AUDIT COMMITTEE – 21 SEPTEMBER 2012

Title of paper:	**Statement of Accounts 2011/12**	
Director(s)/ Corporate Director(s):	Tony Kirkham - Acting Chief Finance Officer	**Wards affected: All**
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Other colleagues who have provided input:		

Relevant Council Plan Strategic Priority: (you must mark X in the relevant boxes below)	
World Class Nottingham	
Work in Nottingham	
Safer Nottingham	
Neighbourhood Nottingham	
Family Nottingham	
Healthy Nottingham	
Leading Nottingham	x

Summary of issues (including benefits to citizens/service users):

On 29 June 2012 the Acting Chief Finance Officer, approved The Statement of Accounts (the Statements) for 2011/12 as giving a true and fair view of the financial position, income and expenditure, in accordance with the Accounts and Audit Regulations 2011.

At this point, the Statements were also subject to external audit, with the audit having to be concluded by 30 September 2012. In order to conclude the audit, the District Auditor is required to present an Annual Governance Report (AGR) to "those charged with Governance" by 30 September 2012, which is subject to a separate report on this agenda.

The Accounts and Audit Regulations 2011 also require the Audit Committee to consider and approve the Statement. The Chair of the Audit Committee and Deputy Chief Executive and Corporate Director for Resources are then required to sign a Statement of Responsibilities, including approval of the accounts. It is proposed to hold a separate meeting following Audit Committee to arrange for the signature of this statement.

Recommendation(s):

1	The Statement of Accounts, as attached, is considered and approved.
2	The Annual Governance Report and the Council's response to the issues it raises are considered.

1. BACKGROUND

Changes to the format and content of the accounts

Following the introduction of International Financial Reporting Standards (IFRS) for all local authorities from 2010/11, this year officers have reviewed the content and layout of the Statement, in order to introduce a number of improvements and make the accounts more understandable. The changes include:

- Inclusion of an Executive Summary (attached as Appendix A for ease of Reference)
- Change in the order in which the main statements are presented.
- A new section bringing together:
  - Explanations of the difference between the funding basis and accounting basis of accounting and
  - Net Portfolio spend on a funding basis.
- Organising the Notes to the Accounts in line with the main statements.

In addition local authorities were required to introduce a new Financial Reporting Standard (FRS) for Heritage Assets and disclosure requirements for exit packages. These changes have resulted in a restatement of the 2010/11 Statements for the new valuations of Heritage Assets together with a number of additional notes.

Key Risks Identified for 2011/12

For 2011/12 both Officers and the Audit Commission identified a number of key risks and improvements that needed to be planned for in 2011/12:

a) Termination of Net Line 1 PFI Contract

   The termination of the PFI contract and acquisition of Arrow Light Rail Ltd involved a series of complex transactions and a scenario that had not previously been faced by any other authority. Therefore there was no precedence that could be referred to.

   In the light of the above the Council appointed PWC as financial consultants to advise on the treatment and accounting entries required. Officers also ensured that this work was finalised and agreed by early May so the Council could also confirm their approach with the Audit Commission.

b) Heritage Assets

   As a new FRS was being introduced for this area, resources and timescales were planned so that all background work was completed by January. Details were then provided to the Audit Commission to ensure that they agreed with the methodology used.

c) Related Parties Disclosure

   The 2010/11 Annual Audit Letter (AAL) identified councillors' and senior officers' responses as an area for improvement. The recommendations in the AAL were implemented together with several additional measures to try and obtain a greater number of responses earlier in the year.

d) HRA Reform

   The HRA reform introduced by the Government for the end of 2011/12 introduced a number of one-off entries in the Statements, however, guidance on the accounting treatment was provided by CIPFA.

e) Payroll Establishment

   Verifying the payroll establishment had proved to be an area of difficulty for the 2010/11 Audit. In implementing the East Midlands Shared Services project the Council introduced a robust set of controls on establishment and payroll budgets. Officers ensured that the Audit Commission were involved at an early stage in this process to ensure that the Audit requirements were fulfilled.

f) De-recognition of Property, Plant and Equipment

   The only major item for the 2010/11 Statements in the Annual Governance Report related to de-recognition. An approach to identifying de-recognition for the 2011/12

Statements was therefore developed and agreed with the Audit Commission during the Autumn of 2011.

g) Audit Timetable

The Audit for 2010/11 encountered some difficulties in ensuring all the work was completed on time. Discussions were, therefore, held with the Audit Commission to identify areas of work that could be started earlier to avoid the difficulties encountered last year.

