



**Worcester**  
**CITY COUNCIL**

**Making Worcester a first rank Cathedral and University City**

**Audited**  
**STATEMENT OF ACCOUNTS**  
**2011/12**

**Final - 11th September 2012**

**WORCESTER CITY COUNCIL  
DRAFT STATEMENT OF ACCOUNTS 2011/12**

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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 2012.

**As the responsible officer, I certify that in preparing this Statement of Accounts for the year ended 31st March 2012, 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 2012 and its income and expenditure for the year then ended.



Lesley Meagher  
**Finance Services Manager**  
**25th September 2012**

# 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 2012. 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 2011/12. 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 2012. 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 2011/12.

**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 2011/12 was £10.902m. The actual net expenditure for the year was £9.995m, a surplus on budget of £907k. This surplus reduces to an increase of £251k on the General Fund Balance after the transfer of £656k to earmarked reserves.

**WORCESTER CITY COUNCIL  
EXPLANATORY FOREWORD**

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

The net impact on the General Fund balance is a contribution of £251k which increases the balance to £1.251m. The Council's current policy is to hold a General Fund balance of about £1m (but not less than £600k). The increase has been made to provide some one-off cover against the risk of future government funding reductions arising from the Local Government Resource Review.

The budget surplus of £907k in 2011/12 is as a result of a variety of budget surpluses and deficits during the year. Some of the key variances are highlighted in the table below:

	budget (surplus)/deficit £000's
Employee costs	(176)
Surplus car park income	(175)
Surplus income (development management and housing)	(60)
Deficits on income (Crematorium, Waste, Sports Centres and Building Control)	215
Interest receivable	(124)
Housing Benefit overpayments recovery	(218)
Various non pay surpluses	(130)

The Council, in its Medium Term Financial Strategy, identified £0.9m of efficiency savings required in 2012/13. The early implementation of these savings by Officers has realised early efficiencies in 2011/12 of £330k, which are included in the above budget surpluses.

**4. Impact of the Economic Climate**

The continued downturn in the economic climate has had an impact on the Council's finances. Any adverse financial performance arising in these areas in 2011/12 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 2011/12 which amounts to £60.970m (2010: £62.784m). This expenditure has been analysed by type as shown below:

<b>Expenditure Type</b>	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Employee expenses	10,733	11,565
Premises related expenses	1,624	1,874
Transport related expenses	816	969
Supplies and services	2,441	2,347
Third party (including shared services)	7,395	10,162
Housing Benefit and Council Tax payments	35,264	33,001
Capital charges	2,697	2,866
<b>Gross Cost of Services</b>	<b>60,970</b>	<b>62,784</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.
- 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 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 £50.917m (2010/11 £53.974m) and this is analysed by type as follows:

<b>Income Type</b>	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Government Grants	37,471	35,540
Rent Income	343	952
Fees & Charges	8,632	7,972
Other Income	4,471	9,510
<b>Total Income</b>	<b>50,917</b>	<b>53,974</b>

- Government grant income includes £36,119m 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 International Accounting Standard 19. The net liability has increased by £8.121m to £33.005m. A further explanation can be found in Note 35 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 16 (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 2011/12 was £1.105m (2010/11: £1.7m). This compares with an original estimate of £2.038m for the year. The difference largely relates to the Fort Royal Park improvement, North Riverside improvement, Angel place regeneration and vehicle replacement programme which is currently the subject of a full fleet review. Budget will be carried forward to finance these items.

A summary of the capital expenditure in 2011/12 is shown below. Of the £1.105m spend, £0.75m 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 2011/12 are also shown below.

<u>Capital Expenditure</u>	<b>£000</b>	<u>Source of Funding</u>	<b>£000</b>
Housing and building grants	353	Usable capital receipts	196
Fort Royal/Gheluvelt Park	39	Grants	296
Bridge lighting	93	S106 contributions	304
Purchase of land	118	Earmarked reserves	309
Riverside improvements	433		
Vehicles and equipment	69		
<b>Total</b>	<b><u>1,105</u></b>	<b>Total</b>	<b><u>1,105</u></b>

### 10. Significant Changes in Accounting Policies

In accordance with the Local Authority Accounting Code of Practice, the Council has adopted the requirements of FRS30 Heritage Assets. 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 Services 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, the 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://www.worcester.gov.uk/index.php?id=2581>

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 2011 in relation to the publication of a statement on internal control.

### **The purpose of the Governance Framework**

The governance framework comprises the cultural values, systems and processes used by the Council to direct and control its activities, enabling it to engage, lead and account to the community. The framework allows the Council to monitor the achievement of its strategic objectives and to consider whether appropriate cost effective services have been delivered.

A significant part of the framework is the Council's system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives, but can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

Another key purpose of the AGS is for the Council to clearly define the level of assurance it is trying to achieve and to establish if the processes and controls provide sufficient assurance.

The Corporate Governance Board have proactively tried to prevent the preparation of the AGS from being a "ticking the box" exercise but rather for the process to add real value to how the Council's business is managed and for the process to be a year round exercise as opposed to year end. Section 4 begins to outline the early stages of this approach.



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

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The Governance framework has been in place at Worcester City Council for the year ended 31<sup>st</sup> March 2012 and up to the date of approval of the Council report and Statement of Accounts.

### **The Governance Framework Improvements**

Worcester City Council's vision for Worcester is to make it a "First Rank Cathedral and University City" and the five key priorities are set out in the Corporate Plan. This is regularly reviewed and cascaded through the Corporate Planning Process into Service Plans, Service Managers objectives and cascaded to service teams and staff objectives through the appraisal process.

#### ***Performance Management and Project Management:***

The Council's approach to performance management and the Performance Management Framework has been revised. The framework now aligns performance management with the Council's priorities as set out in the Corporate Plan. The framework is intended to introduce Officers and Members to the overall approach the Council takes to performance management which will :-

- Enable Managers and Members to keep track of the overall performance of the Council and its services, adjust priorities and resources and direct improvement actions accordingly.
- Better integrate financial and performance reporting in order that resources are effectively aligned to priorities.
- Support effective scrutiny, with the opportunities to take a more in depth look at a service or function
- Provide Managers and Members with current and relevant data to support informed decision.

Significant progress has been made in the year with Service Managers and their teams actively working with the corporate PIE team to establish an appropriate suite of cost satisfaction and performance data in order to demonstrate that the Council is getting value for money with regards to their service provision.

The Council has also strengthened its approach to programme and project management. We have introduced a new project management methodology and a Strategic Programme Board provides corporate oversight to ensure project delivery. Work will continue in 2012/13 to roll out training and to embed this new approach across the organisation.

#### ***Executive Decision Making***

This is carried out through the strong leader model (Cabinet), the Planning Committee, the Licensing Committee and senior management. The Overview Scrutiny Committees have responsibility to review and scrutinise the activities of the Council, provide advice on the development of policies and monitor performance. During 2011/12 the Audit Committee received and reviewed reports on the work of Internal and External Audit, and the risk management framework.

#### ***Leadership Team***

During 2011/12 a comprehensive development programme for all employees within managerial positions across the Council took place. This was divided into three groups, 60 Managers in total from the Managing Director down to Team Leaders. It was a 5 stage programme which was linked to the behaviours and change needed to deliver a quality service within the Values and Competency Framework. The programme helped to reinforce clear lines of responsibility and accountability for all Leaders. Service Managers are clear that they are responsible for the performance and financial management of their services and activities delegated to them.

**WORCESTER CITY COUNCIL  
ANNUAL GOVERNANCE STATEMENT**

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***Senior Leadership Team***

Developed and delivered a series of interactive staff conferences over a period of 8 weeks. This provided an opportunity to reinforce the Organisation’s values and every employee was asked to sign a pledge to uphold the values in all they do. In return the Management Team pledged to support and guide all employees in line with the Value Framework. Employees were able to share the Council’s priorities via the Corporate Plan and discuss how they can continue to contribute to the success of the Council’s priorities. Introduction of the Competency Framework was also discussed at these events. This Framework supports the concept of how the Council conducts their business in an open, fair and transparent manner.

***Improving our Organisation***

The introduction of a new induction programme for all new starters is proving to be beneficial for all concerned. It is now lead by the line manager and supported by a suite of online learning modules covering subjects such as equality, fire safety etc.

In addition a new half day Corporate induction programme designed to be inspiring and interactive, where our vision, values and competencies are reinforced rather than the previous two full days. The half day directly involves the Managing Director and the Mayor.

Health and Safety is now systematically discussed and reviewed at CMT and links to other assurance forums e.g Joint Consultative Safety Committee (JCSC), resulting in a focussed work plan for the health and safety team which supports cultural change whereby the line management are responsible for the health and safety of their teams

***Risk Management***

Worcester City Council’s risk management strategy has been refreshed to reflect the Council’s re-structure and the changed Local Government environment. Workshops by Zurich have been held with CMT and Service Managers to both strengthen the Council’s approach to risk management and to ensure that they are clear about the Council’s risk management approach and employ it effectively. A key change in the refreshed strategy is in measuring and monitoring these risks relating to

- (a) organisation
- (b) service
- (c) projects

These risks will be reviewed on a regular basis and escalated as appropriate to CMT and Members. The Performance, Improvement and Efficiency Manager has responsibility for corporate risk management.

***Constitution***

During 2011/12 the Council undertook a review of the Constitution in order to ensure it was fit for purpose and reflected the Council’s current business needs. The review was facilitated by a consultant and involved both members and officers. In March 2012 the Council approved a revised constitution in principle, subject to three areas where they felt further work was required. A Constitution Working Group of members has been set up to report back to the Council with recommendations on these three areas and it is anticipated that the revised Constitution will be adopted by the Council in June 2012.

***Shared Services***

The Council has also strengthened its governance arrangements for shared services. Designated officers now attend the Management Board meetings; we also have a process in place to support Member representatives on joint committees through pre meeting briefings. This ensures that we have a both clear and consistent understanding of the key issues in respect of shared services and a clear and consistent voice about the City Council’s expectations in respect of shared service delivery.

**WORCESTER CITY COUNCIL  
ANNUAL GOVERNANCE STATEMENT**

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***Information Management and Information Governance***

The Council still has work to do to improve information management and information governance, this has not progressed as much as anticipated in 2011/12, and is a priority for improvement for the coming year. However, there are some strengths in the Council's current approach, for example the rollout of sunrays and the use of sunray laptops supports the Council in meeting the requirements of the Government's Code of Connection (CoCo).

***Monitoring Officer***

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

**Reviewing the Effectiveness of the Governance Framework**

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

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 Chair of the Audit committee plays an active part on the Corporate Governance Board.

***The Corporate Governance Board:*** During 2011/12 the Council Governance Board. has met bimonthly and has taken a proactive approach to embed governance issues and to implement improvements identified in this statement. The Board has been more open and transparent. and has provided a robust and honest assessment of the governance framework for the year. To that end Service Managers have been challenged to demonstrate through the year how assurances obtained within their Service explicitly link to the system or processes they have in place. A simple proforma has been developed for Managers to complete which was introduced during the last quarter. Early signs are positive and will be fully operational and embedded during 2012/13. The Board is chaired by the Monitoring Officer and members comprise the Managing director and other senior Corporate Managers, together with the Chair of Audit Committee.

***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 2011.

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

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**Internal Audit (continued):** The Internal Audit function was set up as a shared service in 2010/11 and hosted by Worcester City, for five 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 2011/2012 was risk based (assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk, fraud risk, and external risk) using a predefined scoring system, and was approved by the Audit Committee. It included:

- a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion';
- other corporate systems, for example governance, and;
- a number of operational systems for example, Value for Money follow up, Cemetery and Crematorium, Voluntary Sector Grants and a S106 follow up, were looked at to maintain and improve control systems and risk management processes, or reinforce oversight of such systems.

A revised plan was necessary as planned targets were not met due to the impact on the service of long term sickness. The revised plan was considered by the s151 Officer and was compiled to reflect the requirements of the remainder of the year.

