



# Statement of Accounts 2009/10

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# **Explanatory Foreword**

## **1. EXPLANATORY FOREWORD**

### **1.1 INTRODUCTION**

The information contained within this Statement of Accounts provides a detailed review of the City Council's activity during the financial year 2009/10 and of the Council's assets and liabilities at 31 March 2010. Inevitably, some of this information is of a highly complex, technical nature.

This foreword is intended to provide:

- a summary of the financial statements that follow and help in interpreting those statements.
- a review of the City Council's financial performance in the financial year 2009/10 and the spending plans for the financial year 2010/11.

Although this statement provides a comprehensive view of the Council's financial position during the period to which it relates, having been produced within a rigorous regulatory structure, it does not fulfil the role of a private company's annual report. In order to obtain this wider view of the City Council's activities, priorities and plans other published documents will need to be consulted:

- The Council Plan sets out the City Council's strategic priorities for the period 2008 to 2011, detailing what the Council seeks to achieve for Nottingham and reflecting the views of its citizens. As such, it is intended to support the City's sustainable community strategy.
- The Medium Term Financial Strategy sets out both the broad financial policy to ensure financial resources are aligned with the delivery of Council policy and the principles and objectives for our financial management.
- The Medium Term Financial Plan comprises of the revenue budget, capital programme and HRA and sets out details of expenditure and income for a rolling 3 year period.
- The Asset Management Plan and Capital Strategy detail the City Council's approach to asset management and are designed to improve the Council's property portfolio, ensuring that it is well maintained, appropriately located, fit for purpose and accessible for its intended users.

### **1.2 CHANGES TO THE STATEMENT OF ACCOUNTS 2009/10**

The CIPFA Statement of Recommended Practice (SORP) 2009 provides the minimum requirements considered necessary for the City Council's Statement of Accounts.

The substantive changes introduced into the 2009 SORP are:

#### **Private Finance Initiative (PFI)**

The accounting requirements for PFI and similar contracts are no longer based on the UK accounting standard FRS 5 but on International Financial Reporting Standards (IFRS). The requirements are based on IFRIC 12 Service Concession Arrangements (which addresses concession operator accounting). The new requirement applies to both

contracts entered into from 1 April 2009 and existing PFI and similar contracts at 31 March 2009. The expectation is that that the PFI properties used to deliver the PFI services which are currently 'off Balance Sheet' will be required to be recognised on Balance Sheet along with a liability for the financing provided by the PFI operator. The reasons for making this change in 2009/10 rather than on full transition to IFRS in 2010/11 are pragmatic.

As a consequence, a number of PFI schemes have been assessed against the control test of IFRIC 12 and are deemed to be on Balance sheet.

### **Accounting for local taxes**

The 2009 SORP has amended the accounting requirement for Council Tax and NNDR. Accounting for local taxes now includes a requirement to include appropriate shares of Council Tax debtors in the billing authorities' and major preceptors' Balance Sheets.

The above prompted a review of accounting for the other types of local taxation and the 2009 SORP includes detailed requirements for accounting for NNDR. These include a requirement that billing authorities shall not recognise NNDR debtors in their Balance Sheets but instead recognise a creditor or debtor for cash collected from NNDR debtors as agent of the Government but not paid to the Government, or overpaid, at the Balance Sheet date.

## **1.3 PREPARATION FOR IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN 2010/11**

From 2010/11, local authority accounts will be prepared under a revised Code of Practice on Local Authority Accounting that will be based on IFRS. The IFRS transition date (the date at which figures first have to be prepared under IFRS) is 1 April 2009. This means that in the 2010/11 Statement of Accounts, authorities will be required to prepare a balance sheet as at 1 April 2009 - effectively restating the 31 March 2009 balance sheet.

## **1.4 FINANCIAL STATEMENTS AND THEIR PURPOSE**

The Statement of Accounts for 2009/10 includes the following financial statements, each of which is accompanied by supporting notes. The Statements are split into Core Financial Statements and Supplementary Financial Statements.

