | <b>409</b>       | <b>443</b>                | <b>72,143</b>                    | <b>3,579</b>      |
| <b><u>Accumulated depreciation</u></b>                                     |                    |                             |                  |                           |                                  |                   |
| <b>At 1 April 2010</b>                                                     | <b>3,825</b>       | <b>4,874</b>                |                  |                           | <b>8,699</b>                     |                   |
| Depreciation charge for year                                               | 982                | 1,122                       |                  |                           | 2,104                            |                   |
| Depreciation written out to the revaluation reserve                        | (461)              |                             |                  |                           | (461)                            |                   |
| Derecognition – disposals                                                  |                    | (2)                         |                  |                           | (2)                              |                   |
| Derecognition – other                                                      |                    | (6)                         |                  |                           | (6)                              |                   |
| <b>At 31 March 2011</b>                                                    | <b>4,346</b>       | <b>5,988</b>                | <b>-</b>         | <b>-</b>                  | <b>10,334</b>                    | <b>-</b>          |
| <b><u>Net book value</u></b>                                               |                    |                             |                  |                           |                                  |                   |
| <b>At 31 March 2011</b>                                                    | <b>55,372</b>      | <b>5,585</b>                | <b>409</b>       | <b>443</b>                | <b>61,809</b>                    | <b>3,579</b>      |
| At 31 March 2010                                                           | 55,132             | 5,555                       | 409              | 852                       | 61,948                           | 3,260             |

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11. Movement on non-current assets (cont'd)

|                                                                            | Land and Buildings | Vehicles, Plant & Equipment | Community Assets | Assets under Construction | Total Property Plant & Equipment | Investment Assets |
|----------------------------------------------------------------------------|--------------------|-----------------------------|------------------|---------------------------|----------------------------------|-------------------|
|                                                                            | £000               | £000                        | £000             | £000                      | £000                             | £000              |
| <b><u>Cost or valuation</u></b>                                            |                    |                             |                  |                           |                                  |                   |
| <b>At 1 April 2009</b>                                                     | 62,343             | 9,684                       | 379              | 393                       | <b>72,799</b>                    | <b>3,905</b>      |
| Additions                                                                  |                    | 917                         |                  | 1,270                     | <b>2,187</b>                     |                   |
| Revaluation increases/(decreases) to revaluation reserve                   | 3,822              |                             | 30               |                           | <b>3,852</b>                     | 19                |
| Revaluation increases/(decreases) to surplus/deficit on provision services | (8,019)            |                             |                  |                           | <b>(8,019)</b>                   | (329)             |
| Derecognition - disposals                                                  |                    | (172)                       |                  |                           | <b>(172)</b>                     | (335)             |
| Other reclassifications                                                    | 811                |                             |                  | (811)                     |                                  |                   |
| <b>At 31 March 2010</b>                                                    | <b>58,957</b>      | <b>10,429</b>               | <b>409</b>       | <b>852</b>                | <b>70,647</b>                    | <b>3,260</b>      |
| <b><u>Accumulated depreciation</u></b>                                     |                    |                             |                  |                           |                                  |                   |
| <b>At 1 April 2009</b>                                                     | 2,957              | 3,489                       |                  |                           | <b>6,446</b>                     |                   |
| Depreciation charge for year                                               | 868                | 1,557                       |                  |                           | <b>2,425</b>                     |                   |
| Derecognition – disposals                                                  |                    | (172)                       |                  |                           | <b>(172)</b>                     |                   |
| <b>At 31 March 2010</b>                                                    | <b>3,825</b>       | <b>4,874</b>                |                  |                           | <b>8,699</b>                     |                   |
| <b><u>Net Book Value</u></b>                                               |                    |                             |                  |                           |                                  |                   |
| <b>At 31 March 2010</b>                                                    | <b>55,132</b>      | <b>5,555</b>                | <b>409</b>       | <b>852</b>                | <b>61,948</b>                    | <b>3,260</b>      |
| At 31 March 2009                                                           | 59,386             | 6,195                       | 379              | 393                       | <b>66,353</b>                    | 3,905             |

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**11. Movement on non-current assets (cont'd)**

| <b>Capital commitments</b>     | <b>at 31 March 2011</b> |                                | <b>at 31 March 2010</b> |                                |
|--------------------------------|-------------------------|--------------------------------|-------------------------|--------------------------------|
|                                | <b>Approved schemes</b> | <b>Contractual commitments</b> | <b>Approved schemes</b> | <b>Contractual commitments</b> |
|                                | <b>£000</b>             | <b>£000</b>                    | <b>£000</b>             | <b>£000</b>                    |
| Housing renovation             | <b>1,076</b>            |                                | 577                     | 21                             |
| Riverside improvements         | <b>570</b>              | <b>434</b>                     | 717                     | 1                              |
| ICT investment                 | <b>586</b>              |                                | 875                     | 130                            |
| Vehicle/plant/bin replacements | <b>2,395</b>            |                                | 2,459                   | 56                             |
| Gheluvelt park                 | <b>84</b>               | <b>84</b>                      | 531                     | 73                             |
| Play areas                     |                         |                                | 300                     | 2                              |
| Swan Theatre                   |                         |                                | -                       | 11                             |
|                                | <b>4,711</b>            | <b>518</b>                     | 5,459                   | 294                            |

**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.

|                                    | <b>2010/11</b>    | 2009/10    |
|------------------------------------|-------------------|------------|
|                                    | <b>Increase/</b>  | Increase/  |
|                                    | <b>(decrease)</b> | (decrease) |
|                                    | <b>£000</b>       | £000       |
| Revaluations and impairments were: |                   |            |
| <u>Operational Properties</u>      |                   |            |
| Community centres                  |                   | (1,363)    |
| Sports centres/swimming pool       | <b>800</b>        | (1,431)    |
| Car parks                          |                   | 1,081      |
| Depots                             |                   | (476)      |
| Offices                            |                   | (1,347)    |
| Other                              | <b>(39)</b>       | (331)      |
| <u>Non-operational properties</u>  |                   |            |
| Buildings                          | <b>320</b>        | (702)      |

**12. Investment properties**

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

|                                        | <b>2010/11</b> | 2009/10 |
|----------------------------------------|----------------|---------|
|                                        | <b>£000's</b>  | £000's  |
| Rental income from investment property | <b>(149)</b>   | (149)   |
| <b>Net gain</b>                        | <b>(149)</b>   | (149)   |

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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**13. 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 14. The Council has short term investments but no long term investments. The Council's borrowings (financial liabilities) are detailed in note 15. 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 nominal value plus accrued interest. 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 actual over 365 days
- 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 2011) for an instrument with the same duration, same structure and terms (or as similar as possible).