Worcester City Council continues to go through a transitional period as Values are embedded. The final appointments to a corporate high level restructure were completed early in the 2011/12 financial year. Audits in these areas have been progressed since the Service Managers took up post. Core financial audits provided overall reasonable assurance.

Based on the audits performed in accordance with the approved revised audit plan the Worcester Internal Audit Shared Services Acting Service Manager concludes that the Council's governance framework arrangements during 2011/2012 have not always provided full assurance but outstanding issues were being addressed as part of the process of continuous improvement.

**The Standards committee:** This committee role is to promote and maintain high standards of conduct by Members and to monitor the operation of the Members Code of Conduct. There were two new complaints made to the Standards Committee in 2011/12 in respect of Worcester City Council Members and in addition final decisions were made in respect of two complaints that were raised in 2010/11.

### **Decisions on two complaints raised in 2010/11 and reported in last years Annual Governance Statement**

The first 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 on 22<sup>nd</sup> December 2010. The Committee agreed that the complaint should be referred to the Monitoring Officer for a full investigation. The findings of the independent investigation were that the member concerned had not breached the code of conduct. The findings were reported to and considered by the Standards Committee Hearing Sub Committee on 11<sup>th</sup> April 2011. It resolved to accept the report and recommendations of the Independent Investigator and agreed that no further action be taken.

**WORCESTER CITY COUNCIL  
ANNUAL GOVERNANCE STATEMENT**

The second complaint (allegations that the member concerned failed to treat the complainant with respect, had bullied and intimidated another member and had conducted himself in a manner which could reasonable be regarded as bring his office or authority into disrepute) was heard by the Standards Committee Assessment Sub Committee on 11<sup>th</sup> April 2011 where it was resolved that no further action be taken in respect of the complaint. The complainant exercised his right to a review of that decision. The review was heard by the Standards Committee Review Sub committee on 21<sup>st</sup> April 2011 and it resolved to uphold the earlier decision.

**Complaints raised in 2011/12**

Two complaints were received in March 2012 and the results will be reported in the next Annual Governance Statement. The Committee have worked hard to develop a new Code of Conduct in readiness for changes in legislation (Localism Act).

**Significant Governance Issues 2012-13**


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 monitoring internal and external assurance gathering throughout the year as outlined above. In reviewing previous year's work there are some issues that still need to be developed hence why during 2012/13 – 2013/14 we are still continuing with some of the previous years headings as areas of improvement.

	<b>Governance Area</b>	<b>Timescale</b>	<b>Lead Officer</b>
1	Probity, Anti-Fraud & Corruption and Bribery	2012/13	Finance/Legal & Democratic
2	Whistleblowing	2012/13	Legal & Democratic/Human Resources/Internal Audit
3	Partnerships, Contract & Client Management, including shared services	2012-14	PIE/Finance
4	Programme & Project Management	2012/13	PIE
5	Information Governance	2012/13	Legal & Democratic/PIE
6	Risk Management	2012/13	PIE
7	Business Continuity	2012/13	Strategic Housing
8	Health and Safety	2012/13	Human Resources
9	Financial Control	2012-2014	Finance
10	Equal Pay	2012/13	Human Resources

**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: 25/09/2012

**Duncan Sharkey, Managing Director**

Signed: 

Dated: 25/09/2012

**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 2011-12 financial year and its position as at 31st March 2012. The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting 2011-12, relevant International Financial Reporting Standards and the Service Reporting Code of Practice (SERCOP).

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 its 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 SERCOP 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, Museums 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.

The Council hosts the Internal Audit Shared Service and as such accounts for the expenditure incurred for Malvern Hills District Council, Bromsgrove District Council, Redditch Borough Council and Wychavon District Council, its partners in the arrangement.

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. Heritage Assets**

All of the Council's heritage assets are held due to their cultural, environmental or historical associations making their preservation for future generations important. The Council holds a number of assets at its two museums in the City. The Council also holds a number of other assets, including furniture, art works and ceramics at the Guildhall.

Where the Council has information on the cost or value of heritage assets, these assets are recognised on the balance sheet otherwise a disclosure is made and the notes to the financial statements will explain the significance and nature of those assets not reported on the balance sheet.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. The value on the balance sheet is on a valuation or cost basis if this information is available. Where a valuation is not practical the assets are held on the balance sheet at the valuation provided for insurance purposes.

Any impairment is recognised and measured in accordance with the Authority's general policies on impairment.

### **26. 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 Fund Balance £'000	Earmarked Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	<b>Total Usable Reserves £'000</b>	Total Unusable Reserves £'000	<b>Total Authority Reserves £'000</b>
<b>Balance at 31 March 2010</b>	<b>1,023</b>	<b>1,961</b>	<b>1,692</b>	<b>513</b>	<b>5,189</b>	<b>30,140</b>	<b>35,329</b>
<b><u>Movement in Reserves During 2009/10</u></b>							
Deficit 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>	3,801	-	-	-	<b>3,801</b>	6,640	<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>	1,550	-	22	(513)	<b>1,059</b>	9,382	<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>	118	1,272	22	(513)	<b>899</b>	9,542	<b>10,441</b>
<b>Balance at 31st March 2011</b>	<b>1,141</b>	<b>3,233</b>	<b>1,714</b>	<b>-</b>	<b>6,088</b>	<b>39,682</b>	<b>45,770</b>
<b>Balance at 31st March 2011</b>	1,141	3,233	1,714	-	<b>6,088</b>	39,682	<b>45,770</b>
<b><u>Movement in Reserves During 2011/12</u></b>							
Surplus on the provision of services	397				<b>397</b>		<b>397</b>
Other Comprehensive Income and Expenditure					<b>0</b>	(7,238)	<b>(7,238)</b>
<b>Total Comprehensive Income and Expenditure</b>	397	-	-	-	<b>397</b>	(7,238)	<b>(6,841)</b>
Adjustments between accounting basis and funding basis under regulations	1,921		137	-	<b>2,058</b>	(2,058)	<b>0</b>
<b>Net Increase/(Decrease) before Transfer to Earmarked Reserve</b>	2,318	-	137	-	<b>2,455</b>	(9,296)	<b>(6,841)</b>
Transfers (to)/from Earmarked Reserves	(2,207)	1,898			<b>(309)</b>	309	<b>0</b>
<b>Increase/ Decrease in 2011-12</b>	111	1,898	137	-	<b>2,146</b>	(8,987)	<b>(6,841)</b>
<b>Balance at 31st March 2012</b>	<b>1,252</b>	<b>5,131</b>	<b>1,851</b>	<b>-</b>	<b>8,234</b>	<b>30,695</b>	<b>38,929</b>

**WORCESTER CITY COUNCIL**  
**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**  
For the year ended 31st March 2012

	2011/12 Gross Expenditure £000s	2011/12 Gross Income £000s	2011/12 Net Expenditure £000s	2010/2011 Net Expenditure £000s
<b>Service Expenditure Analysis</b>				
Central services to the public	9,958	(8,040)	1,918	2,476
Cultural and related services	8,122	(3,075)	5,047	4,776
Environmental and Regulatory Services	6,346	(3,010)	3,336	3,592
Planning Services	1,575	(1,348)	227	690
Highways, roads and transport	1,487	(3,817)	(2,330)	(430)
Housing services	31,389	(31,191)	198	1,255
Corporate and democratic core	1,961	(436)	1,525	1,154
Non-distributed costs - change in inflation factor for retirement benefits	-	-	-	(4,775)
Non-distributed costs - other	132	-	132	72
<b>NET COST of SERVICES</b>	<b>60,970</b>	<b>(50,917)</b>	<b>10,053</b>	<b>8,810</b>
8 Other operating expenditure			104	102
9 Financing and investment income and expenditure			704	1,051
8 Profit on discontinued operations			(233)	(175)
10 Taxation and non-specific grant income			(11,025)	(13,589)
<b>SURPLUS ON PROVISION OF SERVICES</b>			<b>(397)</b>	<b>(3,801)</b>
Surplus on revaluation of non current assets			(182)	(1,316)
Actuarial losses/(gains) on pension assets/liabilities			7,833	(5,225)
Reduction in long term loans relating to house purchases			1	2
Other Comprehensive Income and Expenditure			7,652	(6,539)
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>7,255</b>	<b>(10,340)</b>



**WORCESTER CITY COUNCIL**  
**BALANCE SHEET**  
**at 31st March 2012**

Note	2011/12 £000s	Restated 2010/11 £000s	Restated 2009/10 £'000s	
<b>Long term assets</b>				
11	Property, plant & equipment	60,500	61,809	61,948
13	Heritage assets	6,883	6,883	6,883
11	Investment property	3,595	3,579	3,260
	Long term debtors	4	5	7
		<b>70,982</b>	72,276	72,098
<b>Current assets</b>				
17	Inventories	40	45	59
18	Short term debtors	3,471	4,864	6,913
15	Short term investments	2,150	3,150	3,557
19	Cash and cash equivalents	9,399	6,771	3,366
20	Assets held for sale	-	100	269
		<b>15,060</b>	14,930	14,164
<b>Current liabilities</b>				
21	Creditors	6,470	8,881	9,404
	Short term borrowing	-	-	38
		<b>6,470</b>	8,881	9,442
<b>Long term liabilities</b>				
16	Long term borrowing	7,637	7,671	7,704
35	Pensions liability	33,005	24,884	33,787
		<b>40,642</b>	32,555	41,491
	<b>NET ASSETS</b>	<b>38,929</b>	45,770	35,329
<b>Financed by:</b>				
	Usable reserves	8,234	6,088	5,189
22	Unusable reserves	30,695	39,682	30,140
	<b>RESERVES</b>	<b>38,929</b>	45,770	35,329

The prior year accounts have been restated in accordance with 'code of practice on local authority accounting' adoption of FRS 30 Heritage Assets

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

Note	<b>2011/12</b> <b>£000s</b>	2010/11 £000s
<b>Net surplus on the provision of services</b>	<b>(397)</b>	(3,801)
Adjust net surplus on the provision of services for non-cash movements	<b>(3,344)</b>	(970)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<b>446</b>	1,281
23 Net cash flows from operating activities	<b>183</b>	(75)
24 Investing activities	<b>450</b>	496
25 Financing activities	<b>34</b>	(336)
Net increase in cash and cash equivalents	<b>(2,628)</b>	(3,405)
Cash and cash equivalents at the beginning of the reporting period	<b>6,771</b>	3,366
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>9,399</b>	6,771

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 2012**

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**1. Heritage Assets**

The 2011/12 Code of Practice on Local Authority Accounting adopts the requirements of FRS30 Heritage Assets. Adoption of the Code has resulted in 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 2010/11.

**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.

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

There were no material items of income and expenditure.

