

**North Tyneside Council  
Report to Council  
Date: 28 September 2012**

**ITEM 5**

**2011/12 Annual Financial Report**

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<b>Portfolio(s):</b> Elected Mayor Finance	<b>Cabinet Member(s):</b> Mrs Linda Arkley Councillor Judith Wallace
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**Report from Directorate:** Finance and Resources

**Report Author:** Fiona Rooney  
Strategic Director of Finance and Resources (Chief Finance Officer) Tel 6435724

**Wards affected:** All Wards

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**PART 1**

**1.1 Purpose:**

To seek Council's approval of the 2011/12 Audited Annual Financial Report in accordance with Section 8 (3) of the Accounts and Audit (England) Regulations 2011.

**1.2 Recommendation(s):**

Council is recommended to:

- (a) Approve the Audit Commission's Annual Governance Report and agree the draft Letter of Management Representation and proposed action plan; and
- (b) Approve the 2011/12 Audited Annual Financial Report .

**1.3 Forward plan:**

The Council is required under the Accounts and Audit (England) Regulations 2011 and the Chartered Institute of Public Finance and Accountancy's Code to prepare and approve its accounts for the financial year 2011/12 by 30 September 2012. Council are therefore requested to approve the 2011/12 Annual Financial Report attached as Appendix A to this report.

## **1.4 Council plan and policy framework:**

The 2011/12 Annual Financial Report covers the financial aspects of all service responsibilities as identified within the Council Plan and the Council's policy frameworks.

## **1.5 Information:**

- 1.5.1 It is a requirement of Section 8 (3) of the Accounts and Audit (England) Regulations 2011 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code that the Council approve its audited Annual Financial Report for the financial year 2011/12 by 30 September 2012.
- 1.5.2 The Council's Financial Regulations state that full Council is responsible for approving the Annual Financial Report (paragraph 4.32 and Financial Procedure Rule: Financial management, Appendix A paragraph A.51 to A.58 refer).
- 1.5.3 The audit of the 2011/12 accounts has recently been concluded and an unqualified audit opinion is expected to be issued. The Audit Commission's Annual Governance Report in respect of the 2011/12 Annual Financial Report was presented to Tuesday's Audit Committee (25 September 2012). In the report the Audit Commission noted that "The financial statements submitted for audit were of good quality and were supported by a well planned closedown process and comprehensive working papers". No material errors were identified in the financial statements. A small number of non material errors identified during the audit have been corrected and are reflected in the Annual Financial Report. A copy of the Annual Governance Report is attached as Appendix B.
- 1.5.4 The audited 2011/12 Annual Financial Report is attached for consideration and approval as Appendix A to this report. The Statement follows a statutory format as set out in the CIPFA Code and Service Reporting Code of Practice.

### **Annual Financial Report**

1.5.5 The main elements of the Annual Financial Report are:

- (a) Explanatory Foreword by the Chief Finance Officer;
- (b) General Statistics about the Council;
- (c) The statutory accounts themselves, namely;
  - Statement of Responsibilities;
  - Comprehensive Income and Expenditure Statement;
  - Movement in Reserves Statement;
  - Balance Sheet;
  - Cash Flow Statement;
  - Housing Revenue Account; and,
  - Collection Fund Statement.

- Statement of Accounting Policies adopted when compiling the accounts;

(d) The Annual Governance Statement.

1.5.6 Each account above is supported by a comprehensive set of supporting and explanatory notes.

### Summary

1.5.7 The Council's Annual Financial Report is prepared in accordance with statute and accounting Codes of Practice. The Accounts record the Council's financial position as at 31 March 2012 by way of a series of formal statements such as the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement. For the most part these statements do not reflect the Council's internal management and monitoring arrangements and for this reason a Finance Outturn report for 2011/12 was presented to Cabinet on 11 June 2012. That report follows the format of the budget monitoring reports presented to Cabinet through the year and can be read in conjunction with the Annual Financial Report to gain a full picture of the Council's financial management in the year. A copy of the Finance Outturn report can be accessed via the Council's website or the intranet.