In addition to the above the Audit Commission identified Accounts Payable and Housing Valuations as additional areas of risk, however, officers believed that sufficient work had already been carried out in these areas to ensure that the accounts were robust.

Changes to the accounts following audit review

The District Auditor has reviewed information provided in the Statements for 2011/12 and the changes required to the 2010/11 comparatives for the introduction of the new FRS for Heritage Assets. Inevitably, certain changes arise from the work undertaken by both colleagues and the District Auditor as they examine the accuracy and completeness of the Council's annual accounts. Many of these changes are technical accounting changes and presentational in nature.

The changes made relate to a need to adjust or reclassify items within the Movement in Reserves Statement (MIRS), Comprehensive Income and Expenditure Statement (CIES), Cash Flow Statement and Balance Sheet. The Group Accounts have also been amended to reflect the changes made in the core statements.

The net effect of these changes on the General Fund balance, reflecting the Council's 'bottom line', is nil and, for the majority, there is no impact on the ‘net worth’ of the Council. The ‘net worth’ of the Council equates to the balance of assets held after deducting all liabilities, which is also represented by the reserves held by the Council. The notes relating to these adjustments within the core statements have also been revised accordingly.

Appendix 3 of the AGR included elsewhere on the agenda provides details of the amendments required to statements, and the revised Statements have been issued with the changes shown in blue. This has been done to assist in tracking the changes from the original statement approved by the Chief Finance Officer in June. Improvements to the narrative within the Statements have also been made in order to further improve the clarity of the accounts.

2. THE AUDITORS FINDINGS

2.1 Major items identified from 2011/12 audit

The only material item included in the AGR relates to the treatment of the termination of the Net Line 1 PFI. In spite of the measures put in place to ensure the accuracy of the transactions, the Audit Commission’s detailed review identified the investment in Arrow Light Rail, in particular, as an area where they were of the opinion that the Council had not treated transactions fully in line with the code.

The Council had received professional advice which recommended that the investment in Arrow Light Rail should be included in the Balance Sheet at cost. This advice was adhered to by the Council. However, the Audit Commission’s technical expert disagreed with this advice. The Audit Commission’s view is that such investments in subsidiaries should be shown at fair value as per IAS36 (Impairment of Assets). After further consultation, the professional advisors agreed with the Audit Commission and altered their advice accordingly. The effect of this change in valuation method is a reduction in short term investments within the Balance Sheet of £30.901m with an equivalent charge to the Comprehensive Income and Expenditure Statement. However, there is no impact on the General Fund as this charge is balanced out by a contribution from Unusable Reserves. It is important to be aware that this is merely a technical adjustment that reflects the transfer of business to the new operator and was factored into the contract for NET Phase 2.

The Audit Commission identified a further two areas of the NET line 1 termination requiring amendments to the accounts. These items were of less significance, in the following areas:

- De-recognition of the trams.
- PFI interest paid during 2011/12

The Audit Commission identified a number of smaller adjustments in other areas of the Statements. The Statements have, therefore, been amended accordingly. The remaining items highlighted in the Annual Governance Report relate to providing additional information in either the statements or notes to the accounts.

2.2 Value for Money Conclusion

The District Auditor is required to review whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. The District Auditor has provided an unqualified conclusion and there are no items to bring to councillors' attention.

3. ANNUAL GOVERNANCE REPORT (AGR) AND INTERNATIONAL STANDARD ON AUDITING (ISA) 260

The AGR in respect of Nottingham City Council's accounts for the financial year 2011/12 is included on this agenda. The ISA requires external auditors to report to "those charged with governance" before the 30 September 2012; in the City Council case, this requires a report to the Audit Committee.

4. FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY/VAT)

As detailed in the report

5. RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS AND CRIME AND DISORDER ACT IMPLICATIONS)

Not Applicable

6. EQUALITY IMPACT ASSESSMENT

Has the equality impact been assessed?

Not needed (report does not contain proposals or financial decisions) X

No ☐

Yes – Equality Impact Assessment attached ☐

7. LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION

Final Accounts working papers

8. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Executive Summary - Amended

The Statement of Accounts provides a summary of the Council's financial performance for 2011/12. The Council's performance is primarily reflected in the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet, while the Movement in Reserves and Cash Flow statements provide further analysis of specific movements on the Balance Sheet.