## **1.4.1 Core Financial Statements**

### **1. The Income and Expenditure Account**

The Income and Expenditure Account reports the net cost for the year of all the functions for which Nottingham City Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers. It brings together expenditure and income relating to all of Nottingham City Council's functions in three distinct sections, as follows:

- (i) The first section provides accounting information on the costs of Nottingham City Council's continuing operations, net of specific grants and income from fees and charges, to give the net cost of services.
- (ii) The second section comprises items of income and expenditure relating to the local authority as a whole.
- (iii) The third section shows the income from local taxation and general government grants in the period, to give the net deficit or surplus for the year.

### **2. The Statement of Movement on the General Fund Balance (SMGFB)**

The Income and Expenditure Account brings together all of the functions of the Council and summarises all the resources that the Council has generated, consumed or set aside in providing services during the year.

However, this accounting basis is currently out of line with the statutory provisions that specify the net expenditure that authorities need to take into account when setting local taxes.

Therefore, outturn on the Income and Expenditure Account needs to be reconciled to the balance established by the relevant statutory provisions. The SMGFB provides the necessary reconciliation.

### **3. The Statement of Total Recognised Gains and Losses (STRGL)**

While the Income and Expenditure Account summarises all of the resources that the authority has generated, consumed or set aside in providing services during the year, the Council recognises other gains and losses in its Balance Sheet. The STRGL is the statement that brings these other gains and losses together with the outturn on the Income and Expenditure Account to show the total movement in the Council's net worth for the year.

#### **4. The Balance Sheet**

The Balance Sheet shows the Council's assets and liabilities accrued in its business with the outside world, including those detailed in the Housing Revenue Account (HRA) and Collection Fund but excluding the Trust Funds administered by the Council.

These are balanced by an attribution of the net worth of the authority between:

- the revenue and capital resources available to meet future expenditure,
- unrealised gains and losses (particularly in relation to the revaluation of fixed assets),
- adjustment accounts that absorb the effect of differences between UK GAAP and statutory accounting requirements (the Capital Adjustment Account, Financial Instruments Adjustment Account and the Pensions Reserve).

#### **5. The Cash Flow Statement**

The objective of the Cash Flow Statement is to ensure that the significant elements of receipts and payments of cash are highlighted in a way that facilitates comparison of cash-flow performance of different organisations and to provide information that assists in assessing their liquidity and solvency.

The statement is designed to reflect the way the Council manages its cash and to distinguish cash flows in relation to this activity from other investment decisions.

### **1.4.2 Supplementary Financial Statements**

#### **1. The Housing Revenue Account (HRA)**

The HRA shows how resources are spent in maintaining and managing the Council's council dwellings together with the sources of income available to meet these costs. It therefore includes the credit and debit items required to be taken into account in determining the surplus or deficit on the HRA for the year. For 2009/10 the HRA statement has two parts:

- a. The HRA Income and Expenditure Account shows in more detail the income and expenditure on HRA services included in the whole authority Income and Expenditure Accounts.
- b. The Statement of Movement on the Housing Revenue Account Balance shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year.

#### **2. The Collection Fund**

The inclusion of an Income and Expenditure Account and explanatory notes for the Collection Fund within the Council's Statement of Accounts reflects the statutory requirement contained in section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and National Non-Domestic Rates (NNDR).

There is no requirement for a separate Collection Fund Balance Sheet as balances are consolidated into the Council's Balance Sheet.

### **3. The Group Accounts**

The Group Accounts consolidate the accounts of the Council together with those of the companies over which the City Council wields a formal influence. The broad aim of consolidation is to provide readers of the financial statements with an overall picture of the Council by showing the totality of its operations and available resources.

The Group Accounts for 2009/10 have been completed using accounts from the following companies:

#### Audited

- Nottingham Ice Centre Limited
- Nottingham City Transport Limited
- Enviroenergy Limited
- Nottingham City Homes Limited
- Connexions Nottinghamshire Limited
- Guidelines Career Services Limited

#### Unaudited

- Bridge Estate

## **1.5 REVENUE – A REVIEW OF THE 2009/10 OUTTURN AND 2010/11 BUDGET**

### **1.5.1 General Fund**

Revenue expenditure covers the cost of the City Council's day to day operations and contributions to and from reserve accounts. Although the major area of spending is on employees' salaries, other significant areas include premises costs, the purchase of supplies and services and the costs of capital financing.