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

The Statement of Accounts was authorised for issue by the Finance Services Manager on 30 June 2012. 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 2012, 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 2012

**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.

	<b>Usable Reserves 2011/12</b>			
	<b>General Fund Balance</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Movements in unusable reserves</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<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	<b>2,340</b>			<b>(2,340)</b>
Revenue expenditure funded from capital under statute	<b>59</b>			<b>(59)</b>
Statutory Provision for repayment of Debt	<b>(536)</b>			<b>536</b>
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			<b>100</b>	<b>(100)</b>
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Payments to Housing Capital Receipts Pool	<b>1</b>	<b>(1)</b>		
<b>Adjustments involving the capital grants unapplied account</b>				
Capital grants and contributions unapplied credited to the CIES	-			-
Application of grants to capital financing transferred to the Capital Adjustment Account	-			-
<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	<b>(233)</b>	<b>233</b>		
Transfer from Deferred Capital Receipts Reserve		<b>1</b>		<b>(1)</b>
Use of the Capital Receipts Reserve to finance capital expenditure		<b>(196)</b>		<b>196</b>
<b>Adjustments involving the pensions reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement.	<b>1,760</b>			<b>(1,760)</b>
Employers' pension contributions and direct payments to pensioners payable in the year	<b>(1,472)</b>			<b>1,472</b>
<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.	<b>(20)</b>			<b>20</b>
<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	<b>22</b>			<b>(22)</b>
<b>Total adjustments</b>	<b>1,921</b>	<b>137</b>	<b>-</b>	<b>(2,058)</b>

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

	<b>Usable Reserves 2010/11</b>			
	<b>General Fund Balance</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Movements in unusable reserves</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<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	<b>2,256</b>			<b>(2,256)</b>
Revenue expenditure funded from capital under statute	<b>57</b>			<b>(57)</b>
Statutory Provision for repayment of Debt	<b>(502)</b>			<b>502</b>
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		<b>179</b>		<b>(179)</b>
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Payments to Housing Capital Receipts Pool	<b>1</b>	<b>(1)</b>		
<b>Adjustments involving the capital grants unapplied account</b>				
Capital grants and contributions unapplied credited to the CIES	<b>(337)</b>		<b>337</b>	
Application of grants to capital financing transferred to the Capital Adjustment Account			<b>(850)</b>	<b>850</b>
<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	<b>(175)</b>	<b>175</b>		
Transfer from Deferred Capital Receipts Reserve		<b>2</b>		<b>(2)</b>
Use of the Capital Receipts Reserve to finance capital expenditure		<b>(333)</b>		<b>333</b>
<b>Adjustments involving the pensions reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement.	<b>(2,221)</b>			<b>2,221</b>
Employers' pension contributions and direct payments to pensioners payable in the year	<b>(1,457)</b>			<b>1,457</b>
<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.	<b>112</b>			<b>(112)</b>
<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	<b>15</b>			<b>(15)</b>
<b>Total adjustments</b>	<b>(2,251)</b>	<b>22</b>	<b>(513)</b>	<b>2,742</b>

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**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 2012/13.

	Balance at 31st March 2011 £000's	Transferred in £000's	Transferred out £000's	Balance at 31st March 2012 £000's	Purpose of reserve
<b><u>Revenue Reserves</u></b>					
Regeneration Grants	48	32		<b>80</b>	for town centre improvement scheme
Cleaner & Greener Operations	49		(37)	<b>12</b>	for various initiatives to improve cleaner & greener service
Land Charges	40	34		<b>74</b>	for a ring-fenced programme
Building Control	83		(50)	<b>33</b>	for a rolling 3 year ring-fenced programme
Recreational Improvements	119		(5)	<b>114</b>	for improvements, including sports equipment replacement
Three Choir/Elgar Choral Festivals	16		(16)	-	for agreed contribution on 3 year cycle
Elections Reserve	0	18		<b>18</b>	for equalising the cost of elections over a four year period
Art & Museum Specimens	15			<b>15</b>	for acquisition of exhibits and initiatives
Housing & Planning Delivery Grant	0	566		<b>566</b>	for support to various SWDP, staffing and ICT developments
Climate Change Initiatives	29		(12)	<b>17</b>	for initiatives to improve climate change performance
Pension Backfunding	250	230		<b>480</b>	for lump sum payment to offset pension liabilities
Change Programme (Priority Reserve)	360	170	(170)	<b>360</b>	for transformation and commissioning costs
Environment Warranty Insurance	985			<b>985</b>	for insurance premiums and claims on former housing land
Corporate Plan priority projects	800		(21)	<b>779</b>	for various initiatives (e.g. Fort Royal, Riverside, Olympic torch) committed but not drawn down
Subtotal Revenue Reserves	2,794	1,049	(311)	<b>3,533</b>	
<b><u>Capital/Other Reserves</u></b>					
Capital Replacement	390	307	(307)	<b>390</b>	for urgent capital replacement and maintenance
Asset Reserve - Swimming Pool		250		<b>250</b>	for swimming pool business case and implementation
Asset Reserve - Crematorium Filters/Burners				-	for required investment in crematorium facilities
Asset Reserve - Car Park Infrastructure		50		<b>50</b>	for required investment in car park infrastructure
Nunnery Lane Deposits	19			<b>19</b>	for developer deposits towards making up road
Guildhall Floodlights & Tourism	30			<b>30</b>	for Guildhall improvements
New Homes Bonus		406		<b>406</b>	for investments from the New Homes Bonus grant funding
Regional Housing Pot Allocation		454		<b>454</b>	for ringfenced grant payments for home improvements
Subtotal Capital/Other Reserves	439	1,467	(307)	<b>1,599</b>	
<b>Total Earmarked Reserves</b>	<b>3,233</b>	<b>2,516</b>	<b>(618)</b>	<b>5,132</b>	

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	<b>2011/12</b>	2010/11
	<b>£000's</b>	£000's
<b>8. Other operating expenditure</b>		
Parish council precepts	<b>103</b>	101
Payments to the Government Housing Capital Receipts Pool	<b>1</b>	1
Gains on the disposal of non-current assets	<b>(233)</b>	(175)
Total	<b>(129)</b>	(73)
<b>9. Financing and investment income and expenditure</b>		
Interest payable and similar charges	<b>361</b>	371
Pensions interest cost and expected return on pensions assets	<b>627</b>	1,275
Interest receivable and similar income	<b>(178)</b>	(446)
Other investment income	<b>(106)</b>	(149)
Total	<b>704</b>	1,051
<b>10. Taxation and non-specific grant income</b>		
Council tax income	<b>(5,448)</b>	(5,396)
Non-domestic rates	<b>(4,260)</b>	(7,154)
Non-ringfenced government grants	<b>(1,317)</b>	(1,039)
Total	<b>(11,025)</b>	(13,589)

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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 2011/12 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>Cost or valuation</b>						
<b>At 1 April 2011</b>	<b>59,718</b>	<b>11,573</b>	<b>409</b>	<b>443</b>	<b>72,143</b>	<b>3,579</b>
Additions	118	162		471	750	
Revaluation increases/(decreases) to revaluation reserve	177				177	
Revaluation increases/(decreases) to surplus/deficit on provision services	(198)				(198)	(23)
Derecognition - disposals		(10)			(10)	
Derecognitions - other					0	
Other reclassifications	(94)	26		(26)	(94)	39
<b>At 31 March 2012</b>	<b>59,722</b>	<b>11,751</b>	<b>409</b>	<b>888</b>	<b>72,770</b>	<b>3,595</b>
<b>Accumulated depreciation</b>						
<b>At 1 April 2011</b>	<b>4,346</b>	<b>5,988</b>			<b>10,334</b>	
Depreciation charge for year	999	1,109			2,109	
Depreciation written out to the revaluation reserve	(26)				(26)	
Derecognition - disposals		(10)			(10)	
Derecognition - other	(137)				(137)	
<b>At 31 March 2012</b>	<b>5,182</b>	<b>7,088</b>	<b>-</b>	<b>-</b>	<b>12,270</b>	<b>-</b>
<b>Net book value</b>						
<b>At 31 March 2012</b>	<b>54,540</b>	<b>4,663</b>	<b>409</b>	<b>888</b>	<b>60,500</b>	<b>3,595</b>
At 31 March 2011	55,372	5,585	409	443	61,809	3,579



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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 2010</b>	58,957	10,429	409	852	<b>70,647</b>	<b>3,260</b>
Additions		538		594	<b>1,132</b>	
Revaluation increases/(decreases) to revaluation reserve	884				<b>884</b>	(130)
Revaluation increases/(decreases) to surplus/deficit on provision services	(123)	(378)			<b>(501)</b>	449
Derecognition - disposals		(9)			<b>(9)</b>	
Derecognition - other		(10)			<b>(10)</b>	
Other reclassifications		1,003		(1,003)	<b>0</b>	
<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>	3,825	4,874			<b>8,699</b>	
Depreciation charge for year	982	1,122			<b>2,104</b>	
Depreciation written out to revaluation reserve	(461)				<b>(461)</b>	
Derecognition - disposals		(2)			<b>(2)</b>	
Derecognition - other		(6)			<b>(6)</b>	
<b>At 31 March 2011</b>	<b>4,346</b>	<b>5,988</b>			<b>10,334</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	<b>61,948</b>	3,260

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

<b>Capital commitments</b>	<b>at 31 March 2012</b>		<b>at 31 March 2011</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>657</b>		1,076	
Riverside improvements	<b>220</b>	<b>110</b>	570	434
ICT investment	<b>116</b>		586	
Vehicle/plant/bin replacements	<b>50</b>		2,395	
Gheluvelt Park	-		84	84
CCTV	<b>16</b>			
Croft Road landscaping	<b>30</b>			
Infrastructure replacement	<b>120</b>			
Angel Place regeneration	<b>100</b>			
Fort Royal Park improvements	<b>200</b>			
	<b>1,509</b>	<b>110</b>	4,711	518

**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>2011/12</b>	2010/11
	<b>Increase/</b>	Increase/
	<b>(decrease)</b>	(decrease)
	<b>£000</b>	£000
Revaluations and impairments were:		
<u>Operational Properties</u>		
Community centres	<b>116</b>	
Sports centres/swimming pool	-	800
Car parks	<b>14</b>	-
Depots	<b>(128)</b>	-
Offices		
Other	-	(39)
<u>Non-operational properties</u>		
Buildings	<b>(23)</b>	320

**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>2011/12</b>	2010/11
	<b>£000's</b>	£000's
Rental income from investment property	<b>(106)</b>	(149)
<b>Net gain</b>	<b>(106)</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. Heritage Assets**

<b>Cost or Valuation</b>	<b>Memorials £'000</b>	<b>Museums £'000</b>	<b>Guildhall £'000</b>	<b>Total £'000</b>
<b>1 April 2010</b>	<b>15</b>	<b>5,840</b>	<b>1,028</b>	<b>6,883</b>
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluations/Impairments	-	-	-	-
Depreciation	-	-	-	-
<b>31 March 2011</b>	<b>15</b>	<b>5,840</b>	<b>1,028</b>	<b>6,883</b>
<b>1 April 2011</b>	<b>15</b>	<b>5,840</b>	<b>1,028</b>	<b>6,883</b>
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluations/Impairments	-	-	-	-
Depreciation	-	-	-	-
<b>31 March 2012</b>	<b>15</b>	<b>5,840</b>	<b>1,028</b>	<b>6,883</b>

In the opinion of the Council St Andrew's Spire cannot be valued. This is a church spire of cultural value for which there is no alternative use that could be used to inform a valuation on market or fair value basis. It is most unlikely that in the event of total destruction the spire would be rebuilt. Therefore cost or valuation information is not available and conventional valuation approaches lack sufficient reliability. The Council is of the opinion that the costs of obtaining valuations for this item would be disproportionate in terms of the benefit derived.

**Museums**

The Council's museums collections are reported in the balance sheet at insurance valuations. The museums collections are managed as part of the Joint Museums Service shared service of the City and Worcestershire County Council. The collections include archaeology, social history, natural sciences, fine and decorative arts (see note 36 for more detail).

**Guildhall**

The Guildhall collections are reported in the balance sheet based upon historic valuations provided in May 1999 by Andrew Grant Fine Art. A full external revaluation of the Guildhall collection is planned to be undertaken during 2012/13.

The collection held at the Guildhall includes oil paintings, water colours, prints, antiques, furnishings, porcelain, silver and Civic Regalia.

**Memorials**

A memorial in memory of a former council employee the Stuart Mc Nidder Memorial, located on the Sidbury canal bridge, features helmets, breastplates and pikes to represent the opposing sides of the Civil War.

The memorial is reported on the balance sheet at insurance valuation.

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**14. 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 2012) for an instrument with the same duration, same structure and terms (or as similar as possible).

Accrued interest to 31 March 2012 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 2012 using bid prices where applicable.

Fair values as at 31 March 2012 are set out below:

	Nominal Value £000	<b>Balance Sheet £000</b>	Fair Value £000
Financial asset - loans & receivables	11,500	<b>11,500</b>	11,524
Financial liability at amortised cost- LOBO loan	5,000	<b>5,073</b>	5,324
Financial liability at amortised cost - PWLB loan	2,538	<b>2,564</b>	2,836

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 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.