Income and Expenditure

When setting its Budget and Council Tax for 2011/12 the Council is required to follow legislative requirements to fund its expenditure (Funding Basis). On the Funding Basis the Council generated a surplus of income over expenditure amounting to £3.082m after contributions to earmarked reserves of £2.223m. This surplus increases the General Fund by £3.082, and was generated by a budgeted surplus of £3.913m, an under spending by services of £2.295m, offset by additional uses of the General Fund totalling £3.126m. Further analysis can be found within section 2.2 of the Explanatory Foreward.

The CIES, however, is produced using International Financial Reporting Standards (IFRS) and shows a deficit of £353.571m. The difference from the Funding Basis is due to the inclusion of the Housing Revenue Account, the treatment of capital financing and timing differences in the recognition of income and expenditure. The additional deficit is therefore used to reduce Housing Revenue Reserves (£0.577m) Capital Financing Reserves (£4.543m) and unusable reserves (£353.803m). Further explanation of these differences can be found in section 5 of the accounts and also in note 6.3.1.

Balance Sheet

The Balance Sheet shows the value of the Council's assets and liabilities at the end of the financial year. The most significant assets relate to the value of Property Plant and Equipment (PPE). The value of these assets has fallen by £101.875m. This movement is as a result of a number of factors:

- Expenditure on new PPE assets or improving existing assets has increased their value by £207.559m.
- PPE assets have been depreciated to reflect use over their lifetime. This charge has reduced the value of these assets by £75.551m
- Each year the Council's PPE assets are reviewed to assess whether their depreciated value reflects an objective assessment of their current value. This assessment has resulted in a reduction to the value of these assets by £85.561m.
- A number of schools have switched to Academy status resulting in £94.778m of assets being removed.
- The disposal, sale or removal of other PPE assets has reduced their value by £53.544m

Further details can be found in note 6.2.1

Within long term liabilities, expenditure on assets that have been financed by borrowing has helped to produce a net increase in the long term borrowing figure of £140.575m. This increase has however, been offset due to the repayments on existing loans. The Council is required to monitor its need to borrow arising from capital expenditure (Capital Financing Requirement) which currently stands at £892.990m, an increase of £99.902m. Note 6.5.9 provides further details of capital expenditure and its financing.

The Balance Sheet also includes a liability of £536.819m relating to pension schemes. This liability represents the likely pension entitlements payable to all current staff and pensioners offset by the current value of the pension fund. This method of assessing the impact of pensions can be very volatile, resulting in significant charges or credits to the CIES. For 2011/12 the charge to the CIES was £188.110m. The Funding Basis approach, however, maintains an element of stability by only accounting for the annual employer's contributions and payments to the fund. The Pension Fund is then periodically reviewed and employer's contributions are adjusted to meet liabilities over the longer term. The difference in approaches therefore relates to timing differences in recognising the net charge to the CIES.

The figure for Net Assets represents an overall view of the net value of the Council after netting off all assets and liabilities. For Nottingham City Council this figure stands at £791.883m.

Previous years' surpluses and deficits on the CIES are reflected in the reserves figures. The reserves are split between usable and unusable. Usable reserves are available to support the Council's revenue budget, otherwise known as the General Fund (£11.686m), Earmarked Reserves (£105.249m) the Housing Revenue Account (£4.594m) and Capital Financing (£31.957m). Unusable reserves are created to account for the timing differences between the Funding Basis and IFRS basis of accounting. These reserves are therefore not available for distribution as they are required as and when the timing differences fall out. Further details of the reserves and movements can be found in the Movement in Reserves Statement and in notes 6.2.11 and 6.2.12.

Group Accounts

Group Accounts consolidate statements for the Council together with organisations where the Council has material financial interests and a significant level of control. The 2011/12 Group Accounts consolidate the accounts for Nottingham Ice Centre, Nottingham City Transport, Enviroenergy, Nottingham City Homes, Connexions, Arrow Light Rail Ltd and Bridge Estate.

On an IFRS basis the group shows a deficit of £375.994m. The value of the Group as represented by Net Assets is £775.361m and Usable Reserves amount to £158.545m.