Accrued interest to 31 March 2011 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 2011 using bid prices where applicable.

Fair values as at 31 March 2011 are set out below:

|                                 | Nominal<br>Value<br>£000 | <b>Balance<br/>Sheet<br/>£000</b> | Fair<br>Value<br>£000 |
|---------------------------------|--------------------------|-----------------------------------|-----------------------|
| Financial asset - investments   | 8,150                    | <b>8,150</b>                      | 8,178                 |
| Financial liability - LOBO loan | 5,000                    | <b>5,073</b>                      | 5,816                 |
| Financial liability - PWLB loan | 2,570                    | <b>2,598</b>                      | 2,539                 |

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 2011.

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.

### 13. 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.

### **13. 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 17 below.

#### **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.



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**14. 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:

|                                                  | <b>2010/11</b>      | 2009/10      |
|--------------------------------------------------|---------------------|--------------|
|                                                  | <b>£000's</b>       | £000's       |
| Bank/Building Society balances at amortised cost | <b>3,150</b>        | 3,557        |
|                                                  | <b><u>3,150</u></b> | <u>3,557</u> |

**15. Long term borrowing**

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

|                                | <b>2010/11</b>      | 2009/10      |
|--------------------------------|---------------------|--------------|
|                                | <b>£000's</b>       | £000's       |
| P.W.L.B.                       | <b>2,598</b>        | 2,631        |
| Money market                   | <b>5,073</b>        | 5,073        |
|                                | <b><u>7,671</u></b> | <u>7,704</u> |
| Maturing within one year       | <b>5,134</b>        | 5,134        |
| Maturing in 1-2 years          | <b>48</b>           | 65           |
| Maturing in 2-5 years          | <b>122</b>          | 138          |
| Maturing in 5-10 years         | <b>220</b>          | 220          |
| Maturing in more than 10 years | <b>2,147</b>        | 2,147        |
|                                | <b><u>7,671</u></b> | <u>7,704</u> |

**16. Inventories**

|                        | <b>2010/11</b>   | 2009/10   |
|------------------------|------------------|-----------|
|                        | <b>£000's</b>    | £000's    |
| IT consumables         | <b>10</b>        | 12        |
| Stock for resale       | <b>4</b>         | 20        |
| Other operations stock | <b>31</b>        | 27        |
|                        | <b><u>45</u></b> | <u>59</u> |

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| <b>17. Debtors</b>                 | <b>2010/11</b><br><b>£000's</b> | 2009/10<br>£000's |
|------------------------------------|---------------------------------|-------------------|
| Council taxpayers                  | 105                             | 267               |
| Government departments             | 1,808                           | 3,998             |
| Local authorities                  | 284                             | 58                |
| Worcester Community Housing        | 150                             | 324               |
| Payments in advance                | 50                              | 89                |
| Other debtors                      | <u>3,081</u>                    | <u>2,810</u>      |
|                                    | <b>5,478</b>                    | <b>7,546</b>      |
| Less: provision for doubtful debts | <u>(614)</u>                    | <u>(633)</u>      |
|                                    | <b>4,864</b>                    | <b>6,913</b>      |

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.

**18. Cash and cash equivalents**

The balance of cash and cash equivalents is made up of the following elements:

|                                   | <b>2010/11</b><br><b>£000's</b> | 2009/10<br>£000's |
|-----------------------------------|---------------------------------|-------------------|
| Cash and bank held by the Council | 1,771                           | 766               |
| Short term investments            | <u>5,000</u>                    | <u>2,600</u>      |
|                                   | <b>6,771</b>                    | <b>3,366</b>      |

**19. Assets held for sale**

|                                          | <b>Current</b>                  |                   | <b>Non Current</b>              |                   |
|------------------------------------------|---------------------------------|-------------------|---------------------------------|-------------------|
|                                          | <b>2010/11</b><br><b>£000's</b> | 2009/10<br>£000's | <b>2010/11</b><br><b>£000's</b> | 2009/10<br>£000's |
| <b>Opening balance</b>                   | 269                             | 347               | -                               | -                 |
| Assets newly classified as held for sale |                                 | (78)              |                                 |                   |
| Transfers from non-current to current    |                                 |                   | -                               | -                 |
| Property, Plant & Equipment disposals    | (169)                           |                   |                                 |                   |
| <b>Closing balance</b>                   | <u>100</u>                      | <u>269</u>        | <u>-</u>                        | <u>-</u>          |

| <b>20. Creditors</b>             | <b>2010/11</b><br><b>£000's</b> | 2009/10<br>£000's |
|----------------------------------|---------------------------------|-------------------|
| Government departments           | 645                             | 1,492             |
| Local Authorities                | 1,599                           | 776               |
| Receipts in advance              | 2,706                           | 2,397             |
| Section 106 planning obligations | 2,033                           | 2,356             |
| Other creditors                  | <u>1,898</u>                    | <u>2,383</u>      |
|                                  | <b>8,881</b>                    | <b>9,404</b>      |

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| <b>21. Unusable reserves</b>                         | <b>2010/11</b>       | 2009/10       |
|------------------------------------------------------|----------------------|---------------|
|                                                      | <b>£000's</b>        | £000's        |
| Revaluation Reserve                                  | <b>11,565</b>        | 10,249        |
| Capital Adjustment Account                           | <b>46,358</b>        | 46,906        |
| Pensions Reserve                                     | <b>(24,884)</b>      | (33,787)      |
| Collection Fund Adjustment Account                   | <b>(45)</b>          | 67            |
| Accumulating Compensated Absences Adjustment Account | <b>(199)</b>         | (184)         |
| Deferred Capital Receipts                            | <b>5</b>             | 7             |
|                                                      | <b><u>32,799</u></b> | <u>23,257</u> |

**Revaluation Reserve**

The revaluation reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

|                                         | <b>2010/11</b>       | 2009/10       |
|-----------------------------------------|----------------------|---------------|
|                                         | <b>£000's</b>        | £000's        |
| <b>Balance at 1<sup>st</sup> April</b>  | <b>10,249</b>        | 6,300         |
| Upward revaluation of assets            | <b>1,316</b>         | 3,949         |
| <b>Balance at 31<sup>st</sup> March</b> | <b><u>11,565</u></b> | <u>10,249</u> |

**Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

WORCESTER CITY COUNCIL  
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**21. Unusable Reserves (cont'd)**