## **14. 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.

## **14. 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 18 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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**15. 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 2010. They show that the company has a shareholders deficit at that time of £3,212,808. 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>2011/12</b>	2010/11
	<b>£000's</b>	£000's
Bank/Building Society balances at amortised cost	<b>2,150</b>	3,150
	<b><u>2,150</u></b>	<u>3,150</u>

**16. Long term borrowing**

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

	<b>2011/12</b>	2010/11
	<b>£000's</b>	£000's
P.W.L.B.	<b>2,564</b>	2,598
Money market	<b>5,073</b>	5,073
	<b><u>7,637</u></b>	<u>7,671</u>
Maturing within one year	<b>5,132</b>	5,134
Maturing in 1-2 years	<b>16</b>	48
Maturing in 2-5 years	<b>122</b>	122
Maturing in 5-10 years	<b>220</b>	220
Maturing in more than 10 years	<b>2,147</b>	2,147
	<b><u>7,637</u></b>	<u>7,671</u>

**17. Inventories**

	<b>2011/12</b>	2010/11
	<b>£000's</b>	£000's
IT consumables	<b>10</b>	10
Stock for resale	<b>3</b>	4
Other operations stock	<b>27</b>	31
	<b><u>40</u></b>	<u>45</u>



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<b>18. Debtors</b>	<b>2011/12</b> <b>£000's</b>	2010/11 £000's
Council taxpayers	<b>133</b>	105
Government departments	<b>1,168</b>	1,808
Local authorities	<b>156</b>	284
Worcester Community Housing	<b>222</b>	150
Payments in advance	<b>133</b>	50
Other debtors	<b>2,314</b>	3,081
	<b>4,126</b>	5,478
Less: provision for doubtful debts	<b>(655)</b>	(614)
	<b>3,471</b>	4,864

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.

**19. Cash and cash equivalents**

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

	<b>2011/12</b> <b>£000's</b>	2010/11 £000's
Cash and bank held by the Council	<b>49</b>	1,771
Short term investments	<b>9,350</b>	5,000
	<b>9,399</b>	6,771

**20. Assets held for sale**

	<b>Current</b>		<b>Non Current</b>	
	<b>2011/12</b> <b>£000's</b>	2010/11 £000's	<b>2011/12</b> <b>£000's</b>	2010/11 £000's
<b>Opening balance</b>	100	269	-	-
Assets newly classified as held for sale	55			
Revalued on re-classification	(55)	-	-	-
Property, Plant & Equipment disposals	(100)	(169)		
<b>Closing balance</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>-</b>

<b>21. Creditors</b>	<b>2011/12</b> <b>£000's</b>	2010/11 £000's
Government departments	<b>1,401</b>	645
Local Authorities	<b>1,278</b>	1,599
Receipts in advance	<b>1,899</b>	2,706
Section 106 planning obligations	<b>1,719</b>	2,033
Other creditors	<b>173</b>	1,898
	<b>6,470</b>	8,881

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	<b>2011/12</b>	Restated
	<b>£000's</b>	2010/11
		£000's
<b>22. Unusable reserves</b>		
Revaluation Reserve	<b>11,747</b>	11,565
Capital Adjustment Account	<b>52,196</b>	53,241
Pensions Reserve	<b>(33,005)</b>	(24,884)
Collection Fund Adjustment Account	<b>(25)</b>	(45)
Accumulating Compensated Absences Adjustment Account	<b>(221)</b>	(199)
Deferred Capital Receipts	<b>4</b>	5
	<b><u>30,695</u></b>	<u>39,682</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>2011/12</b>	2010/11
	<b>£000's</b>	£000's
<b>Balance at 1<sup>st</sup> April</b>	<b>11,565</b>	10,249
Upward revaluation of assets	<b>182</b>	1,316
<b>Balance at 31<sup>st</sup> March</b>	<b><u>11,747</u></b>	<u>11,565</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**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
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**22. Unusable Reserves (cont'd)**

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

	<b>2011/12</b>	Restated
	<b>£000's</b>	2010/11
		£000's
<b>Balance at 1<sup>st</sup> April</b>	<b>53,241</b>	53,789
<b><i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i></b>		
Charges for depreciation and impairment of non current assets	<b>(2,340)</b>	(2,256)
Revenue expenditure funded from capital under statute	<b>(59)</b>	(57)
Accumulated Depreciation written out	<b>109</b>	
Statutory provision for repayment of debt	<b>536</b>	502
Amounts of non current assets written off on disposal as part of the gain on disposal to the Comprehensive Income and Expenditure Statement	<b>(100)</b>	(179)
<b><i>Capital financing applied in the year:</i></b>		
Use of the Capital Receipts Reserve to finance new capital expenditure	<b>196</b>	333
Capital contributions	<b>304</b>	99
Use of earmarked reserves	<b>309</b>	160
Application of grants to capital financing	-	850
<b>Balance at 31<sup>st</sup> March</b>	<b><u>52,196</u></b>	<u>53,241</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.

	<b>2011/12</b>	2010/11
	<b>£000's</b>	£000's
<b>Opening Balance</b>	<b>5</b>	7
Council house purchaser payments	<b>(1)</b>	(2)
<b>Closing Balance</b>	<b><u>4</u></b>	<u>5</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**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
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**22. Unusable Reserves (cont)**

**Pensions Reserve (cont'd)**

	<b>2011/12</b>	2010/11
	<b>£000's</b>	£000's
<b>Balance at 1<sup>st</sup> April</b>	<b>(24,884)</b>	(33,787)
Actuarial gains or losses on pension assets and liabilities	<b>(7,219)</b>	5,225
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>(1,760)</b>	2,221
Transfer of assets from shared service schemes	<b>(614)</b>	
Employer's pension contributions and direct payments to pensioners payable in the year	<b>1,472</b>	1,457
<b>Balance at 31<sup>st</sup> March</b>	<b><u>(33,005)</u></b>	<u>(24,884)</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>2011/12</b>	2010/11
	<b>£000's</b>	£000's
<b>Balance at 1<sup>st</sup> April</b>	<b>(45)</b>	67
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>20</b>	(112)
<b>Balance at 31<sup>st</sup> March</b>	<b><u>(25)</u></b>	<u>(45)</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>2011/12</b>	2010/11
	<b>£000's</b>	£000's
<b>Balance at 1st April</b>	<b>(199)</b>	(184)
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>(22)</b>	(15)
<b>Balance at 31st March</b>	<b><u>(221)</u></b>	<u>(199)</u>

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2012

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

The cash flows for operating activities include the following items:

	<b>2011/12</b>	2010/11
	<b>£000's</b>	£000's
Interest received	<b>(178)</b>	(446)
Interest paid	<b>361</b>	371
	<b>183</b>	(75)

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

	<b>2011/12</b>	2010/11
	<b>£000's</b>	£000's
Purchase of property, plant and equipment	<b>750</b>	1,132
Other payments for investing activities	<b>355</b>	554
Payments to capital receipts pool	<b>1</b>	1
Proceeds from the sale of property, plant and equipment and investment property	<b>(334)</b>	(357)
Capital grants received	<b>(26)</b>	(337)
Other receipts from Investing Activities	<b>(296)</b>	(497)
<b>Net cash flows from investing activities</b>	<b>450</b>	496

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

	<b>2011/12</b>	2010/11
	<b>£000's</b>	£000's
Cash receipts of short and long term borrowing	-	-
Other receipts from financing activities	-	(407)
Repayments of short and long-term borrowing	<b>34</b>	71
Other payments for financing activities	-	-
<b>Net Cash Flow from financing activities</b>	<b>34</b>	(336)

**26. Members allowances**

The amount paid to members for basic allowances, special responsibility allowances and attendance allowances, travel and subsistence in 2011/12 was £199,811 (2010/11: £199,700).

**WORCESTER CITY COUNCIL**  
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**27. 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>2011/12</b>				
Fees, charges & other service income	(891)	(11,301)	(783)	(12,975)
Government grants	(37,054)	(331)	(86)	(37,471)
Employee expenses	1,484	7,246	1,871	10,601
Other expenses	36,227	5,153	6,160	47,540
Support service recharges	(3,567)	2,286	1,281	-
<b>Net cost of services</b>	<b>(3,801)</b>	<b>3,053</b>	<b>8,443</b>	<b>7,695</b>

**2010/11**

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	-
<b>Net cost of services</b>	<b>(3,106)</b>	<b>4,560</b>	<b>9,193</b>	<b>10,647</b>

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

	<b>2011/12</b>	2010/11
	<b>£000's</b>	£000's
Net cost of service from segmental analysis	<b>7,695</b>	10,647
Add amounts not reported to management	<b>2,358</b>	(1,837)
<b>Net cost of services in Comprehensive Income and Expenditure Statement</b>	<b>10,053</b>	8,810

**WORCESTER CITY COUNCIL**  
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**27. Amounts reported for resource allocation decisions (cont)**

**Reconciliation to subjective analysis**

	Segmental Analysis	Not reported to Management	Net Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000
<b>2011/12</b>					
Housing and council tax benefits	(35,708)		<b>(35,708)</b>		<b>(35,708)</b>
Benefits administration	(774)		<b>(774)</b>		<b>(774)</b>
Other government grants	(989)		<b>(989)</b>	(5,577)	<b>(6,566)</b>
Interest and investment income			<b>0</b>	449	<b>449</b>
Rents	(343)		<b>(343)</b>	(106)	<b>(449)</b>
Sales, fees and charges	(8,632)		<b>(8,632)</b>		<b>(8,632)</b>
Other income	(4,000)	(471)	<b>(4,471)</b>		<b>(4,471)</b>
Income from council tax			-	(5,448)	<b>(5,448)</b>
<b>Total income</b>	<b>(50,446)</b>	<b>(471)</b>	<b>(50,917)</b>	<b>(10,682)</b>	<b>(61,599)</b>
Employee expenses	10,601	132	<b>10,733</b>		<b>10,733</b>
Premises related expenses	1,624		<b>1,624</b>		<b>1,624</b>
Transport related expenses	816		<b>816</b>		<b>816</b>
Supplies and services	2,441		<b>2,441</b>	362	<b>2,803</b>
Third party payments	7,395		<b>7,395</b>		<b>7,395</b>
Transfer payments	35,264		<b>35,264</b>	(130)	<b>35,134</b>
Capital charges		2,697	<b>2,697</b>		<b>2,697</b>
<b>Gross cost of services</b>	<b>58,141</b>	<b>2,829</b>	<b>60,970</b>	<b>232</b>	<b>61,202</b>
<b>(Surplus)/deficit on the provision of services</b>	<b>7,695</b>	<b>2,358</b>	<b>10,053</b>	<b>(10,450)</b>	<b>(397)</b>
<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			-	(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>(12,611)</b>	<b>(3,801)</b>

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**28. 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	
	2011/12	2010/11
£50,000 - £54,999	4	5
£54,999 - £59,999	-	1
£60,000 - £64,999	-	-
£65,000 - £69,999	2	-
£70,000 - £74,999	1	2
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£105,000 - £109,999	1	1
	<u>8</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:

	2011/12				
	Salary, Allowances, Benefits £	Loss of Office £	Sub Total £	Pension Contributions £	Total £
<b>Post Title</b>					
Managing Director	105,824		105,824	22,117	127,941
Corporate Director CCC*	71,151		71,151	15,294	86,446
Corporate Director SD**	66,129		66,129	13,821	79,950
Finance Services Manager	65,000		65,000	13,585	78,585
Head of Cleaner & Greener***	29,309	55,851	85,161		85,161
	<u>337,414</u>	<u>55,851</u>	<u>393,265</u>	<u>64,817</u>	<u>458,082</u>

\* CCC - Corporate Director Commissioning, Customer Services and Communication

\*\* SD - Corporate Director Service Delivery

\*\*\* Redundant post following new senior Management structure implementation early in 2011

**Exit Packages**

Number of exit packages agreed during 2011-12

	Number
In the band £0-£20k	19
In the band £20-£40k	5
In the band £40-£60k	1



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

	<b>2010/11</b>				
	Salary, Allowances, Benefits £	Loss of Office £	Sub Total £	Pension Contributions £	Total £
<b>Post Title</b>					
Managing Director	105,824	-	105,824	21,164	126,988
Corporate Director Commissioning, Customer Services & Communication*	40,402	-	40,402	8,080	48,482
Head of Cleaner & Greener	74,583	-	74,583	14,488	89,071
Head of Governance & Corporate Support	55,346	38,165	74,583	10,865	85,448
Assistant Head of Safer & Stronger**	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.

