report

Nottinghamshire County Council

meeting	COUNTY COUNCIL		
date	30^{TH} JUNE 2011	agenda item number	**14**

REPORT OF THE SERVICE DIRECTOR (FINANCE)

STATEMENT OF ACCOUNTS 2010/11

1. Purpose of Report

1.1 To inform the County Council of the new process for approval of the Statement of Accounts as laid down in the Accounts and Audit Regulations (England) 2011.

1.2 To present the pre-Audit Statement of Accounts for review by the County Council.

2. Approval of Accounts

2.1 The Accounts and Audit Regulations (England) 2011 came into force on 31^{st} March 2011 amending the process for approval of the Statement of Accounts.

2.2 Previously the County Council was required to approve the accounts before the end of June when they were made available to members of the public, and prior to them being subject to external audit. The revised procedures require the Section 151 Officer to authorise the Statement of Accounts for issue by 30^{th} June and the County Council to authorise them following completion of the external audit, prior to 30^{th} September.

2.3 This change in procedure brings the authorisation process in line with that in the private sector and enables Members to be informed of external audit findings, prior to approving the accounts.

2.4 The Statement of Accounts has, however, still been brought to the June County Council meeting to allow for review of the pre audit draft as in previous years.

3. Review Information

3.1 The 2010/11 Statement of Accounts has for the first time, been prepared under International Financial Reporting Standards (IFRS), as implemented by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (“The Code”). The changes arising from the move to the new standards have been implemented retrospectively i.e. as if the new standards had always been in force.

3.2 This means that prior period adjustments have been made to restate the 2009/10 comparative figures, which has resulted in a change in total net liabilities from £99.2 million to £2.1 million.

3.3 The other most significant restatement adjustments are shown in Note 1 to the accounts and related to:

- Accounting for government grants
- Accounting for non-maintained schools
- Accounting for leases and lease type arrangements
- Employee benefits (accrual of untaken leave)

3.4 The impact on the General Fund of all the changes made to the accounts has been offset so that there is no impact on Council Tax as a result of the restatement. This has been achieved by making additional earmarked reserves or by adjusting the General Fund through the Movement in Reserves (see item 4.1).

4. Explanation of the Main Accounting Statements

4.1 The Statement of Movement in Reserves shows the movement in the year on the different reserves held by the authority, analysed into ‘usable reserves’ (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes which are adjusted for in the Statement. The main adjustments relate to

- Capital investment and financing whereby charges are made when capital investment is financed rather than when capital assets are consumed

- Retirement benefits which are charged as amounts become payable to the pension funds and pensioners rather than when benefits are earned.

The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council

4.2 The Comprehensive Income and Expenditure Statement summarises the resources that have been generated and consumed in providing services and managing the County Council during 2010/11. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of property, plant and equipment consumed and the real projected value of retirement benefits earned by employees in the year. The Account shows how net expenditure was financed from the Council Tax, Revenue Support Grant, National Non Domestic Rates and other non-specific government grants.

4.3 The Comprehensive Income and Expenditure Statement shows a surplus on the provision of services of £87.8 million compared to a restated deficit of £153.7 million in 2009/10. The 2010/11 past service credit for pensions costs of £147.7 million referred to at 3.8 plus a 2009/10 loss of £50.0 million relating to the transfer of buildings to Foundation Schools account for the majority of the movement.

4.4 The net cost of services decreased by £174.9 million (primarily due to a one off pension credit of £147.7 million (see item 5.5) with the balance of the reduction being due to lower levels of impairment of the land and property portfolio charged to the I&E (see item 5.3) offset by additional restructuring costs of £20.2 million. Within the cost of services is £11.6 million of single status back pay (2009/10 = £12.8 million) which has been treated as an exceptional item.

5. Review of Major Financial Movements

5.1 Additional borrowings have been brought onto the Authority's Balance Sheet as a result of finance lease liabilities associated with Tram Net 1 PFI scheme assets. Whilst this has an impact on the Capital Financing Prudential Indicators, it is not sufficient to breach the levels already set and therefore no changes are required for 2010/11. It is anticipated that the withdrawal from the Tram Net 1 PFI scheme will be completed before 31 March 2012 and therefore there should not be an impact upon the 2011/12 Capital Financing Prudential Indicators.