1.5.8 As noted in the Outturn report, the Council had to manage several major financial pressures in the year over and above the approved budget as well as reductions in funding. Despite this the final outturn position was on budget and the Council's General Fund Balance remains unchanged at £6.604m. The Housing Revenue Account balance increased by £0.294m to £4.299m, and schools balances increased by £0.302m to £6.726m. The Council incurred expenditure of £48.528m in the year on its Capital Plan (£34.868m General Fund and £13.660m Housing).

### The Statement of Accounts

1.5.9 A summary of the main features of the 2011/12 statutory accounts follows:

1.5.10 The **Comprehensive Income and Expenditure Statement** (page 15) records revenue transactions (for both the General Fund and the Housing Revenue Account) through the Council's books for the financial year. As its name indicates this account includes the income and expenditure for each service as set out in the Service Reporting Code of Practice, along with expenditure on precepts and levies, interest paid, investment income, gains and losses on disposal of fixed assets and the costs associated with pensions. It also includes general income from Government Grants, Council Tax and Business Rates.

1.5.11 For 2011/12, the result of these transactions is a net deficit on the Comprehensive Income and Expenditure Statement of £265.010m (£205.225m in 2010/11). For local authorities, such a deficit represents an accounting convention and it does not impact on the Council's balances at the year-end. For that reason, the Comprehensive Income and Expenditure Statement needs to be read in conjunction with the **Movement in Reserves Statement** (page 16), which makes a series of further accounting adjustments to arrive at the actual movement in balances in the year.

- 1.5.12 The Movement in Reserves Statement shows that after these adjustments there was an increase in schools balances of £0.302m (to £6.726m). The General Fund balance itself has not changed and remains at £6.604m. The Housing Revenue Account balance increased by £0.294m.
- 1.5.13 In light of these relatively small changes in year-end balances, further clarification follows about the £265.010m deficit on the Comprehensive Income and Expenditure Statement.
- 1.5.14 The **Cost of Services** line in the Comprehensive Income and Expenditure Statement represents the net expenditure incurred by the Council in the direct provision of services. This is presented in the format required by the CIPFA Code and Service Reporting Code of Practice, which does not reflect the way in which the Council's budgets and monitoring reports are set out. The net expenditure of £304.663m is £57.190m higher than in 2010/11. This is primarily a result of large accounting variations within this movement that are shown as Exceptional Items in the Comprehensive Income and Expenditure Statement. The main items are a £148.585m impairment of HRA assets in 2010/11, £128.193m of new HRA loans required this year to enable Self Financing of the HRA from 2012/13, and the accounting adjustment that was required in 2010/11 for changes to the method of pension valuation from the Retail Prices index (RPI) to the Consumer Prices Index (CPI). These are shown in the Table 1 below:

**Table 1: extract from the Comprehensive Income and Expenditure Statement:**

2010/11 Net Expenditure £000		2011/12 Net Expenditure £000
148,585	Exceptional Item HRA	128,193
(93,887)	Exceptional Item NDC	0

- 1.5.15 **Other Operating Expenditure** in 2010/11 included £135.942m loss on the disposal of schools to the North Tyneside Learning Trust to reflect the schools that transferred during that year. During 2011/12 the comparable figure was £28.694m for the 3 schools that transferred. It should be noted that the schools would revert back into Council ownership if certain criteria cease to be met, however, the assets have been disposed of in accounting terms.
- 1.5.16 **Financing and Investment Income and Expenditure** were lower in the year, reflecting the low interest rates experienced during the year and the reduction in cash balances and short term investments held by the Council, in line with the Treasury Management Strategy.
- 1.5.17 **Taxation and Non-Specific Grant** fell as a result of an overall reduction in Government Grants.