**29. 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>2011/12</b> <b>£000's</b>	2010/11 £000's
Accrued external audit fees - Grant Thornton*	<b>104</b>	111
Statutory inspection fees and National Fraud Initiative	<b>2</b>	6
Other Audit Fees	<b>5</b>	63
Certification of grant claims fees	<b>31</b>	30
	<u><b>142</b></u>	<u>210</u>

\* £9k rebate received in year from Audit Commission

**30. Grant income**

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

	<b>2011/12</b> <b>£000's</b>	2010/11 £000's
<b>Credited to taxation and non specific grant income</b>		
DCLG Revenue Support Grant	<u><b>(1,316)</b></u>	<u>(1,039)</u>
<b>Total</b>	<u><b>(1,316)</b></u>	<u><b>(1,039)</b></u>
<b>Credited to services</b>		
DWP Housing Benefit Grants	<b>(35,346)</b>	(34,536)
DWP Housing Benefit Admin	<b>(773)</b>	(798)
DCLG Council Tax Freeze Grant	<b>(134)</b>	-
DCLG Local Services Support Grant	<b>(163)</b>	(116)
DCLG Rough Sleeper's Grant	-	(100)
DCLG-Area Based Grant	-	(36)
DCLG Regional Housing	-	(182)
DCLG New Homes Bonus	<b>(406)</b>	-
DCLG Disabled Facilities Grant	<b>(270)</b>	(225)
DCLG Single Person Homelessness	<b>(254)</b>	-
DCLG Mortgage Rescue	<b>(43)</b>	-
DCMS Free Swimming	-	(28)
DFT Concessionary Fares	-	(540)
DWP Discretionary Housing Payments	<b>(32)</b>	(12)
Electoral Commission	<b>(85)</b>	-
<b>Total</b>	<u><b>(37,506)</b></u>	<u><b>(36,573)</b></u>

### **31. 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). Grants received from government departments are set out in the subjective analysis in Note 10 and in detail in Note 30.

#### 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.

Some Council members are also members of 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 Worcester Community Housing, St Richard's Hospice, Worcester Racecourse, Worcester Racial Equality Council Ltd, Citizens Advice Bureau, Visit Worcester Forum, Worcestershire Partnership Board and The Hopmarket Charity.

#### Officers

The Council's Managing Director is a representative member of Worcester Alliance.

**WORCESTER CITY COUNCIL**  
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**31. Related party transactions (cont'd)**

Entities Controlled or Significantly Influenced by the Council

The Council is a partner in the South Worcestershire Shared Services Joint Committee, the Joint Museums Shared Service and the Worcestershire Regulatory Shared Service Joint Committee. All of these partnerships are jointly controlled operations.

Under the South Worcestershire Shared Services Joint Committee Revenues and Benefits, Customer Services (through the Worcestershire Hub), Building Control, and ICT are provided as shared services by the partner Councils.

During 2011/12 the Council paid £1.752m to Wychavon District Council the host of the Revenues and Benefits Shared Service, £176k to Malvern Hills District Council for South Worcestershire Building Control Service, £372k(net) to Worcestershire County Council for the Worcestershire Hub and £503k (net) to Worcestershire County Council for the provision of the ICT Shared Service and £1.123m to Worcestershire County Council for provision of Property services.

Under the Worcestershire Regulatory Shared Service Joint Committee the Council paid £626k (net) to Bromsgrove District Council, the host authority.

Under the Joint Museums Shared Service the Council paid £513k to Worcestershire County Council , the host authority.

	<b>2011/12</b>	2010/11
	<b>£000's</b>	£000's
<b>32. Capital expenditure and financing</b>		
<b>Capital expenditure adding to non-current asset valuation</b>		
Land and buildings	<b>118</b>	-
Vehicles, plant and equipment	<b>188</b>	539
Work in progress	<b>444</b>	593
<b>Additions to fixed assets</b>	<b>750</b>	1,132
<b>Capital expenditure not adding to fixed asset valuation</b>		
Revenue expenditure funded from capital under statute	<b>355</b>	554
<b>Total Capital expenditure</b>	<b>1,105</b>	1,686
<b>Financed by:</b>		
Approved borrowing	-	261
Usable capital receipts	<b>196</b>	333
Grants and other contributions	<b>296</b>	834
Capital reserves	<b>309</b>	159
Section 106 funds	<b>304</b>	99
<b>Total capital financing</b>	<b>1,105</b>	1,686

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
**For the year ended 31st March 2012**

**33. Leases**

The Council uses leased commercial vehicles, and office equipment under the terms of an operating lease. Operating lease payments in 2011/12 are £3,917 (2010/11: £10,743). The Council's outstanding liability in future years under these lease arrangements is £5,820

**34. Information on assets held**

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

	<b>2011/12</b> <b>value</b> <b>£000</b>	<b>2011/12</b> <b>number</b>	2010/11 value £000	2010/11 number
<b>Operational assets</b>				
Offices	<b>5,250</b>	<b>2</b>	5,250	2
Car parks	<b>21,129</b>	<b>14</b>	21,115	14
Hostel	<b>300</b>	<b>1</b>	300	1
Community centres	<b>7,661</b>	<b>8</b>	7,545	8
Leisure and sports facilities	<b>11,900</b>	<b>3</b>	11,900	3
Museums	<b>3,450</b>	<b>2</b>	3,450	2
Shared ownership dwellings	<b>1,296</b>	<b>20</b>	1,296	20
Cemetries and crematorium	<b>1,120</b>	<b>2</b>	1,120	2
Depots	<b>950</b>	<b>1</b>	950	1
Public conveniences	<b>705</b>	<b>5</b>	720	5
Bus shelters	<b>240</b>	<b>80</b>	240	80
Vehicles	<b>2,659</b>	<b>39</b>	2,669	40
	<b>56,660</b>	<b>177</b>	56,555	178
<b>Community assets</b>				
Sports pitches	<b>647</b>	<b>37</b>	647	37
Allotment sites	<b>220</b>	<b>15</b>	220	15
	<b>867</b>	<b>52</b>	867	52
<b>Non-operational assets</b>				
Commercial units and shops	<b>1,960</b>	<b>20</b>	1,935	20
Worcester Racecourse freehold	<b>200</b>	<b>1</b>	200	1
	<b>2,160</b>	<b>21</b>	2,135	21
<b>Total</b>	<b>59,687</b>	<b>250</b>	59,557	251

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2012

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**35. 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 2011/12:

<b>Comprehensive Income and Expenditure Account</b>	<b>2011/12</b>	2010/11
	<b>£000's</b>	£000's
<b>Net cost of service</b>		
Current service cost	<b>1,001</b>	1,207
Past service and curtailment costs	<b>132</b>	(4,703)
<b>Net operating expenditure</b>		
Return on assets	<b>(3,574)</b>	(3,422)
Interest on pension liabilities	<b>4,201</b>	4,697
<b>Appropriations</b>		
Movement on pensions reserve	<b>(288)</b>	3,678
<b>Net charge to the income and expenditure account</b>	<b>1,472</b>	1,457
<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>1,472</b>	1,457

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2012

**35. 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 2012 £000's	31st March 2011 £000's	31st March 2010 £000's	31st March 2009 £000's	31st March 2008 £000's
Market value of assets	49,177	52,615	50,812	35,606	47,221
Estimated liabilities	(82,182)	(77,499)	(84,599)	(63,224)	(74,187)
<b>Net liability</b>	<b>(33,005)</b>	<b>(24,884)</b>	<b>(33,787)</b>	<b>(27,618)</b>	<b>(26,966)</b>

The net liability of £33,005m 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:

	<b>2011/12</b> %		2010/11 %
Rate of CPI inflation	<b>2.5</b>		2.9
Rate of increase in salaries	<b>4.0</b>		4.4
Rate of increase in pensions	<b>2.5</b>		2.9
Discount rate on liabilities	<b>4.9</b>		5.5

	<b>Expected</b> <b>Rate of Return</b> <b>2011/12</b> %	<b>Proportion</b> <b>of assets</b> <b>2011/12</b> %	Expected Rate of Return 2010/11 %	Proportion of assets 2010/11 %
Equities	<b>7.0</b>	<b>88.9</b>	7.5	92.7
Bonds - Government	<b>3.1</b>	<b>3.2</b>	4.4	2.6
Bonds - Other	<b>4.1</b>	<b>4.0</b>	5.1	3.8
Cash / Liquidity	<b>0.5</b>	<b>3.9</b>	0.5	0.9

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
For the year ended 31st March 2012

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

<b>Mortality assumptions:</b>		<b>2011/12</b>	2010/11
Life expectancy at 65 for <b>current</b> pensioners:	Men	<b>22.1</b>	22.0
	Women	<b>24.6</b>	24.5
Life expectancy at 65 for <b>future</b> pensioners:	Men	<b>23.5</b>	23.4
	Women	<b>26.1</b>	26.1
Commutation of pension for lump sum at retirement		<b>50%</b>	50%
		<b>2011/12</b>	2010/11
		<b>£000's</b>	£000's
<b>Movement in liability</b>			
Net pensions liability at 1st April		<b>(24,884)</b>	(33,787)
Current service costs		<b>(1,001)</b>	(1,207)
Employer's contributions		<b>1,472</b>	1,457
Past service / curtailment cost		<b>(132)</b>	4,703
Net interest / return on assets		<b>(627)</b>	(1,275)
Transfer of assets from shared service schemes		<b>(614)</b>	
Actuarial (loss)/gain		<b>(7,219)</b>	5,225
<b>Net pensions liability at 31st March</b>		<b>(33,005)</b>	(24,884)

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>2012</b>	2011	2010	2009	2008
	<b>%</b>	%	%	%	%
Difference between expected and actual return on assets	<b>9.4</b>	(0.8)	(27.4)	(40.4)	(24.4)
Experience					
Gains/losses on Liabilities	<b>0.0</b>	6.9	0.0	0.0	(7.9)

The total contributions expected to the Local Government Pension Scheme by the Council in the year to 31st March 2013 is £1.419m.

**WORCESTER CITY COUNCIL**  
**NOTES TO THE CORE FINANCIAL STATEMENTS**  
**For the year ended 31st March 2012**

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

**Pensions liability relating to shared services**

For those Shared Services governed by Joint Committees this Council transferred its staff to the host authorities (Wychavon District Council – Revenues and Benefits, Worcestershire County Council – Worcestershire Hub and ICT, Malvern Hills District Council - Building Control and Bromsgrove District Council for Regulatory Services) on a fully funded basis for pension's purchases.

The shared services were admitted to the pensions fund as a ghost admitted bodies, as such any liability or surplus that accrues is the responsibility of the partners to those shared services. This arrangement has now changed for the shared services within the South Worcestershire Shared Service Joint Committee and on 1<sup>st</sup> April 2011 the each partner council's share of the ghost admitted bodies' assets and liabilities in the pension scheme was transferred back to them. The staff of each shared service are now included within the host council's scheme.

The tables below show the overall deficit of the remaining shared service still in a ghost admitted body – Worcestershire Regulatory Shared Service. The council's share of assets and liabilities in this scheme represents 11.11% of the total.