**Capital Adjustment Account (cont'd)**

|                                                                                                                                             | 2010/11<br>£000's    | Restated<br>2009/10<br>£000's |
|---------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------------------|
| <b>Balance at 1<sup>st</sup> April</b>                                                                                                      | <b>46,906</b>        | 54,518                        |
| <i><b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b></i>  |                      |                               |
| Charges for depreciation and impairment of non current assets                                                                               | <b>(2,256)</b>       | (10,929)                      |
| Revenue expenditure funded from capital under statute                                                                                       | <b>(57)</b>          | (146)                         |
| Statutory provision for repayment of debt                                                                                                   | <b>502</b>           | 472                           |
| Amounts of non current assets written off on disposal as part of the gain on disposal to the Comprehensive Income and Expenditure Statement | <b>(179)</b>         | (335)                         |
| <i><b>Capital financing applied in the year:</b></i>                                                                                        |                      |                               |
| Use of the Capital Receipts Reserve to finance new capital expenditure                                                                      | <b>333</b>           | 1,020                         |
| Capital Contributions                                                                                                                       | <b>99</b>            |                               |
| Use of earmarked reserves                                                                                                                   | <b>160</b>           | 492                           |
| Application of grants to capital financing from the Capital Grants unapplied account                                                        | <b>850</b>           | 1,814                         |
| <b>Balance at 31<sup>st</sup> March</b>                                                                                                     | <b><u>46,358</u></b> | <u>46,906</u>                 |

**Deferred Capital Receipts**

These debts relate to loans for the purchase and improvement of Council House dwellings. Loans are no longer given for these purposes.

|                                  | 2010/11<br>£000's | 2009/10<br>£000's |
|----------------------------------|-------------------|-------------------|
| <b>Opening Balance</b>           | <b>7</b>          | 11                |
| Council house purchaser payments | <b>(2)</b>        | (4)               |
| <b>Closing Balance</b>           | <b><u>5</u></b>   | <u>7</u>          |

**Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to the pension fund or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

**WORCESTER CITY COUNCIL**  
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For the year ended 31st March 2011

**21. Unusable Reserves (cont)**

**Pensions Reserve (cont'd)**

|                                                                                                                                                                                    | <b>2010/11</b>         | 2009/10         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-----------------|
|                                                                                                                                                                                    | <b>£000's</b>          | £000's          |
| <b>Balance at 1<sup>st</sup> April</b>                                                                                                                                             | <b>(33,787)</b>        | (27,618)        |
| Actuarial gains or losses on pension assets and liabilities                                                                                                                        | <b>5,225</b>           | (4,703)         |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | <b>2,221</b>           | (3,261)         |
| Employer's pension contributions and direct payments to pensioners payable in the year                                                                                             | <b>1,457</b>           | 1,795           |
| <b>Balance at 31<sup>st</sup> March</b>                                                                                                                                            | <b><u>(24,884)</u></b> | <u>(33,787)</u> |

**Collection Fund Adjustment Account**

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

|                                                                                                                                                                                                          | <b>2010/11</b>     | 2009/10   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------|
|                                                                                                                                                                                                          | <b>£000's</b>      | £000's    |
| <b>Balance at 1<sup>st</sup> April</b>                                                                                                                                                                   | <b>67</b>          | (2)       |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | <b>(112)</b>       | 69        |
| <b>Balance at 31<sup>st</sup> March</b>                                                                                                                                                                  | <b><u>(45)</u></b> | <u>67</u> |

**Accumulating Compensated Absences Adjustment Account**

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

|                                                                                                                                                                                                                         | <b>2010/11</b>      | 2009/10      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|--------------|
|                                                                                                                                                                                                                         | <b>£000's</b>       | £000's       |
| <b>Balance at 1st April</b>                                                                                                                                                                                             | <b>(184)</b>        | (197)        |
| Amounts accrued at the end of the current year                                                                                                                                                                          |                     |              |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | <b>(15)</b>         | 13           |
| <b>Balance at 31st March</b>                                                                                                                                                                                            | <b><u>(199)</u></b> | <u>(184)</u> |

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For the year ended 31st March 2011

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**22. Cash Flow Statement - operating activities**

The cash flows for operating activities include the following items:

|                   | <b>2010/11</b>     | 2009/10    |
|-------------------|--------------------|------------|
|                   | <b>£000's</b>      | £000's     |
| Interest received | <b>(446)</b>       | (206)      |
| Interest paid     | <b>371</b>         | 327        |
|                   | <b><u>(75)</u></b> | <u>121</u> |

**23. Cash Flow Statement - investing activities**

|                                                                                 | <b>2010/11</b>    | 2009/10      |
|---------------------------------------------------------------------------------|-------------------|--------------|
|                                                                                 | <b>£000's</b>     | £000's       |
| Purchase of property, plant and equipment                                       | <b>1,132</b>      | 2,186        |
| Other payments for investing activities                                         | <b>554</b>        | 545          |
| Payments to capital receipts pool                                               | <b>1</b>          | 3            |
| Proceeds from the sale of property, plant and equipment and investment property | <b>(357)</b>      | (590)        |
| Capital grants received                                                         | <b>(337)</b>      | (564)        |
| Other receipts from Investing Activities                                        | <b>(497)</b>      | (399)        |
| <b>Net cash flows from investing activities</b>                                 | <b><u>496</u></b> | <u>1,181</u> |

**24. Cash Flow Statement - financing activities**

|                                                | <b>2010/11</b>      | 2009/10      |
|------------------------------------------------|---------------------|--------------|
|                                                | <b>£000's</b>       | £000's       |
| Cash receipts of short and long term borrowing | -                   | -            |
| Other receipts from financing activities       | -                   | 2,407        |
| Repayments of short and long-term borrowing    | <b>71</b>           | 2            |
| Other payments for financing activities        | <b>(407)</b>        | -            |
| <b>Net Cash Flow from financing activities</b> | <b><u>(336)</u></b> | <u>2,409</u> |

**25. Members allowances**

The amount paid to members for basic allowances, special responsibility allowances, attendance allowances, travel and subsistence in 2010/11 was £199,700 (2009/10: £188,288).