This expenditure is offset by income, generated by charging users for certain services, contributions from the National Non-Domestic Rate (NNDR) Pool, income from Council Tax payers and the receipt of grants from the Government and other organisations. The level of Revenue Support Grant and Non-Domestic Rates is determined by Central Government. The City Council set a Band D tax of £1,515.28 to recoup its own precept on the Collection Fund (£97.468m) and that of the Nottinghamshire Police Authority (£11.504m) and Nottinghamshire and City of Nottingham Fire and Rescue Service (£5.099m).

The pre-audit outturn was reported to Executive Board on 22 June 2010 and showed the net outturn as being £0.810m higher than that planned for the year, prior to carry forwards.

The variances by Portfolio are summarised below:

<b>General Fund Variances - By Portfolio</b>	<b>£m</b>	<b>£m</b>
<b>Overspends</b>		
Adult Support and Health	1.035	
Children's Services	0.863	
Community Safety, Partnerships & the Voluntary Sector	0.032	
Leisure, Culture and Customers	0.256	
Neighbourhood Regeneration	0.031	
Transport and Area Working	0.388	2.605
<b>Underspends</b>		
Employment and Skills	(0.533)	
Environment and Climate Change	(0.387)	
Housing Delivery	(0.126)	
Resources, Reputation and Communication, Economic Development and Skills	(0.317)	
Corporate Items	(0.432)	(1.795)
Net overspend before carry forwards		0.810
Carry forwards		0.834
<b>Net overspend after carry forwards</b>		<b>1.644</b>

The significant variances are detailed below:

#### **Adult Support and Health +£1.035m**

Overspend mostly a result of an increase in externally purchased care due to an increase in citizen numbers and a lack of capacity within the internal service.

#### **Children's Services +£0.863m**

Overspends have arisen over a number of service areas and have been partly off set by underspends in other service areas. However the main overspend has arisen in Children & Families Commissioning – Commissioning and Resources (£2.749m), where demand for placements with Independent Fostering Agencies and other external placements of children in care has increased.

### **Leisure, Culture and Customers +£0.256m**

Primarily due to income levels at the Royal Centre being affected by the economic downturn (£0.237m) and a contribution required to the Nottingham Contemporary project (£0.500m) to fund the financing gap created due to the shortfall in private sector donations anticipated.

### **Transport and Area Working +£0.388m**

This overspend relates to a reduction in income from parking (£0.461m) which has significantly reduced over the past few years and has continued to worsen across all Car Parks particularly Broad Marsh and Trinity Square Car Parks. This overspend has been partly off set by underspends in a number of other areas within the Portfolio.

### **Employment and Skills -£0.533m**

The underspend is mostly the result of a delay in recruiting to vacant posts within the Human Resources Service.

### **Environment & Climate Change -£0.387m**

The significant underspend is within the Waste Management Service (£0.405m) attributable to savings on disposal costs following recent improvements in the market for recycled products and delays in recruitment.

### **Housing Delivery -£0.126m**

Mainly the result of underspends on supplies and services, additional grant income, and staff vacancies within the Housing Benefits Service (£0.204m).

### **Resources, Economic Development and Reputation -£0.317m**

An overspend within Property Services (£0.639m) resulting from a reduction in fee income of £0.920m in Major Projects, caused by a reduction in the value of capital schemes and schemes being delayed, and a reduction in property rental income of £0.625m as a consequence of the current economic climate. This overspend has been offset by underspends elsewhere within the Portfolio, most notably within Legal Services (£0.430m), the consequence of a delay in recruiting to vacant posts.