**As at 31 March 2012**

	Regulatory Services £'000
Present value of liabilities	(18,167)
Fair value of assets	16,951
Deficit in scheme	(1,216)
Worcester City Council share of deficit	(135)

	Regulatory Services £'000	Revenues & Benefits £'000	SW2 (ICT) £'000	Building Control £'000	Worcestershire Hub £'000
<b>As at 31 March 2011</b>					
Present value of liabilities	(16,973)	(8,663)	(3,820)	(1,426)	(3,832)
Fair value of assets	17,200	7,333	3,590	1,520	3,898
Surplus/(Deficit) in scheme	227	(1,330)	(230)	94	66
Worcester City Council share of surplus/(deficit)	25	(568)	(69)	27	11

No provision is made to recover the 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.



### **36. Heritage Assets: Further information on the Councils' collections.**

#### **Natural History**

##### *Herbarium*

A large and significant part of the collections, with at least 10,000 individual specimens comprising a wide variety of flowering plants, mosses, algae, lichens, liverworts, ferns and fungi, the majority from Worcestershire and including the earliest recorded specimens of several species. The nineteenth century collections of local naturalists include those of William Matthews, Harvey Buchanan Holl, and J.H. Thompson. The collection of over 300 specimens of flora from Wyre Forest was amassed by George Jordean, butler to a surgeon from Bewdley. The herbarium is now generally very fragile and the greatest priority is to improve its storage.

##### *Geology*

The geological collection was mainly assembled in the 19th century. It holds important scientific material including type, figured and cited specimens. It has historical significance because of the association with the early pioneers of the science including Murchison, Phillips, Lyell, Buckland and Owen. The individual collections of well known local geologists can still be recognised, including Strickland, Hastings, Symonds, Buchanan Hall, Allies, Roberts, Reece and Winnington-Ingram.

##### *Stratigraphical Collection*

A large collection of British rocks and fossils dating from the Precambrian to the Pleistocene. The majority are from Worcestershire and the neighbouring counties. They include material collected during the construction of the Malvern and Ledbury railway tunnels in the nineteenth century. Many individual collections have been amalgamated to form this reference collection.

##### *Vertebrate Collection*

A small collection of mainly British and local vertebrate fossils determined and listed by Delair. It contains some of the most spectacular specimens as well as important scientific and historical material. The particular strengths are local Old Red Sandstone fish, Liassic ichthyosaurs and Pleistocene mammal remains from the River terrace deposits of the Severn and Avon.

##### *Birds, Mammals, Fish, Shells and Insects*

A substantial collection of birds both full mounts and study skins. The largest single part of the collection, including most of the study skins, was bequeathed to the Museum in 1907 by Robert Fisher Tomes, a local Justice of the Peace and collector.

A selection of British, particularly local, mammal specimens purchased mainly in the late twentieth century. This is further enhanced by groups of horns and bones.

A small collection of mainly British freshwater fish, but including the amazing sturgeon, nearly 2 metres in length, which was caught in Worcester in the 1830s.

### **36. Heritage Assets: Further information on the Councils' collections (cont'd)**

A small group of mainly British corals, sponges, sea urchins and crustaceans.

Some 10,000 examples of land, sea and freshwater shells, including collections by Whitmore, Gale, Martin, Moseley and Thomas. This includes examples from Worcestershire, and is one of the largest such collections in a provincial museum.

Several thousand specimens of mainly British butterflies, moths and beetles, including the collections of Carlton Rea and Bloom, and those from the former Malvern Museum.

#### **Fine Art**

Early work includes two 17th century views of the city and a Dutch interior by David Teniers III (1638-85), as well as a landscape attributed to Thomas Gainsborough (1727-1788).

A good collection of 19th century landscape paintings by important local artists including, Benjamin Williams Leader, Henry Harris Lines, Harry Adams, David Bates.

A significant collection of late 19th century and early 20th century landscape and interior paintings showing the influence of French plein-air naturalism, alongside a British concern for social realism. This area of the collection includes work by Alexander Stanhope Forbes (1857 - 1947), William Blandford Fletcher (1858-1936), Charles Napier Hemy (1841-1917), Arthur Mead (1864-1948), Julius Olson (1864-1942) Laura Knight (1877-1970) and Sir Arnesby Brown (1866 -1955). Many of these artists were of national importance and were members of the New England Art Club (NEAC). This area of the collection is important as it represents the start of modernism in British art, providing a link between the strengths of the 19th century collections and the contemporary collection of landscape based work.

The Sale Bequest of 19th century English watercolours is one of the strongest and most coherent elements of the collection. There are 87 watercolours altogether, including 29 works by David Cox (1783-1859), and works by Samuel Prout (1783-1852), Peter de Wint (1784-1849), Thomas Sidney Cooper, William Callow (1812-1908) and W.J. Muller (1812-1845).

A small collection of 20th century watercolours including work by Lamorna Birch and Eileen Lawrence.

A significant collection of contemporary work in all medias acquired through the Contemporary Art Society Special Collections Scheme with funding from the Arts lottery and the Elmley Foundation. This collection focuses on work which explores the imagery of contemporary landscape, particularly that which contrasts with the often idyllic rural scenes already represented in the rest of the art collection. This collection includes works by Paul Seawright, Sophy Ricketts, Willie Doherty, Heather & Ivan Morrison, Carol Rhodes and Dan Holdsworth.

Topographical paintings, prints, drawings and photographs of Worcester, many of exceptional artistic merit and documentary value.

### **36. Heritage Assets: Further information on the Councils' collections (cont'd)**

#### **Archaeology**

Includes:

Large deposits from the key city centre excavations Lychgate, Crown Gate, Blackfriars, Sidbury, Copenhagen Street, High Street, Deansway and the Magistrates Court.

Significant collections of flints by three key collectors: A.E. Jones, Bruton and Bowen. Stone axes from several sites across Worcestershire.

Bronze age pottery and axes from sites both in the city and wider county; a Bronze Age sword dredged from the River Severn.

Roman pottery, glass, metalwork, glassworking and bronzeworking waste plus a rural Roman milestone. Roman Severn Valley and Samian ware are also well represented.

Anglo Saxon jewellery, metalwork, a sword and scabbard and a saggy-bottomed pot from sites both in the city and wider county.

Medieval pottery, floortiles, domestic metalwork, glass, shoes and a rare barrel latrine from sites within the city walls.

Post medieval pottery and glass bottles. Eighteenth and Nineteenth porcelain waste and kiln furniture from the city industry.

Human remains including Roman cremations and skeletons demonstrating industrial and social illnesses and medical interventions. The nature of the city site is that burial grounds have been filled and subsequently redeveloped for alternative uses. A more detailed policy to cover this complex area of human history collecting is currently in draft format.

Associated documentary archives of pro-forma site records, notes, maps, plans, drawings, photographs, written reports and digital material.

#### **Social History & Applied Art**

Includes:

##### *Working Histories*

Large industrial and agricultural machinery from key Worcester firms including items from Lee & Perrins, Fownes Glovemakers, Spetchley Bros Brewery and Guinness Hop Farm. In some cases they represent the first stage of mechanisation and demonstrate local enterprise and creativity in the design of the process.

Sizeable collections from individual Worcester tradesmen and small firms, including the Stewards Chemist Shop, Littlebury printers, early twentieth century offices and a cobbler's shop.

### **36. Heritage Assets: Further information on the Councils' collections (cont'd)**

A large and important collection of gloves - the Ring Glove collection – and a range of glovemaking tools both from factories and outworkers. This reflects Worcester's international recognition between the 18th and 20th century as a centre for the manufacture of gloves.

A small collection of shoes drawn from Worcester's late nineteenth and early twentieth century shoemaking factories.

A representative collection of Royal Worcester porcelain (a comprehensive collection is held by the Museum of Worcester Porcelain) from 1751 to the present day alongside interesting examples of work by other local, English and international manufacturers, with a particularly strong collection of Boehm of Malvern.

Ephemera from Worcester firms such as Kays.  
*Community, Domestic and Personal Histories*

Architectural fragments, particularly from churches, in Worcester. In some cases the area has been redeveloped and the building no longer exists. Together with photographic records recording architectural change in the city, these form a physical record of the urban landscape.

Weaponry, armour and historic items relating the Civil War period and the particular role of Worcester.

Coins, token and medals, both with a Worcester connection and from wider England, including coinage from the earliest times.

A moderately-sized costume collection including some examples of agricultural costume and a small collection on long-term loan collected by the Worcester Women's Institute.

Domestic items with a particular strength in kitchen items and cookery.

A small collection of furniture, including a varied school collection.

#### **Preservation and Management**

Appropriate storage, handling and, when required, conservation ensure that the collections continue to be accessible to the people of Worcestershire and beyond. Budget and staff time are allocated each year towards achieving a professional level based on exceeding the minimum standard in *Benchmarks in Collections Care for Museums, Libraries and Archives* and on raising the *Fast Forward* benchmark score.

With many artefacts, a balance must be reached to enable access today and preservation for the future. Curatorial judgements are made about loans, displays, educational activities and storage methods on an object-by-object basis but with an overarching presumption that access should be increased wherever possible.

Specialist expert advice is sought whenever collections require active intervention or conservation. Use is made of professional networks and of staff funded through Arts Council England Renaissance funding streams.

### **36. Heritage Assets: Further information on the Councils' collections (cont'd)**

The number of objects requiring active conservation is larger than resources available and additional funding is sought through grant applications and public appeals. Prioritisation of spend is based on a triage judgement of damage and is planned alongside the exhibition and display programmes. Museums Worcestershire will display items requiring conservation in their damaged state if to do so will not further increase the damage, but these will always be accompanied by an explanation of the issue for the public. Active conservation work is commissioned from professional conservators on the *Conservation Register* either to train in-house staff and volunteers or to undertake specialised work.

The Worcester City Museums Acquisition and Disposal Policy 2008-2013 and the Museums Worcestershire Collections Management Policy (adopted June 2012) detail procedures and policy for collection development, care, research and conservation.

### **37. Heritage Assets: Summary of Transactions**

Transaction Information is not provided before 1 April 2010 as it is not practical to provide this information.

There have been no significant acquisitions or disposals of Heritage Assets since 1 April 2010. The Joint Museums Service annual report identifies changes to the museums collections.

### **38. Contingent Liability**

The council is in the process of a legal claim involving a former employee. The extent of the liability is contingent on a ruling later in the year.

**WORCESTER CITY COUNCIL  
COLLECTION FUND  
For the year ended 31st March 2012**

		<b>2011/12</b>	2010/11
		<b>£000's</b>	£000's
Note	<b>Income</b>		
1,2,6	Council Tax	<b>(48,031)</b>	(47,387)
3,6	National Non-Domestic Rates	<b>(37,314)</b>	(35,183)
		<b><u>(85,345)</u></b>	<u>(82,570)</u>
	<b>Expenditure</b>		
1	<b>Precepts and demands</b>		
	County Council	<b>34,137</b>	34,661
	City Council and Parishes	<b>5,428</b>	5,508
	Police Authority	<b>5,872</b>	5,961
	Fire Authority	<b>2,419</b>	2,457
		<b><u>47,856</u></b>	<u>48,587</u>
	<b>Non-domestic rates</b>		
	Payments to national pool	<b>37,174</b>	35,038
	Cost of collection allowance	<b>140</b>	145
		<b><u>37,314</u></b>	<u>35,183</u>
	<b>Bad and doubtful debt provisions</b>		
5	Council Tax	<b>-</b>	(200)
		<b><u>-</u></b>	<u>(200)</u>
4	(Surplus)/deficit for the year	<b>(175)</b>	1,000
	Deficit/(surplus) as at 1 April	<b>395</b>	(605)
	Fund deficit as at 31 March	<b><u>220</u></b>	<u>395</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 2011/2012 and £1,453.52 for 2010/2011) 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 Band D equivalents	Proportion	Amount £
Band A	4,284	6/9	969.03
Band B	9,582	7/9	1,130.53
Band C	8,633	8/9	1,292.02
Band D	4,584	1	1,453.52
Band E	3,552	11/9	1,776.54
Band F	1,767	13/9	2,099.54
Band G	582	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>2011/12</b> <b>£000's</b>	2010/11 £000's
Due from taxpayers	<b>41,277</b>	40,950
Council Tax benefit	<b>6,754</b>	6,436
Total Council Tax	<b><u>48,031</u></b>	<u>47,386</u>

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

NNDR is organised on a national basis. The Government specifies an amount (43.3p in 2011/2012 and 41.4p in 2010/2011) 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 £37.314m for 2011/2012 (£35.183m for 2010/2011) was based on an average rateable value for the Council's area. The rateable value was £100.14m at 31st March 2012. (£100.21m at 31st March 2011).