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**25. Amounts reported for resource allocation decisions**

The following tables detail the Council's net revenue expenditure by service as reported under management reporting arrangements and how this reconciles to the comprehensive income and expenditure statement and the subjective analysis within the explanatory forward.

| <b>Segmental Analysis</b>            | <b>Managing Director</b> | <b>Corporate Director - Service Delivery</b> | <b>Corporate Director - Commissioning, Customer Service &amp; Communication</b> | <b>Total</b>  |
|--------------------------------------|--------------------------|----------------------------------------------|---------------------------------------------------------------------------------|---------------|
|                                      | <b>£000's</b>            | <b>£000's</b>                                | <b>£000's</b>                                                                   | <b>£000's</b> |
| <b>2010/11</b>                       |                          |                                              |                                                                                 |               |
| Fees, charges & other service income | (778)                    | (11,575)                                     | (1,763)                                                                         | (14,116)      |
| Government grants                    | (34,872)                 | (692)                                        | (17)                                                                            | (35,581)      |
| Employee expenses                    | 1,775                    | 7,464                                        | 2,325                                                                           | 11,564        |
| Other expenses                       | 35,955                   | 5,851                                        | 6,974                                                                           | 48,780        |
| Support service recharges            | (5,186)                  | 3,512                                        | 1,674                                                                           | 0             |
| <b>Net cost of services</b>          | <b>(3,106)</b>           | <b>4,560</b>                                 | <b>9,193</b>                                                                    | <b>10,647</b> |
| <b>2009/10</b>                       |                          |                                              |                                                                                 |               |
| Fees, charges & other service income | (837)                    | (12,372)                                     | (746)                                                                           | (13,955)      |
| Government grants                    | (32,351)                 | (548)                                        |                                                                                 | (32,899)      |
| Employee expenses                    | 1,203                    | 8,395                                        | 2,391                                                                           | 11,989        |
| Other expenses                       | 36,571                   | 7,391                                        | 1,510                                                                           | 45,472        |
| Support service recharges            | (1,540)                  | 3,895                                        | (2,355)                                                                         | 0             |
| <b>Net cost of services</b>          | <b>3,046</b>             | <b>6,761</b>                                 | <b>800</b>                                                                      | <b>10,607</b> |

**Reconciliation to net cost of services in comprehensive income and expenditure statement**

|                                                                               | <b>2010/11</b> | <b>2009/10</b> |
|-------------------------------------------------------------------------------|----------------|----------------|
|                                                                               | <b>£000's</b>  | <b>£000's</b>  |
| Net cost of service from segmental analysis                                   | <b>10,647</b>  | 10,607         |
| Add amounts not reported to management                                        | <b>(1,837)</b> | 11,627         |
| <b>Net cost of services in Comprehensive Income and Expenditure Statement</b> | <b>8,810</b>   | 22,234         |

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**25. Amounts reported for resource allocation decisions (cont)**

**Reconciliation to subjective analysis**

|                                                       | Segmental<br>Analysis | Not reported<br>to<br>Management | Net Cost of<br>Services | Corporate<br>Amounts | Total           |
|-------------------------------------------------------|-----------------------|----------------------------------|-------------------------|----------------------|-----------------|
|                                                       | £000                  | £000                             | £000                    | £000                 | £000            |
| <b>2010/11</b>                                        |                       |                                  |                         |                      |                 |
| Housing and council tax benefits                      | (34,139)              |                                  | <b>(34,139)</b>         |                      | <b>(34,139)</b> |
| Benefits administration                               | (692)                 |                                  | <b>(692)</b>            |                      | <b>(692)</b>    |
| Other government grants                               | (709)                 |                                  | <b>(709)</b>            | (8,193)              | <b>(8,902)</b>  |
| Interest and investment income                        |                       |                                  | <b>0</b>                | 1,135                | <b>1,135</b>    |
| Rents                                                 | (952)                 |                                  | <b>(952)</b>            | (149)                | <b>(1,101)</b>  |
| Sales, fees and charges                               | (7,972)               |                                  | <b>(7,972)</b>          |                      | <b>(7,972)</b>  |
| Other income                                          | (4,807)               | (4,703)                          | <b>(9,510)</b>          | (306)                | <b>(9,816)</b>  |
| Income from council tax                               |                       |                                  | <b>-</b>                | (5,396)              | <b>(5,396)</b>  |
| <b>Total income</b>                                   | <b>(49,271)</b>       | <b>(4,703)</b>                   | <b>(53,974)</b>         | <b>(12,909)</b>      | <b>(66,883)</b> |
| Employee expenses                                     | 11,565                |                                  | <b>11,565</b>           |                      | <b>11,565</b>   |
| Premises related expenses                             | 1,874                 |                                  | <b>1,874</b>            |                      | <b>1,874</b>    |
| Transport related expenses                            | 969                   |                                  | <b>969</b>              |                      | <b>969</b>      |
| Supplies and services                                 | 2,347                 |                                  | <b>2,347</b>            | 373                  | <b>2,720</b>    |
| Third party payments                                  | 10,162                |                                  | <b>10,162</b>           |                      | <b>10,162</b>   |
| Transfer payments                                     | 33,001                |                                  | <b>33,001</b>           | (75)                 | <b>32,926</b>   |
| Capital charges                                       |                       | 2,866                            | <b>2,866</b>            |                      | <b>2,866</b>    |
| <b>Gross cost of services</b>                         | <b>59,918</b>         | <b>2,866</b>                     | <b>62,784</b>           | <b>298</b>           | <b>63,082</b>   |
| <b>(Surplus)/deficit on the provision of services</b> | <b>10,647</b>         | <b>(1,837)</b>                   | <b>8,810</b>            | <b>(13,207)</b>      | <b>(3,801)</b>  |
| <b>2009/10</b>                                        |                       |                                  |                         |                      |                 |
| Housing and council tax benefits                      | (31,109)              |                                  | <b>(31,109)</b>         |                      | <b>(31,109)</b> |
| Benefits administration                               | (648)                 |                                  | <b>(648)</b>            |                      | <b>(648)</b>    |
| Other government grants                               | (1,143)               |                                  | <b>(1,143)</b>          | (8,152)              | <b>(9,295)</b>  |
| Interest and investment income                        |                       |                                  | <b>0</b>                | 1,925                | <b>1,925</b>    |
| Rents                                                 | (887)                 |                                  | <b>(887)</b>            | (149)                | <b>(1,036)</b>  |
| Sales, fees and charges                               | (8,268)               |                                  | <b>(8,268)</b>          |                      | <b>(8,268)</b>  |
| Other income                                          | (4,800)               |                                  | <b>(4,800)</b>          |                      | <b>(4,800)</b>  |
| Income from council tax                               |                       |                                  | <b>-</b>                | (5,279)              | <b>(5,279)</b>  |
| <b>Total income</b>                                   | <b>(46,855)</b>       | <b>-</b>                         | <b>(46,855)</b>         | <b>(11,655)</b>      | <b>(58,510)</b> |
| Employee expenses                                     | 11,876                | 113                              | <b>11,989</b>           |                      | <b>11,989</b>   |
| Premises related expenses                             | 2,932                 |                                  | <b>2,932</b>            |                      | <b>2,932</b>    |
| Transport related expenses                            | 1,598                 |                                  | <b>1,598</b>            |                      | <b>1,598</b>    |
| Supplies and services                                 | 3,763                 |                                  | <b>3,763</b>            | 327                  | <b>4,090</b>    |
| Third party payments                                  | 6,099                 |                                  | <b>6,099</b>            |                      | <b>6,099</b>    |
| Transfer payments                                     | 31,193                |                                  | <b>31,193</b>           | (157)                | <b>31,036</b>   |
| Capital charges                                       |                       | 11,514                           | <b>11,514</b>           |                      | <b>11,514</b>   |
| <b>Gross cost of services</b>                         | <b>57,461</b>         | <b>11,627</b>                    | <b>69,088</b>           | <b>170</b>           | <b>69,258</b>   |
| <b>(Surplus)/deficit on the provision of services</b> | <b>10,606</b>         | <b>11,627</b>                    | <b>22,233</b>           | <b>(11,825)</b>      | <b>10,748</b>   |