5.2 As in the previous year, the Authority produced group accounts as a consequence of our relationship with Nottingham and Nottinghamshire Futures Limited (formerly Con nexions Nottingham Limited), a company jointly owned with Nottingham City Council providing information, advice and guidance services to young people aged 13-19 in Nottinghamshire (and Nottingham City) from 1 April 2008.

5.3 Last year's report highlighted the impact upon the accounts of the fall in property values resulting from the general economic climate. The "book" value of the County Council's property portfolio has continued to decline, albeit to a lesser extent than during the previous year. The net reduction in value was £42.8 million compared to the restated net reduction last year of £243.7 million. Of this year's reduction £5.0 million was offset against previous revaluation gains with the remaining £37.8 million being written down through the Income and Expenditure Account. None of these reductions affect the General Fund balance and will not have an impact on Council Tax.

5.4 The Balance Sheet shows that total assets exceed total liabilities by £471.9 million a significant improvement over last year when, on the restated basis, total liabilities exceeded total assets by £2.1 million. The figures are calculated after taking account of estimated pension liabilities calculated by the actuary using IAS 19 methodology.

5.5 The assessed IAS 19 Pensions liability at 31 March 2011 was £581.6 million a substantial reduction from the 31 March 2010 liability of £1,071.7 million. This reduction is primarily due to the increase in future pensions being based on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as announced by Government. This change has also led to a credit of £147.7 million being recognised in the Income and Expenditure Account in respect of a reduction in past service cost. None of these changes affect the General Fund balance and will have no impact on Council Tax.

5.6 The amount of long term borrowing together with long-term finance lease liabilities (related to PFI schemes) is £423.6 million, which compares favourably with the value of long-term assets of £1,590.8 million.

5.7 The Council has earmarked “usable reserves” of £114.4 million, i.e. items identified for specific purposes, and a County Fund balance i.e. free reserves, of £28.1 million. As shown in the Management Accounts report (also on today’s agenda), the General Fund balance increased by £3.3 million in 2010/11 which was £5.3 million above the £2.0 million reduction envisaged in the original budget. The total level of earmarked and free reserves is £142.5 million compared to £150.1 million last year, a reduction of £7.6 million. This movement on the individual usable reserves and the purpose for which they are held is shown in Note 41 to the accounts.

5.8 The Schools Statutory Reserve has decreased by £6.2 million to £31.8 million, a proportion of which relates to unspent Standards Fund grant which must be spent by the end of August 2011. The reduction in the reserve is primarily due to the funding of 50% of the £12.0 million schools NJE pay review costs charged in the 201/11 Income and Expenditure Account. The Schools Statutory Reserve is committed to be spent on schools and is not available to the Authority for general use.

5.9 The value of the Council’s short term investments has decreased by £54.4 million due to changes in the regulations regarding the use of Pension Fund cash balances. Prior to 1 April 2010, the County Council legitimately used Pension Fund cash to support its capital programme and paid interest to the pension fund at the average 7-day rate for this use. Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 the County Council is no longer able to do this and so pension fund cash is not included in the temporary investment balances.

5.10 The level of short-term debtors in the Balance Sheet has decreased by £11.0 million. This is principally due to a reduction in balances due from Central Government bodies of £13.5 million, arising from the overall reductions in grant funding, partially offset by an increase in general debtors of £2.5 million. The value of creditors has decreased by £7.4 million with a reduction in the amount due to Central Government bodies of £16.9 million and in increase in general creditors of £9.5 million.

6. Statutory and Policy Implications

6.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, Crime and Disorder and those using the service. Where such implications are material, they have been described in the text of the report.

7. Recommendations

7.1 That County Council

a) Note the new procedures for approval of the accounts

b) Note the draft Statement of Accounts 2010/11

c) Are prepared to approve the audited Statement of Accounts 2010/11 in accordance with the new regulations

Paul Simpson
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Background Papers available for inspection

The Accounts and Audit Regulations (England) 2011

Pre Audit Statement of Accounts 2010/11

Legal Services Comments (17/6/11 HD)

County Council is authorised to agree the recommendation set out in the report.