- 1.5.18 **Actuarial Losses on Pension Assets/Liabilities** increased by £90.010m to £104.380m reflecting the change in the assumed value of the pension fund relative to expected payments required.
- 1.5.19 **The Movement in Reserves Statement** is a summary of the changes that have taken place in the “bottom half” of the Balance Sheet over the financial year. The statement is analysed into “useable reserves” (that is those that can be used to fund expenditure) and “unuseable reserves” (these are accounting entries). As outlined above there has been an increase of £0.302m in General Fund Balances relating to schools, and an increase of £0.294m in the Housing Revenue Account balance. The statement also shows that there was a net transfer from Earmarked Balances of £2.817m, largely arising from the planned use of the Strategic Reserve and the Insurance Reserve in the 2011/12 budget.
- 1.5.20 The **Balance Sheet** is set out on page 18. As the accounts are closed down for the year, the General Fund and Housing Revenue Account balances, along with the Capital Account (the Council’s Capital Plan) are transferred to the Council’s Balance Sheet. This represents the final position of the Council at the end of the financial year, showing the assets that the Council owns (such as land and buildings), the amounts it is owed (debtors etc) and what it owes to outside bodies and individuals (loans outstanding, creditors etc).
- 1.5.21 At the start of the year the Council’s **Net Assets**, in effect the value of its Balance Sheet, was £181.902m. Over the year this fell by £265.010m to a Net Liabilities position of £83.108m at 31 March 2012. This Net Liabilities position does not give rise to any going concern issues. It has resulted mainly from two large changes:
- (a) The introduction of Housing Self Financing from 1 April 2012 requiring additional loans of £128.193m to “buy out” of the existing subsidy system. Further details of this can be found in the Housing Revenue Account Self Financing report to 28 November 2011 Cabinet; and,
  - (b) The increase in the Pension Liability (this is discussed further in paragraphs 1.5.26 and 1.5.27).
- 1.5.22 **Property, Plant and Equipment (PPE):** The net decrease in the value of fixed assets was £33.471m largely arising from the impairment of Council Dwellings. The movement in the value of PPE is analysed in Note 17 to the Core Financial Statements. PPE includes the buildings and assets associated with the Council’s PFI schemes.
- 1.5.23 **Current Assets** reduced by £17.942m in the year, with the main movements being a reduction in debtors (£7.981m) and a planned reduction in the level of cash and short-term investments (£7.609m).
- 1.5.24 **Current liabilities** increased by £1.987m. This was largely due to an increase in provisions (mainly Equal Pay) of £6.315m offset by a reduction in Short Term Borrowing (£3.191m).
- 1.5.25 **Long Term Liabilities** increased by £211.394m as a result of Housing Self Financing and the increase in the Pension Liability as highlighted in paragraph 1.5.26 below.

- 1.5.26 **Pension Liability:** North Tyneside Council is a member of the Tyne and Wear Pension Fund. Under International Accounting Standard 19 (IAS 19) the Council is required to show in its Balance Sheet its Pension Fund Liability, i.e. its share of any Pension Fund deficit. For the 2011/12 Accounts this liability has been calculated by the Fund actuary at £424.210m, as at 31 March 2012, an increase of £100.040m from the 2010/11 level. The increase in Pension Liabilities is one of the main effects of the economic downturn on the Council's Balance Sheet. This increase in the Pension Fund deficit reflects the general fall in property markets, in national and global stock markets, and in the returns on these assets.
- 1.5.27 The Fund is valued every three years and the results of that valuation are reflected in the level of Council contributions to the Fund over the following three years. The last valuation, carried out in 2010, set Council contributions for the three years 2010/11 to 2012/13. At the time of that valuation, contributions were based on the projection that the fund deficit would be recovered over the next 22 years. The next valuation will take place during 2013/14 and will set the Council budgets for Pension Fund contributions for the three-year period 2014/15 to 2016/17. Note 7 to the Annual Financial Report covers the Council's pension liability in detail.
- 1.5.28 The movement on the Balance Sheet categories above, are represented on the other (credit) side of the Balance Sheet by movements in Useable and Unuseable Reserves. The entries in these accounts are shown in the Movement in Reserves Statement and notes to the Balance Sheet, but a brief summary follows:
- 1.5.29 **Useable Reserves:** As noted earlier in the report, there was no change to the Council's General Fund Balance (excluding Schools). Schools increased their surplus balances brought forward from previous years by £0.302m and consequently overall Schools Balances at year end were £6.726m. The Housing Revenue Account balance increased from £4.005m to £4.299m.
- 1.5.30 In addition to these balances, the Council started the year with Earmarked Reserves of £26.153m, which include the Strategic and Insurance Reserves. Total Earmarked Reserves at the year end were £23.336m reflecting planned use and other movements in and out. Other reserves include those required to be held for Building Control, PFI schemes, and Grant Reserves whereby income has been received in advance of spend taking place. A full list of Earmarked Reserves is included in Note 36.
- 1.5.31 The **Usable Capital Receipts Reserve** shows the amounts of capital receipts remaining unused at year-end and carried forward in the Balance Sheet to finance capital expenditure in future years.
- 1.5.32 The **Capital Grants Unapplied Account** holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.
- 1.5.33 **Unuseable Reserves:** The **Capital Adjustment Account** and **Revaluation Reserve** reflect movements in the Council's fixed asset accounts (revaluations, depreciation and impairments, and disposals) and the financing of capital