**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 £220k at 31st March 2012 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>2011/12</b> <b>£000's</b> <b>Deficit</b>	2010/11 £000's Deficit
Worcestershire County Council	<b>157</b>	282
West Mercia Police Authority	<b>27</b>	49
Hereford and Worcester Fire and Rescue Authority	<b>11</b>	20
Worcester City Council	<b>25</b>	44
	<b><u>220</u></b>	<b><u>395</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> <b>£000's</b>
Brought forward at 1 April	<b>539</b>
Charge/credit for year	<b>-</b>
Carried forward at 31 March	<b><u>539</u></b>

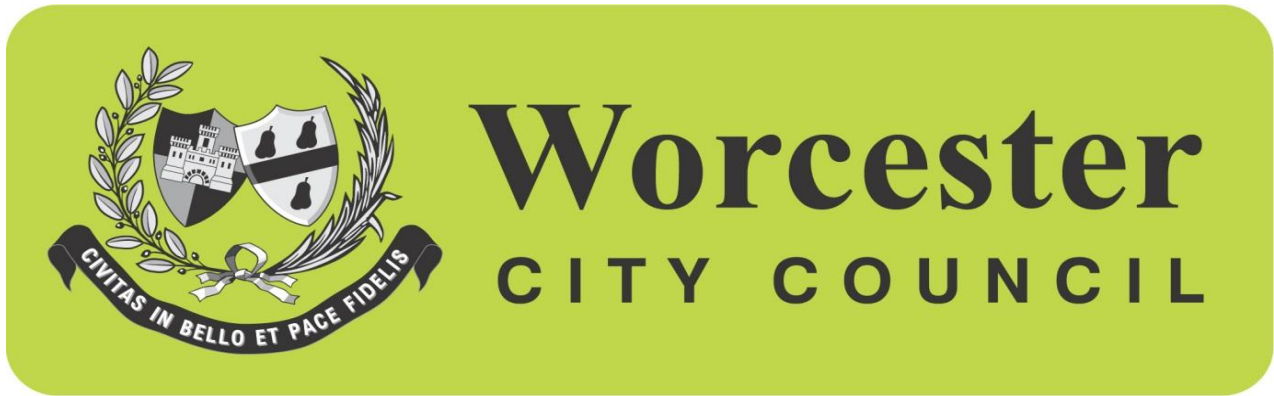
**6. Write Offs**

The amounts written off were as follows:

	<b>2011/12</b> <b>£000's</b>	2010/11 £000's
Council Tax	<b>99</b>	317
NNDR	<b>198</b>	443

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 first rank Cathedral and University City**

### **Approval of Statement of Accounts 2011/12**

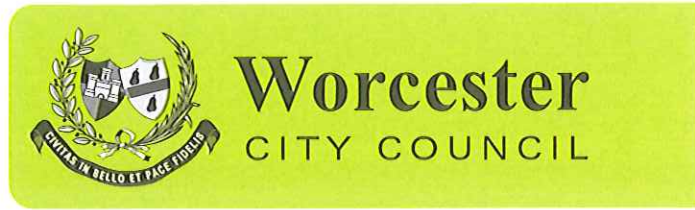
I confirm that this Statement of Accounts including the Annual Governance Statement were approved by Council at its meeting held on 25th September 2012.

Signed on behalf of Worcester City Council

A handwritten signature in black ink, appearing to read 'R Berry', is written over a horizontal dotted line.

**Councillor Roger Berry  
Mayor and Chairman of the Council**

Grant Thornton UK LLP  
Enterprise House  
115 Edmund Street  
BIRMINGHAM  
B3 2HJ



25<sup>th</sup> September 2012

Dear Sirs

**Worcester City Council Financial Statements for the Year Ended 31 March 2012**

This representation letter is provided in connection with the audit of the financial statements of Worcester City Council for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, both issued by CIPFA / LASAAC.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i We acknowledge, as Senior Officers / Council Members our responsibilities for preparing financial statements which give a true and fair view and for making accurate representations to you.
- ii We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code); in particular the financial statements give a true and fair view in accordance therewith.
- iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- vi All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

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

**Location:** Orchard House Complex, Farrier Street, Worcester WR1 3BB

**Typetalk:** 18001 01905 722233 **DX:** 716287



- vii We have not adjusted the misstatements brought to our attention on the audit differences and adjustments summary, attached to this letter, as they are immaterial to the results of the company and financial position at the year-end and for the reasons noted on the schedule. The financial statements are free of material misstatements, including omissions.

### **Information Provided**

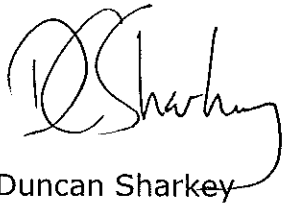
- viii We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- ix All transactions have been recorded in the accounting records and are reflected in the financial statements.
- x We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- xiii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xiv We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

### **Annual governance statement**

- i The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

- ii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Yours faithfully



Duncan Sharkey

**Managing Director**

25<sup>th</sup> September 2012

*DS 20/9/12*



Lesley Meagher

**Finance Services Manager**

25<sup>th</sup> September 2012

*LM 26/9/12*

### **Approval**

The approval of this letter of representation was reviewed by the Council's Audit Committee and approved by full council at its meeting on 25<sup>th</sup> September 2012.

### **Addendum – unadjusted misstatements**

As reported by the external auditor, the Council's income and debtor position for 2011/12 are overstated by £45k. This has arisen due to an overstatement of the income due from benefits subsidy, which also impacts on the debtor position. Audit Committee, in its meeting on 10<sup>th</sup> September 2012 agreed with the decision not to adjust for this misstatement.

Worcester City Council

**Annual report to those charged with governance**

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For the year ended 31 March 2012

# Contents

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This report has been prepared to advise you of the matters arising from our final accounts audit and should not be used for any other purpose or be given to third parties without our prior written consent.

Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking your own specialist advice as appropriate.

We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

# 1 Executive summary

## 1.1 Introduction

This report has been prepared for Worcester City Council (the Council) to meet the objectives of the Audit Commission's Code of Audit Practice and the mandatory requirements of International Standard on Auditing (UK & Ireland) 260. Further details on the background to this report are set out at Appendix A.

## 1.2 Acknowledgements

Whilst some errors and misstatements have been identified through the course of the audit, we recognise the professionalism of the finance team in meeting the Council's earlier deadline for the preparation of the financial statements.

## 1.3 Key audit and financial reporting issues

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of its financial position.

Our audit is substantially complete with, following receipt of the final adjusted financial statements, only the completion of our work on the annual governance statement and assurance work for the National Audit Office remaining.

### Financial statements opinion

We did not identify any audit adjustment that impacted on the Council's reported income and expenditure position (statement of comprehensive income). Further adjustments were made to figures presented in disclosure notes, but were not significant in isolation or in aggregate.

One proposed audit adjustment, identified through the course of our work, remains unadjusted. This has the effect of overstating the Council's benefit subsidy income and debtor position by £45k.

### Value for money

We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

Following formal consideration by our national consistency panel, we are pleased to report that, based on our review of the Council's arrangements, we propose to give an unqualified conclusion.

Further details are set out in section 6.

## 1.4 Controls

### Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls, or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### Findings

A number of recommendations were reported to you in our controls report, following completion of our interim audit. Our subsequent work has not

identified any further significant weaknesses that we wish to highlight for your attention.

We have made a small number of recommendations, which are set out in the action plan at Appendix C. Recommendations have been discussed and agreed with the Finance Services Manager and the finance team.

### **1.5 The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Finance Services Manager.

In addition to the recommendations noted above, Appendix C summarises action required by the Audit Committee as follows:

#### **Actions required**

- 1 The Audit Committee is required to formally minute whether it agrees with officers' decision not to adjust the stated income and debtor position downwards by £45k
- 2 The Audit Committee is required to review the proposed management representation letter (Appendix B) and formally record whether, to the best of the Members' knowledge, it is satisfied that the letter may be signed in good faith.
- 3 Subsequently, the Audit Committee is required to use the findings and recommendations arising from our work to inform its opinion on the overall effectiveness of the Council's financial reporting arrangements and consider whether there are specific matters that prevent the formal adoption of the financial statements.

Once the Audit Committee has formally minuted its conclusions on the above, we will be able to confirm our proposed audit opinion, which we expect to be unqualified.

**Grant Thornton UK LLP**  
**September 2012**



## 2 Key audit issues

### 2.1 Status of audit

Our audit is substantially complete, with only the completion of our work on the annual governance statement and assurance work for the National Audit Office remaining.

### 2.2 Qualitative aspects of financial reporting

The qualitative aspects of our audit of your financial statements include the selection of appropriate accounting policies and the appropriateness of significant estimates and judgments made by officers in compiling the accounts.

#### Accounting policies

The Council's accounting policies are in accordance with International Financial Reporting Standards, as adapted through the Code of Practice on Local Authority Accounting for 2011/12. We are also able to confirm the accounting policies were consistently applied to the material transactions in the Council's financial statements.

#### Significant estimates and judgements

We evaluated the underlying assumptions and reasonableness of the significant estimates and judgements made by your finance team in preparing the financial statements. These mainly affected the accounting for property, plant and equipment assets and the uncertainty over future government funding.

We requested additional disclosures were required to explain the Council's judgement that, based on a review of its asset base, it had not separated significant assets into components because the impact was not material to the true and fair presentation of the financial statements. We also requested

that the Council included further narrative to explain the identification and classification of investment properties, this was felt necessary because these assets are recorded at fair value.

Overall, we are satisfied that a reasonable approach has been taken and that the Council's key estimates and judgements support a true and fair view of the financial statements.

### Going concern

#### Introduction

Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, a council is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Council's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business. A key consideration of going concern is that the Council has the cash resources and reserves to meet its obligations as they fall due in the foreseeable future.

International Financial Reporting Standards (IFRS) require an organisation's directors to assess and satisfy themselves that it is appropriate to prepare financial statements on a going concern basis.

The Code of Practice on Local Authority Accounting for 2011/12 sets out the following interpretation of going concern in the public sector context:

"An authority shall prepare its financial statements on a going concern basis unless there is an intention by government that the services provided by the authority will no longer be provided. An intention by government to

transfer services from one authority to another (for example, as part of local government reorganisation) does not negate the presumption that the authority is a going concern."

The auditor's responsibility is to consider the appropriateness of the use of the going concern assumption in preparing the financial statements and to consider if there are material uncertainties about Worcester City Council's ability to continue as a going concern that need to be disclosed in the financial statements.

**Our conclusion**

Overall, we believe there are no matters that cast significant doubt over the appropriateness of the use of the going concern assertion in preparing the Council's financial statements. Further consideration on the Council's financial resilience is considered through our value for money conclusion.

**2.3 Resolution of audit and accounting issues**

We have not had to alter or change our audit plan, which we communicated to you in our Annual Audit Plan dated January 2012.

Our responses to the matters identified at the different stages of our audit are detailed below.