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**26. 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 |          |
|---------------------|---------------------|----------|
|                     | 2010/11             | 2009/10  |
| £50,000 - £54,999   | 5                   | -        |
| £54,999 - £59,999   | 1                   | 1        |
| £60,000 - £64,999   | -                   | 1        |
| £65,000 - £69,999   | -                   | -        |
| £70,000 - £74,999   | 2                   | -        |
| £75,000 - £79,999   | -                   | 5        |
| £80,000 - £84,999   | -                   | 1        |
| £85,000 - £89,999   | -                   | -        |
| £105,000 - £109,999 | 1                   | 1        |
|                     | <u>9</u>            | <u>9</u> |

Remuneration for these purposes includes all amounts paid to or receivable by an employee, and includes sums by way of allowances and the money value of any other benefits received other than in cash.

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

|                                                          | 2010/11                              |                        |                   |                               |                |
|----------------------------------------------------------|--------------------------------------|------------------------|-------------------|-------------------------------|----------------|
|                                                          | Salary, Allowances,<br>Benefits<br>£ | Loss of<br>Office<br>£ | Sub<br>Total<br>£ | Pension<br>Contributions<br>£ | Total<br>£     |
| <b>Post Title</b>                                        |                                      |                        |                   |                               |                |
| Managing Director                                        | 105,824                              | -                      | 105,824           | 21,164                        | 126,988        |
| Corporate Director Commissioning,<br>Customer Services & | 40,402                               | -                      | 40,402            | 8,080                         | 48,482         |
| Head of Cleaner & Greener                                | 74,583                               | -                      | 74,583            | 14,488                        | 89,071         |
| Head of Governance & Corporate<br>Support                | 55,346                               | 38,165                 | 74,583            | 10,865                        | 85,448         |
| Assistant Head of Safer &                                | 46,259                               | -                      | 46,259            | -                             | 46,259         |
| Head of Urban Environment                                | 54,330                               | 53,989                 | 108,319           | 39,479                        | 147,798        |
| Head of Financial Services                               | 72,440                               | 51,197                 | 123,637           | 114,397                       | 238,034        |
|                                                          | <u>449,184</u>                       | <u>143,351</u>         | <u>573,607</u>    | <u>208,473</u>                | <u>782,080</u> |

\* The Council's new Senior Management structure came into effect from 1st January 2011. The Corporate Director Commissioning, Customer Services and Communication post holder is the former Head of Performance Innovation and Efficiency. All salary costs for this senior manager have been shown against the new Corporate Director post.

\*\* Assistant Head of Safer & Stronger was seconded from Worcestershire County Council, and costs shown are those paid to the County Council.

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**For the year ended 31st March 2011**

**26. Employees' remuneration (cont'd)**

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

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

<sup>2</sup> 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.

<sup>3</sup> 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.

**27. External audit and inspection**

Grant Thornton are the Council's appointed auditors for 2010/11. The Audit Commission undertake the statutory inspection role. The Council incurred the following fees in relation to external audit and inspection:

|                                                         | <b>2010/11</b> | 2009/10 |
|---------------------------------------------------------|----------------|---------|
|                                                         | <b>£000's</b>  | £000's  |
| Accrued external audit fees - Grant Thornton            | <b>111</b>     | 120     |
| Statutory inspection fees and National Fraud Initiative | <b>6</b>       | 9       |
| Other Audit Fees                                        | <b>63</b>      | -       |
| Certification of grant claims fees                      | <b>30</b>      | 33      |
|                                                         | <b>210</b>     | 162     |

**28. Grant income**

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

|                                                           | <b>2010/11</b>  | 2009/10         |
|-----------------------------------------------------------|-----------------|-----------------|
|                                                           | <b>£000's</b>   | £000's          |
| <b>Credited to taxation and non specific grant income</b> |                 |                 |
| DCLG Revenue Support Grant                                | <b>(1,039)</b>  | (1,528)         |
| <b>Total</b>                                              | <b>(1,039)</b>  | <b>(1,528)</b>  |
| <b>Credited to services</b>                               |                 |                 |
| DWP Housing Benefit Grants                                | <b>(34,536)</b> | (32,928)        |
| DWP Housing Benefit Admin                                 | <b>(798)</b>    | (861)           |
| DCLG Homelessness                                         | <b>(116)</b>    | (115)           |
| DCLG Rough Sleeper's Grant                                | <b>(100)</b>    |                 |
| DCLG-Area Based Grant                                     | <b>(36)</b>     | (22)            |
| DCLG Regional Housing                                     | <b>(182)</b>    | (194)           |
| DCLG Planning Delivery Grant                              |                 | (310)           |
| DCLG Disabled Facilities Grant                            | <b>(225)</b>    | (225)           |
| DCLG LABGI                                                |                 | (27)            |
| DCMS Free Swimming                                        | <b>(28)</b>     | (82)            |
| DFT Concessionary Fares                                   | <b>(540)</b>    | (397)           |
| DCLG Empty Shops                                          |                 | (53)            |
| DWP Discretionary Housing Payments                        | <b>(12)</b>     | (27)            |
| <b>Total</b>                                              | <b>(36,573)</b> | <b>(35,241)</b> |

## **29. 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. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### Central Government

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

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 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 Managing Director is a representative member of Worcestershire Partnership Board, Safer Communities Board and South Worcestershire Community Safety Partnership.