expenditure, (by means of capital receipts, grants etc.). The Capital Adjustment Account shows a reduction from £407.144m to £237.748m, which broadly mirrors the falls in asset values (impairments) referred to previously plus the £128.193m HRA Self Financing Settlement. The Revaluation Reserve has increased by £3.781m to £56.729m, reflecting the net impact of upward revaluations in year and offsetting capital accounting entries.

- 1.5.34 The **Pensions Reserve** is a negative reserve to reflect the Council's Pension Liability of £424.210m shown in the top half of the Balance Sheet.
- 1.5.35 The **Equal Pay Back Pay Account** balance of £2.265m reflects the carry forward of the equal pay provision discussed earlier, which will be "financed" as actual payments are made to claimants.
- 1.5.36 The **Accumulated Absences Account** absorbs the differences that would otherwise arise on the General Fund Balance from accruing for holiday, flexi and lieu time 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 reversed by transfers to or from this account. The increase in this account from £4.236m to £5.360m reflects the assumptions made around teachers' holidays and there will be variations to this each year depending on when the Easter holidays fall.
- 1.5.37 The **Cash Flow Statement** (page 19) shows the movement in cash and cash equivalents during the year and reflects the reduction in cash held in line with the Treasury Management Strategy.
- 1.5.38 The **Housing Revenue Account** (page 103) sets out the transactions that are ring-fenced for Council Housing. This shows increase in balances at year end of £0.294m to £4.299m.
- 1.5.39 The **Collection Fund Statement** (page 110) accounts independently for income relating to Council Tax and Non-Domestic Rates on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund. Collection Fund balances relating to North Tyneside Council are consolidated into the Council's Balance Sheet with the surplus/deficit relating to the Council shown in the Collection Fund Adjustment Account.

### **Annual Governance Statement**

- 1.5.40 The Annual Governance Statement is a statutory document which is signed by the Elected Mayor, the Chair of the Council, and the most senior officer of the Council (the Chief Executive). The purpose of the document is to demonstrate to all stakeholders that the Council has controls in place to ensure that its business is conducted in accordance with law and proper standards and that public money is safeguarded, correctly accounted for and is used economically, efficiently and effectively. Although the financial management of the Council is an essential part of the internal control framework, the Statement is not purely concerned with financial issues but also covers the Council's constitution, corporate governance arrangements, facilitation of policy and decision making.

1.5.41 In addition to Council approving the Annual Governance Statement, a review of the Statement was undertaken by the Audit Committee on 30 May 2012 and an in-year update on the action taken during the year will be given to the Committee during 2012/13.

## **1.6 Decision options:**

It is a statutory requirement that the audited Statement of Accounts is approved by Council by 30 September 2012.