### **Corporate Items -£0.432m**

Underspends have arisen on Grant (£0.560m) and Housing Benefit Payments (£0.617m). These underspends have been partially off set by additional costs associated with workforce reduction (£0.310m) and the underachievement of cross-cutting cost reductions (£0.414m).

## **General Fund Balance**

The impact of the 2009/10 pre-audit outturn on the City Council's General Fund Balance has been to decrease the level to £7.058m (£11.374m 31 March 2009). After reviewing the overall financial position, the Chief Finance Officer approved a net carry forward of £0.834m of unspent budget for use in the 2010/11 financial year, thereby reducing the opening balance on the general fund in 2010/11 to £6.224m.

Further details appear on the Council's website within the Pre-audit Revenue Outturn report 2009/10, which was reported to Executive Board on 22 June 2010.

The General Fund Balance is analysed within the **Statement of Movement on the General Fund Balance** and is monitored closely to ensure that it is kept at a prudent level to cover any unforeseen circumstances.

### **Pension Liability**

The City Council is a member of the Nottinghamshire County Council pension fund and the assets and liabilities of that fund that may be attributed to the City Council are evaluated on an annual basis by an independent actuary. The actuary has estimated that, at 31 March 2010, the City Council's fund was in deficit by £717.038m (£411.492m as at 31 March 2009) which is average for an authority of this size. The strategy adopted by the actuary is for the deficit to be recovered over the next twenty five years with tri-annual revaluations of the fund.

### **1.5.2 SPENDING PLANS IN 2010/11**

The budget process was redesigned (within a framework of protocols and guidelines) and following the requirements of the MTFs approved by Executive Board in April 2009.

The overall aim was to produce a revised integrated service planning and budget preparation cycle bringing greater emphasis on objectivity, accountability, early decision making and service and councillor engagement in order to enhance policy-led budgeting and longer term planning. The process included identifying efficiencies, budget and investment pressures for the next three years, and the working up of detailed budgets based on current priorities and plans, underlying demographic trends and accurate employee, contractual and general inflation.

This new approach facilitated a robust re-appraisal of the Council's underlying financial health and the initial Medium Term Financial Outlook (MTFO) revealed a number of underlying issues and challenges arising from comparatively high costs in key areas; comparatively low income from fees and charges; some budgets having not been adjusted to take account of changing demand (expenditure and income); maintaining mainly directly employed workforce and allied issues. This, combined with the prevailing difficult local, national and international economy meant there was little room for new investment unless capacity was liberated from savings and efficiencies, increased income and/or a higher council tax level.

The following paragraphs give a brief summary of the Medium Term Financial Plan (MTFP) approved for all Council services in 2010/11.

Budgeted net revenue expenditure on General Fund services in 2010/11 and the way in which it will be financed is as follows:

<b>Financing of budgeted net revenue expenditure on General Fund Services</b>	<b>Original Budget £m</b>
Total net spending by services	263.560
Contribution to Equal Pay Reserve	4.080
Contribution from earmarked reserves	2.832
Contribution from unearmarked reserves	2.245
<b>Net Revenue Expenditure</b>	<b><u>272.717</u></b>
<b>Financed by:</b>	
Revenue Support Grant	21.885
NNDR Pool	150.711
Precept on the Collection Fund	100.371
Share of Collection Fund Deficit	<u>(0.250)</u>
	<b><u>272.717</u></b>

The budget for 2010/11 has been constructed in accordance with the MTFS and all relevant corporate financial protocols and presents a balanced draft budget, resulting in:

- A focus on a policy-led, medium term, risk assessed budget setting approach using corporate priorities established by Executive Board
- A total net budget of £272.717m
- Provision for pay awards, routine and contractual inflation
- Provision for cost pressures i.e. demographics, inflation over and above current assumptions, currently estimated demands and legislative changes of £7.054m
- Impact of previous investment and saving proposals from 2008/09 and 2009/10 of £1.445m
- Total cost reductions of £18.573m and increases in fees and charges of £1.048m
- A net £1.312m of invest to save schemes and a £0.055m investment
- Appropriate use of prudential borrowing to support capital investment where affordable and sustainable

The scale of the efficiencies required to provide a balanced budget for 2010/11 has meant a more radical approach to service realignment than in previous years. To continue to protect priority services while still addressing the financial pressures facing the organisation over the medium term has brought a council-wide focus which has been successful in driving out higher levels of efficiencies than the council had previously been able to achieve.