The South Worcestershire Joint Committee was formed in July 2007 for Revenue & Benefits shared service hosted by Wychavon District Council, it now also includes Building Control shared service hosted by Malvern Hills District Council and IT and Hub shared services hosted by Worcestershire County Council. The Worcestershire Regulatory Shared Service was formed in June 2010 and is hosted by Bromsgrove District Council. The Joint Museums service between Worcester City and Worcestershire County Council is hosted by Worcestershire County Council. Worcester City Council has member representation on all of the Joint Committees relating to these organisations.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2011

**29. Related party transactions (cont'd)**

Material transactions with related parties are as follows:

|                                                    | <b>2010/11</b>  | <b>2010/11</b>  | 2009/10  |
|----------------------------------------------------|-----------------|-----------------|----------|
|                                                    | <b>Payments</b> | <b>Receipts</b> | Net      |
|                                                    | <b>£000's</b>   | <b>£000's</b>   | £000's   |
| <b>Grants from Central Government - Revenue</b>    |                 |                 |          |
| DCLG Revenue Support Grant                         |                 | (1,039)         | (1,528)  |
| DCLG Housing Benefit Grants                        |                 | (34,536)        | (32,928) |
| DCLG Homelessness Grant                            |                 | (116)           | (115)    |
| DCLG Rough Sleepers Grant                          |                 | (100)           |          |
| DCLG Area Based Grant                              |                 | (36)            | (22)     |
| DCLG Planning Delivery Grant                       |                 |                 | (310)    |
| DCLG LABGI                                         |                 |                 | (27)     |
| DCLG Empty Shops                                   |                 |                 | (53)     |
| DFT Concessionary Fares                            |                 | (540)           | (397)    |
| DCMS Free Swimming                                 |                 | (28)            | (82)     |
| DWP Housing Benefit Admin Grant                    |                 | (798)           | (861)    |
| DWP Discretionary Housing Payments                 |                 | (12)            | (27)     |
| <b>Grants from Central Government - Capital</b>    |                 |                 |          |
| DCLG Regional Housing Grant                        |                 | (182)           | (194)    |
| DCLG Disabled Facilities Grant                     |                 | (225)           | (225)    |
| <b>Other</b>                                       |                 |                 |          |
| Worcestershire County Council (excluding precepts) | 3,338           | (1,464)         | 1,203    |
| Worcestershire County Council - Pension Service    | 1,781           |                 | 2,006    |
| Worcester Community Housing                        |                 | (150)           | (464)    |
| Wychavon District Council                          | 3,722           | (162)           | 1,939    |
| Malvern Hills Council                              | 389             | (134)           | 46       |

| <b>30. Capital expenditure and financing</b>                     | <b>2010/11</b> | 2009/10      |
|------------------------------------------------------------------|----------------|--------------|
|                                                                  | <b>£000's</b>  | £000's       |
| <b>Capital expenditure adding to non-current asset valuation</b> |                |              |
| Land and buildings                                               | -              | -            |
| Vehicles, plant and equipment                                    | 539            | 917          |
| Work in progress                                                 | 593            | 1,270        |
| <b>Additions to fixed assets</b>                                 | <b>1,132</b>   | <b>2,187</b> |
| <b>Capital expenditure not adding to fixed asset valuation</b>   |                |              |
| Revenue expenditure funded from capital under statute            | 554            | 545          |
| <b>Total Capital expenditure</b>                                 | <b>1,686</b>   | <b>2,732</b> |
| <b>Financed by:</b>                                              |                |              |
| Approved borrowing                                               | 261            | 255          |
| Usable capital receipts                                          | 333            | 1,020        |
| Grants and other contributions                                   | 834            | 944          |
| Capital reserves                                                 | 159            | 493          |
| Section 106 funds                                                | 99             | 19           |
| <b>Total capital financing</b>                                   | <b>1,686</b>   | <b>2,731</b> |

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2011

**31. Leases**

The Council uses leased commercial vehicles, and office equipment under the terms of an operating lease. Operating lease payments in 2010/11 are £10,743 (2009/10: £39,530). The Council's outstanding liabilities in future years under these lease arrangements is £5,830.

**32. Information on assets held**

The number and value of the main non-current assets of the Council include the following:

|                               | 2010/11<br>value<br>£000 | 2010/11<br>number | 2009/10<br>value<br>£000 | 2009/10<br>number |
|-------------------------------|--------------------------|-------------------|--------------------------|-------------------|
| <b>Operational assets</b>     |                          |                   |                          |                   |
| Offices                       | 5,250                    | 2                 | 5,250                    | 2                 |
| Car parks                     | 21,115                   | 14                | 21,155                   | 14                |
| Hostel                        | 300                      | 1                 | 300                      | 1                 |
| Community centres             | 7,545                    | 8                 | 7,545                    | 8                 |
| Leisure and sports facilities | 11,900                   | 3                 | 11,100                   | 3                 |
| Museums                       | 3,450                    | 2                 | 3,450                    | 2                 |
| Shared ownership dwellings    | 1,296                    | 20                | 1,235                    | 20                |
| Cemetries and crematorium     | 1,120                    | 2                 | 1,120                    | 2                 |
| Depots                        | 950                      | 1                 | 950                      | 1                 |
| Public conveniences           | 720                      | 5                 | 845                      | 5                 |
| Bus shelters                  | 240                      | 80                | 240                      | 80                |
| Vehicles                      | 2,669                    | 40                | 2,489                    | 37                |
|                               | <b>56,555</b>            | <b>178</b>        | <b>55,679</b>            | <b>175</b>        |
| <b>Community assets</b>       |                          |                   |                          |                   |
| Sports pitches                | 647                      | 37                | 647                      | 37                |
| Allotment sites               | 220                      | 15                | 198                      | 15                |
|                               | <b>867</b>               | <b>52</b>         | <b>845</b>               | <b>52</b>         |
| <b>Non-operational assets</b> |                          |                   |                          |                   |
| Commercial units and shops    | 1,935                    | 20                | 1,788                    | 20                |
| Worcester Racecourse freehold | 200                      | 1                 | 200                      | 1                 |
| Ex-public convenience         |                          |                   | -                        | -                 |
|                               | <b>2,135</b>             | <b>21</b>         | <b>1,988</b>             | <b>21</b>         |
| <b>Total</b>                  | <b>59,557</b>            | <b>251</b>        | <b>58,512</b>            | <b>248</b>        |

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2011

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**33. 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 Comprehensive Income and Expenditure Statement during 2010/11:

| <b>Comprehensive Income and Expenditure Account</b>     | <b>2010/11</b> | <b>2009/10</b> |
|---------------------------------------------------------|----------------|----------------|
|                                                         | <b>£000's</b>  | <b>£000's</b>  |
| <b>Net cost of service</b>                              |                |                |
| Current service cost                                    | <b>1,207</b>   | 914            |
| Past service and curtailment costs                      | <b>(4,703)</b> | 216            |
| <b>Net operating expenditure</b>                        |                |                |
| Return on assets                                        | <b>(3,422)</b> | (2,291)        |
| Interest on pension liabilities                         | <b>4,697</b>   | 4,422          |
| <b>Appropriations</b>                                   |                |                |
| Movement on pensions reserve                            | <b>3,678</b>   | (1,466)        |
| <b>Net charge to the income and expenditure account</b> | <b>1,457</b>   | <b>1,795</b>   |
| <b>Movement in reserves</b>                             |                |                |
| Reversal of net charges made for retirement             |                |                |
| <u>Amount charged against council tax</u>               |                |                |
| Employer's contribution payable to the scheme           | <b>1,457</b>   | 1,795          |

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2011

**33. Pension costs (cont'd)**

**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<br>2011<br>£000's | 31st March<br>2010<br>£000's | 31st March<br>2009<br>£000's | 31st March<br>2008<br>£000's | 31st March<br>2007<br>£000's |
|------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Market value of assets | 52,615                       | 50,812                       | 35,606                       | 47,221                       | 55,442                       |
| Estimated liabilities  | (77,499)                     | (84,599)                     | (63,224)                     | (74,187)                     | (72,107)                     |
| <b>Net liability</b>   | <b>(24,884)</b>              | <b>(33,787)</b>              | <b>(27,618)</b>              | <b>(26,966)</b>              | <b>(16,665)</b>              |

The net liability of £24,884m 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 2011.