## **1.7 Reasons for recommended option:**

The Council is required under the Accounts and Audit Regulations 2011 to approve its audited Statement of Accounts by 30 September 2012.

## **1.8 Appendices:**

Appendix A: Annual Financial Report for 2011/12  
Appendix B: Annual Governance Report for 2011/12

## **1.9 Contact officers:**

Fiona Rooney, Strategic Director of Finance and Resources (Chief Finance Officer),  
Tel: 643 5724  
Jon Ritchie, Head of Finance, Tel 643 5800  
Janice Gillespie, Senior Manager, Corporate Finance, Tel 643 5701  
Cathy Davison, Principal Accountant, Corporate Finance, Tel 643 5727

## **1.10 Background information:**

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author:

- General Ledger reports to 31 March 2012 (excluding exempt personal information) (P)
- Revenue Budget 2011/12 and Capital Plan 2011/21 (P)
- CIPFA Code of Practice 2011/12 (P); and
- CIPFA Service Reporting Code of Practice 2011/12 (P).

## **PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

### **2.1 Finance and other resources**

As this is a financial report, implications are covered in the body of the report itself and the 2011/12 Annual Financial Report attached as Appendix A to this report.



## **2.2 Legal**

The Council is required under the Accounts and Audit (England) Regulations 2011 and the Chartered Institute of Public Finance and Accountancy's Code to prepare and approve its accounts for the financial year 2011/12 by 30 September 2012.

## **2.3 Consultation/community engagement**

Internal consultation on this report and the Annual Financial Report has taken place with the Cabinet Member for Finance, the Chief Executive and his Senior Leadership Team. The information in this report and the accompanying Appendix will be summarised later in the year in "Widening Horizons".

Members of the public were able to inspect the accounts under the statutory public inspection of accounts period from 2 to 27 July 2012.

The Annual Financial Report records the financial position of the Council for the year ended 31 March 2012. This sets out the financial transactions that have been undertaken under the Council's 2011/12 budgets (both revenue and capital). These budgets were set after comprehensive engagement, details of which are available from the budget reports to Council on 3 and 22 February 2011 and 3 March 2011.

## **2.4 Human rights**

The Council Plan and Budget ensures that the Council is proactive in promoting its commitment to Human Rights. All actions and spending contained within the Plan are fully compliant with national and international Human Rights Law and many projects ensure that the Council delivers improved performance on human rights.

## **2.5 Equalities and diversity**

An Equalities Impact Assessment has been carried out on the 2011/12 Annual Financial Report. Individual projects reported within the Accounts will also have been subject to Equalities Impact Assessments.

Projects reported within the Accounts also ensure that the Council complies with its duty to promote equality and diversity.

## **2.6 Risk management**

Potential future financial pressures against the Council are covered in this report. Individual projects within the Council Plan, which are reported in the Accounts, are subject to full risk reviews.

For larger projects that are reported in the 2011/12 Annual Financial Report, individual project risk registers are established as part of the Council's agreed approach to project management. Risks have been entered into the appropriate

Directorate or Corporate / Strategic Risk Register(s) and are subject to ongoing management to reduce the likelihood and impact of each risk.

## 2.7 Crime and disorder

The 2011/12 Annual Financial Report includes projects in the Council Plan, some of which promote the reduction of crime and disorder within the borough.

## 2.8 Environment and sustainability

The 2011/12 Annual Financial Report reports financial transactions relating to projects in the Council Plan, some of which promote sustainability of Council operations.

Future requirements and guidance from the accounting bodies around sustainability reporting are being monitored and any requirements will be addressed in future years.

### PART 3 - SIGN OFF

- Strategic Director(s)  X
- Mayor/Cabinet Member(s)  X
- Chief Finance Officer  X
- Monitoring Officer  X
- Strategic Manager for Policy and Partnerships  X
- Chief Executive  X

**Report author:** Janice Gillespie, Senior Manager, Corporate Finance.