**Audit and accounting issues identified at the planning stage**

Issue	Audit Areas affected	Work completed	Assurances gained and issues arising
Accounting for heritage assets	Property, plant and equipment	<ul style="list-style-type: none"> <li>We have considered the Council's treatment of heritage assets in the 2011/12 financial statements, including the prior year comparatives, against the Code of Practice.</li> </ul>	<ul style="list-style-type: none"> <li>Minor adjustments were required to the presentation of heritage assets in the financial statements and further narrative added to the disclosure note.</li> </ul>
Financial performance pressures	All areas of the financial statements	<ul style="list-style-type: none"> <li>We have reviewed the Council's financial performance for the financial year against its agreed budget.</li> <li>We have considered the use of general reserves and the adequacy of these for the future.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's performance against budget and adequacy of reserves has been considered as part of our Value for Money review and used to inform the conclusion proposed.</li> </ul>

Issue	Audit Areas affected	Work completed	Assurances gained and issues arising
Follow up of 2010/11 findings	All areas of the financial statements	<ul style="list-style-type: none"> <li>We have reviewed the Council's progress in implementing the recommendations from our 2010/11 audit.</li> </ul>	<ul style="list-style-type: none"> <li>We reported our findings in our 'Controls Report' and confirmed 10 of 12 recommendations had been implemented. We can now confirm the remaining two recommendations have now been implemented.</li> </ul>

**Update on issues identified during our 2011/12 audit programme**

Issue	Audit Areas affected	Work completed	Assurances gained and issues arising
Redundancy	Provisions	<ul style="list-style-type: none"> <li>We discussed the Council's position on potential redundancy and severance costs, including the potential accounting triggers.</li> <li>We updated our understanding of the Council's position with its cost improvement programme and the accounting implications for the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>We are satisfied that the accounting triggers requiring the Council to create a redundancy provision were not met and therefore not included in the statement of accounts.</li> <li>We have required disclosure of exit packages paid during the year in a note to the accounts.</li> </ul>
Reasonably possible risks	Property, plant and equipment Operating expenses Cash Employee remuneration	<ul style="list-style-type: none"> <li>We identified four systems where we believed there was a risk of material misstatement arising.</li> <li>For each system, we performed walkthroughs to identify and verify activity level controls.</li> <li>We performed further testing on the significant balances and transactions resulting from these financial systems.</li> </ul>	<ul style="list-style-type: none"> <li>Our work in these areas has not identified any control weaknesses not previously reporting to you by internal or external audit, with the exception of those stated in Section 4.2 of this report relating to Property, Plant and Equipment.</li> <li>Our further work during the substantive testing stage of our audit concluded that there were no material misstatements in these areas.</li> <li>Details of our main audit adjustments are recorded in section 3 of this report.</li> </ul>

## 3 Audit adjustments

### 3.1 Introduction

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### 3.2 Unadjusted misstatements

One item has not been adjusted in the financial statements. The Council prepared its financial statements using information extracted from the general ledger. Subsequent to this, on submission of the benefits subsidy claim to the Department of Work and Pensions, the return shows a decrease to the debtor position of £45k.

The financial statements therefore overstate the income for the year and debtor position by £45k.

#### Action required

The Audit Committee is required to formally record whether it is satisfied with officers' decision not to process this amendment.

### 3.3 Adjusted misstatements

#### Adjustments identified through our audit work

The most significant audit adjustments, which have been discussed with, and processed by, officers, are set out below.

#### Exit packages

The draft financial statements did not disclose the number of exit packages paid to staff. This was amended to show:

- 19 people receiving an exit package between £10k-£20k
- 5 people receiving an exit package between £20-£40k
- 1 person receiving an exit package between £40k-£60k

#### Contingent liability

The Council has an on-going legal case relating to a former employee that is not expected to be resolved until December 2012.

It is possible that the case will give rise to a liability; however, since the outcome and value is dependent on the court ruling, it is appropriate for the Council to include a contingent liability disclosure to this effect in the financial statements.

#### Accumulated depreciation

Accumulated depreciation to the value of £109k, was not reversed out of the accounts for a small number of assets that were re-valued during the year. This has no impact on the Council's reported financial position.

**Audit fees**

The draft financial statements showed 'certification of grant claim fees' as £5k and 'other audit fees' as £31k. However, the figures have been transposed and should show 'certification of grant claim fees' as £31k and 'other audit fees' as £5k.

**Disclosures omissions**

We identified several changes to disclosures presented in the accounts, which have been discussed with, and processed by, management. These were not significant in isolation, nor in aggregate, but fell under three main headings:

- further narrative and disclosure changes on heritage assets.
- expansion of financial instrument disclosures to more fully meet the financial reporting requirements.
- changes and additions to the pensions disclosures.

## 4 Design effectiveness of internal controls

### 4.1 Introduction

The majority of our work relating to the Council's key financial controls was carried out earlier in the year and documented in our interim report. This section of our report sets out any additional matters arising from our final accounts audit.

See Appendix A for further details of our approach in respect of internal controls.

### 4.2 Accounting system and internal control

Our audit is not designed to identify all significant weaknesses in the Council's internal controls but is designed primarily for the purpose of expressing our opinion on the financial statements of the Council. However, where, as part of our testing, we identify control weaknesses, we report these to you.

In consequence, our work did not encompass a detailed review of all aspects of the internal controls and cannot be relied upon necessarily to disclose all defalcations or other irregularities, or to include all possible improvements in internal control.

#### Property, Plant and Equipment

The Council had not revalued a small number of assets for over five years, the most significant items were the Pitchcroft Racecourse and Perdiswell Bowling. On further investigation and discussion with the Council's valuer, we obtained evidence and assurance that these assets had not changed in value.

Furthermore, through our substantive testing of revaluations, there was no evidence from the valuer's report and supporting papers that the useful economic life of the asset was considered and updated if necessary. This was also discussed with the Council's valuer to ensure the approach had been applied, if not documented.

Both matters have been raised and discussed with officers and agreed that further completeness checks on asset lives and completeness of the valuers documentation shall be improved for 2012/13.

Both of these recommendations are reported at Appendix C.

### 4.3 Management of the risk of fraud

We have considered the processes in place to identify and respond to the risk of fraud at the Council. The Council considers that there are adequate processes in place to mitigate against the risk of fraud and that those charged with governance have sufficient oversight over these processes to give them the assurances they require in this area.

There are no issues noted by the Council's internal audit service that present a material risk to the accuracy of the financial statements.

### 4.4 Review of journal postings

In our controls report, we commented that senior finance staff are able to post journals. We tailored our audit procedures to address this risk, by using our specialist audit software to identify, and subsequently test, a sample of journals posted by any senior member of the finance team. We have no concerns to report to the Council as a result of this test.

## 5 Other reporting matters

### **5.1 Annual governance statement**

Councils are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA and SOLACE. The AGS is published alongside the financial statements and remains live until the adoption of the financial statements by full Council.

We have reviewed the Council's arrangements and processes for compiling the AGS and considered whether it is either misleading or inconsistent with other information known to us from our audit work. We have identified a small number of areas for improvement and have shared these with the Council. We will review the final document before concluding our 2011/12 audit.

### **5.2 Whole of government accounts**

We are required to report on the Council's consolidation schedules to provide assurance to the National Audit Office (NAO) for its work on the whole of government accounts.

The deadline for the completion of our work on the consolidation schedules is 5 October 2012 and we will complete this review upon receipt of the final amended financial statements.

### **5.3 Public questions and objections**

We did not receive any questions or objections from the public or other interested parties in respect of the financial statements for the year ended 31 March 2012.

## 6 Value for money conclusion

### 6.1 Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance, and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience:** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness:** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### 6.2 Key findings

#### Securing financial resilience

To support our conclusion against this criterion we have completed a detailed risk assessment which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- strategic financial planning
- financial governance, and
- financial control.

We concluded that the Council has proper arrangements in place for each of the three characteristics.

The detailed findings of our review were reported separately to the Council in our report on the Council's arrangements for securing financial resilience.

#### Challenging economy, efficiency and effectiveness

We have completed a detailed risk assessment of whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We concluded that the Council has proper arrangements in place for each of these characteristics.

### 6.3 Overall conclusion

#### Respective responsibilities of the audited body and auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for



securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience, and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, Worcester City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

## A Background to the report

ISAK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

### **Purpose of report**

This report has been prepared for the benefit of discussions between Grant Thornton, the Audit Committee of Worcester City Council.

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2012.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Council.

Although this report has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed to third parties without our prior written consent.

### **Responsibilities of the directors and auditors**

The directors are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

### **Clarification of roles and responsibilities with respect to internal controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Council that it has done so.

The Audit Committee is required to review the Council's internal financial controls. In addition, the Audit Committee is required to review wider internal controls and the management of risk.

The Audit Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Audit Committee.

### **Independence**

Ethical standards require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- the appointed engagement lead and audit manager are subject to rotation every five years, although this may be extended by two further years with the Audit Commission's agreement;
- Grant Thornton, its partners and directors and the audit team have no family, financial

- employment, investment or business relationship with the Council; and
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual engagement lead.

In accordance with best practice, we analyse our fees below:

	£
Code of Practice Audit Fee	112,100
Other fees:	
Assurance based review of the crematorium	5,000
<b>Total</b>	<b>117,100</b>

**Audit quality assurance**

Grant Thornton's audit and assurance practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council, which has responsibility for monitoring the firm's public interest audit engagements and its Audit Commission audit appointments.

The audit and assurance practice is also monitored by the Quality Assurance Directorate of the ICAEW and Grant Thornton conducts internal quality reviews of engagements.

## B Letter of representation

Dear Sirs

### **Worcester City Council Financial Statements for the Year Ended 31 March 2012**

This representation letter is provided in connection with the audit of the financial statements of Worcester City Council for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, both issued by CIPFA / LASAAC.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i We acknowledge, as Senior Officers / Council Members our responsibilities for preparing financial statements which give a true and fair view and for making accurate representations to you
- ii We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code); in particular the financial statements give a true and fair view in accordance therewith.
- iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- vi All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- vii We have not adjusted the misstatements brought to our attention on the audit differences and adjustments summary, attached to this letter, as they are immaterial to the results of the company and financial position at the year-end and for the reasons noted on the schedule. The financial statements are free of material misstatements, including omissions.

### **Information Provided**

- viii We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- ix All transactions have been recorded in the accounting records and are reflected in the financial statements.
- x We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- xiii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xiv We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

### **Annual governance statement**

- i The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- ii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

### **Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 10 September 2012.

### **Addendum – unadjusted misstatements**

As reported by the external auditor, the Council's income and debtor position for 2011/12 are overstated by £45k. This has arisen due to an overstatement of the income due from benefits subsidy, which also impacts on the debtor position.

## C Recommendations and action plan

<b>Report reference</b>	<b>Recommendation</b>	<b>Responsibility and due date</b>
Section 1.5 and Section 3.2	The Audit Committee is required to formally minute whether it agrees with management's decision not to adjust the stated debtor position downwards by £45k	Audit Committee, 10 September 2012
Section 1.5	The Audit Committee is required to review the proposed management representation letter (Appendix B) and formally record whether, to the best of the Members' knowledge, it is satisfied that the letter may be signed in good faith.	Audit Committee, 10 September 2012
Section 1.5	The Audit Committee is required to use the findings and recommendations arising from our work to inform its opinion on the overall effectiveness of the Council's financial reporting arrangements and consider whether there are specific matters that prevent the formal adoption of the financial statements.	Audit Committee, 10 September 2012
Section 4.2	The Council needs to ensure that when an asset is revalued, all assets of the same class are revalued at the same time. In addition, the Council needs to ensure that revaluations are kept up-to-date.	Estates Services Manager, March 2013
Section 4.2	The Council needs to more clearly document its consideration of the useful economic life of the asset when performing a valuation.	Estates Services Manager, March 2013



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

### **Opinion on the Authority financial statements**

We have audited the financial statements of Worcester City Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Worcester City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Finance Services Manager and auditor**

As explained more fully in the Statement of the Finance Services Manager's Responsibilities, the Finance Services Manager is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Finance Services Manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Worcester City Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.



### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

### **Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, Worcester City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

**Certificate**

We certify that we have completed the audit of the accounts of Worcester City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Kyla Bellingall**

Senior Statutory Auditor, for and on behalf of Grant Thornton UK LLP  
Colmore Plaza, 20 Colmore Circus, Birmingham, B4 6AT

26 September 2012