The principal assumptions used by the actuary are:

|                              | 2010/11<br>%                                         |                                                   | 2009/10<br>%                                         |                                                   |
|------------------------------|------------------------------------------------------|---------------------------------------------------|------------------------------------------------------|---------------------------------------------------|
| Rate of RPI inflation        | 3.4                                                  |                                                   | 3.3                                                  |                                                   |
| Rate of CPI inflation        | 2.9                                                  |                                                   | 2.8                                                  |                                                   |
| Rate of increase in salaries | 4.4                                                  |                                                   | 4.8                                                  |                                                   |
| Rate of increase in pensions | 2.9                                                  |                                                   | 3.3                                                  |                                                   |
| Discount rate on liabilities | 5.5                                                  |                                                   | 5.6                                                  |                                                   |
|                              | <b>Expected<br/>Rate of Return<br/>2010/11<br/>%</b> | <b>Proportion<br/>of assets<br/>2010/11<br/>%</b> | <b>Expected<br/>Rate of Return<br/>2009/10<br/>%</b> | <b>Proportion<br/>of assets<br/>2009/10<br/>%</b> |
| Equities                     | 7.5                                                  | 92.7                                              | 7.5                                                  | 92.3                                              |
| Bonds - Government           | 4.4                                                  | 2.6                                               | 4.5                                                  | 2.8                                               |
| Bonds - Other                | 5.1                                                  | 3.8                                               | 5.2                                                  | 3.9                                               |
| Cash / Liquidity             | 0.5                                                  | 0.9                                               | 0.5                                                  | 1.0                                               |

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2011

**33. Pension costs (cont'd)**

| <b>Mortality assumptions:</b>                            | <b>2010/11</b>  | 2009/10  |
|----------------------------------------------------------|-----------------|----------|
| Life expectancy at 65 for <b>current</b> pensioners: Men | <b>22.0</b>     | 21.2     |
| Women                                                    | <b>24.5</b>     | 24.1     |
| Life expectancy at 65 for <b>future</b> pensioners: Men  | <b>23.4</b>     | 22.2     |
| Women                                                    | <b>26.1</b>     | 25.0     |
| Commutation of pension for lump sum at retirement        | <b>50%</b>      | 50%      |
|                                                          | <b>2010/11</b>  | 2009/10  |
|                                                          | <b>£000's</b>   | £000's   |
| <b>Movement in liability</b>                             |                 |          |
| Net pensions liability at 1st April                      | <b>(33,787)</b> | (27,618) |
| Current service costs                                    | <b>(1,207)</b>  | (914)    |
| Employer's contributions                                 | <b>1,457</b>    | 1,795    |
| Past service / curtailment cost                          | <b>4,703</b>    | (216)    |
| Net interest / return on assets                          | <b>(1,275)</b>  | (2,131)  |
| Actuarial gain / (loss)                                  | <b>5,225</b>    | (4,703)  |
| <b>Net pensions liability at 31st March</b>              | <b>(24,884)</b> | (33,787) |

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

|                                                         | <b>31st March</b> | 31st March | 31st March | 31st March | 31st March |
|---------------------------------------------------------|-------------------|------------|------------|------------|------------|
|                                                         | <b>2011</b>       | 2010       | 2009       | 2008       | 2007       |
|                                                         | <b>%</b>          | %          | %          | %          | %          |
| Difference between expected and actual return on assets | <b>(0.8)</b>      | (27.4)     | (40.4)     | (24.4)     | 0.2        |
| Experience Gains/losses on Liabilities                  | <b>6.9</b>        | 0.0        | 0.0        | (7.9)      | 4.8        |

The total contributions expected to the Local Government Pension Scheme by the Council in the year to 31st March 2012 is £1,494m.

**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 that might have previously been expected. Consequently, the actuarial gross liabilities will reduce as will the net pension deficit on the balance sheet.



**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
**For the year ended 31st March 2011**

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

**Pensions liability relating to shared services**

As part of the South Worcestershire Shared Service Partnership and Worcestershire Regulatory 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, IT, Bromsgrove District Council - Regulatory ) 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:

|                                                  | <b>31st March<br/>2011</b> | 31st March<br>2010 |
|--------------------------------------------------|----------------------------|--------------------|
| <b>Revenues and Benefits</b>                     |                            |                    |
| Present value of liabilities                     | (8,663)                    | (9,473)            |
| Fair value of assets                             | 7,333                      | 7,888              |
| Deficit in scheme                                | (1,330)                    | (1,585)            |
| Worcester City Council share of deficit @ 42.7%  | (568)                      | (677)              |
| <b>Building Control</b>                          |                            |                    |
| Present value of liabilities                     | (1,426)                    | (1,810)            |
| Fair value of assets                             | 1,520                      | 2,231              |
| Surplus in scheme                                | 94                         | 421                |
| Worcester City Council share of surplus @ 28.74% | 27                         | 121                |
| <b>Worcestershire Hub</b>                        |                            |                    |
| Present value of liabilities                     | (3,832)                    | (4,154)            |
| Fair value of assets                             | 3,898                      | 4,756              |
| Surplus in scheme                                | 66                         | 602                |
| Worcester City Council share of surplus @ 17.4%  | 11                         | 104                |
| <b>SW2 (ICT)</b>                                 |                            |                    |
| Present value of liabilities                     | (3,820)                    | -                  |
| Fair value of assets                             | 3,590                      | -                  |
| Deficit in scheme                                | (230)                      | -                  |
| Worcester City Council share of deficit @ 30%    | (69)                       | -                  |
| <b>Regulatory</b>                                |                            |                    |
| Present value of liabilities                     | (16,973)                   | -                  |
| Fair value of assets                             | 17,200                     | -                  |
| Surplus in scheme                                | 227                        | -                  |
| Worcester City Council share of surplus @ 11.11% | 25                         | -                  |

No provision is made to recover the pension deficits within these accounts. The deficits 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.

**WORCESTER CITY COUNCIL  
COLLECTION FUND  
For the year ended 31st March 2011**

|       |                                         | <b>2010/11</b>         | 2009/10         |
|-------|-----------------------------------------|------------------------|-----------------|
|       |                                         | <b>£000's</b>          | £000's          |
| Note  |                                         |                        |                 |
|       | <b>Income</b>                           |                        |                 |
| 1,2,6 | Council Tax                             | <b>(47,387)</b>        | (46,664)        |
| 3,6   | National Non-Domestic Rates             | <b>(35,183)</b>        | (34,893)        |
|       |                                         | <b><u>(82,570)</u></b> | <u>(81,557)</u> |
|       | <b>Expenditure</b>                      |                        |                 |
| 1     | <b>Precepts and demands</b>             |                        |                 |
|       | County council                          | <b>34,661</b>          | 32,798          |
|       | City council and parishes               | <b>5,508</b>           | 5,212           |
|       | Police authority                        | <b>5,961</b>           | 5,617           |
|       | Fire authority                          | <b>2,457</b>           | 2,316           |
|       |                                         | <b><u>48,587</u></b>   | <u>45,943</u>   |
|       | <b>Non-domestic rates</b>               |                        |                 |
|       | Payments to national pool               | <b>35,038</b>          | 34,747          |
|       | Cost of collection allowance            | <b>145</b>             | 146             |
|       |                                         | <b><u>35,183</u></b>   | <u>34,893</u>   |
|       | <b>Bad and doubtful debt provisions</b> |                        |                 |
| 5     | Council Tax                             | <b><u>(200)</u></b>    | 100             |
|       |                                         | <b>(200)</b>           | 100             |
| 4     | Deficit / (surplus) for the year        | <b>1,000</b>           | (621)           |
|       | (Surplus) / deficit as at 1 April       | <b>(605)</b>           | 16              |
|       | Fund deficit / (surplus) as at 31 March | <b><u>395</u></b>      | <u>(605)</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 (£1,453.52 for 2010/2011 and £1,417.06 for 2009/2010) 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 2011**

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

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

|        | Number of properties<br>Band D equivalents | Proportion | Amount<br>£ |
|--------|--------------------------------------------|------------|-------------|
| Band A | 4,306                                      | 6/9        | 969.03      |
| Band B | 9,629                                      | 7/9        | 1,130.53    |
| Band C | 8,672                                      | 8/9        | 1,292.02    |
| Band D | 4,635                                      | 1          | 1,453.52    |
| Band E | 3,592                                      | 11/9       | 1,776.54    |
| Band F | 1,762                                      | 13/9       | 2,099.54    |
| Band G | 578                                        | 15/9       | 2,422.55    |
| Band H | 8                                          | 18/9       | 2,907.05    |

**2. Council Tax**

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

|                     | <b>2010/11</b><br><b>£000's</b> | 2009/10<br>£000's |
|---------------------|---------------------------------|-------------------|
| Due from taxpayers  | <b>40,950</b>                   | 40,328            |
| Council Tax benefit | <b>6,436</b>                    | 6,336             |
| Total Council Tax   | <b><u>47,386</u></b>            | <u>46,664</u>     |

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

NNDR is organised on a national basis. The Government specifies an amount (41.4p in 2010/2011 and 48.5p in 2009/2010) 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 £35.183m for 2010/2011 (£34.893m for 2009/2010) was based on an average rateable value for the Council's area. The rateable value was £100.21m at 31st March 2011. (£86.754m at 31st March 2010).

**WORCESTER CITY COUNCIL**  
**COLLECTION FUND**  
**For the year ended 31st March 2011**

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

The deficit on the Fund of £395k at 31st March 2011 in respect of Council Tax transactions will be collected in subsequent financial years from Worcestershire County Council, West Mercia Police Authority, Hereford & Worcester Fire and Rescue Authority and the City Council in proportion to the value of the respective precepts and demands made by the Councils on the Collection Fund. The allocations are as follows:

|                                                  | <b>2010/11</b><br><b>£000's</b><br><b>Deficit</b> | 2009/10<br>£000's<br>Surplus |
|--------------------------------------------------|---------------------------------------------------|------------------------------|
| Worcestershire County Council                    | <b>282</b>                                        | (433)                        |
| West Mercia Police Authority                     | <b>49</b>                                         | (74)                         |
| Hereford and Worcester Fire and Rescue Authority | <b>20</b>                                         | (31)                         |
| Worcester City Council                           | <b>44</b>                                         | (67)                         |
|                                                  | <b><u>395</u></b>                                 | <b><u>(605)</u></b>          |

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

The Provision for Bad Debts and Write Offs as at 31 March 2011 is as follows:

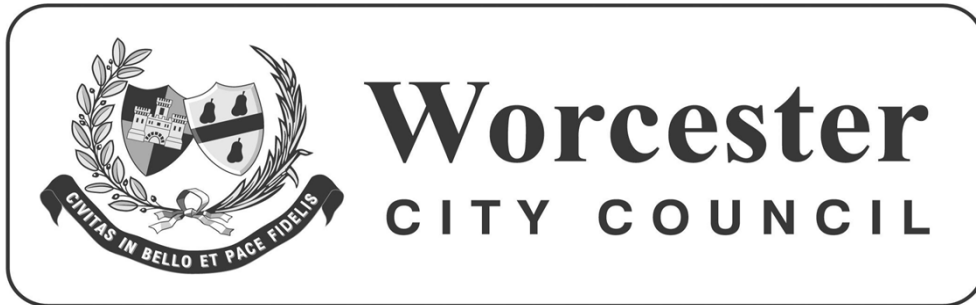
|                             | <b>Council Tax</b><br><b>£000's</b> |
|-----------------------------|-------------------------------------|
| Brought forward at 1 April  | <b>739</b>                          |
| Credit (benefit) for year   | <b><u>(200)</u></b>                 |
| Carried forward at 31 March | <b><u>539</u></b>                   |

**6. Write Offs**

The amounts written off were as follows:

|             | <b>2010/11</b><br><b>£000's</b> | 2009/10<br>£000's |
|-------------|---------------------------------|-------------------|
| Council Tax | <b>317</b>                      | 15                |
| NNDR        | <b>443</b>                      | 7                 |

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 2010/11**

I confirm that this Statement of Accounts was approved by Council at its meeting held on 27th September 2011.

Signed on behalf of Worcester City Council

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**Councillor David Tibbutt  
Mayor and Chairman of the Council**