The one-off costs associated with the service realignment will be £5.250m.

## Impact on Reserves in 2010/11

The MTFP in 2010/11 provides for a sum of £3.000m to be repaid to reserves to mitigate the impact of the 2009/10 projected overspend. This will bring general reserves back to an appropriate prudent level in accordance with the MTFS and the risk assessment.

### **1.6 IMPACT OF ECONOMIC CLIMATE**

The change in economic circumstances in the United Kingdom and Europe has had a significant effect on all local authorities. Continuing concerns about the consequent level of UK public sector debt, the security of financial institutions and the European debt crisis have created a specific and wide-ranging impact upon the local government sector. The restrictions in public spending that will now follow will reduce the level of funding available to the City Council and this situation will be managed through the Medium Term Financial Planning process.

Additionally within this context, the collapse of the Icelandic banks has created specific issues for the City Council and further details can be found in the separate notes to the accounts regarding the Council's investments in these banks.

The economic climate has also resulted in more volatile asset values and the most commonly reported falls in property value relate to the housing market. An impairment review of all Council property and land assets was undertaken in 2008/09 and identified the requirement for material adjustments in values. A further impairment review was completed by 31 March 2010 and no overall adjustment, arising as a result of a significant change in the property market, was deemed necessary in 2009/10.

The fall in property values has affected the affordability of capital programmes, with the financing of many schemes being reliant on the sales of council assets. The downturn in the housing market with less new houses being built will also affect the level of planning fees received. The slowdown in the property market has also reduced the level of income being generated from commercial properties.

In addition, the economic situation has created higher levels of demand within certain services as, for example, people suffer hardship through loss of employment. This has resulted in a higher demand for many council services including homelessness, benefits, social care and local authority school places.

## 1.7 HOUSING REVENUE ACCOUNT (HRA)

### 1. 2009/10 HRA Outturn

Under Government requirements, revenue expenditure relating to the provision of council housing is accounted for separately in the HRA. Expenditure in this account is financed from rents and charges paid by tenants, Government subsidy and interest on cash balances. The position on the HRA at the end of 2009/10 is summarised below:

<b>Housing Revenue Account 2009/10</b>	<b>Original Budget £m</b>	<b>Net Expenditure £m</b>	<b>Variance £m</b>
<b>Expenditure</b>			
Maintenance and Management Services	58.916	58.953	0.037
Provision for bad and doubtful debts	0.988	0.245	(0.743)
Capital financing charges	32.893	30.232	(2.661)
	<b>92.797</b>	<b>89.430</b>	<b>(3.367)</b>
<b>Income</b>			
Rents and charges to tenants	88.678	86.497	(2.181)
Government Housing Subsidy	4.269	4.331	0.062
Interest receipts	0.033	0.064	0.031
	<b>92.980</b>	<b>90.892</b>	<b>(2.088)</b>
<b>Deficit for the year</b>	<b>(0.183)</b>	<b>(1.462)</b>	<b>(1.279)</b>

The 2009/10 HRA budget assumed a working balance of £2.751m (£2.802m 31 March 2009). The outturn shows a working balance of £4.666m (£3.204m 2008/09). This net increase has been created by a number of factors, including:

- A higher than expected working balance brought forward from 2008/09.
- A decrease in provision for bad debts.
- A decrease in Capital financing charges.
- An increase in Government Subsidy.
- An increase in interest receipts.

Offset by:

- A decrease in rents and service charges.
- An increase to maintenance and management services for approved carry forwards.

## 2. 2010/11 HRA Budget

The following figures include a provision for an average rent increase in 2010/11 of 2.7%. The City Council is required to periodically review its Housing Revenue Account to ensure that the Account does not move into deficit. To allow for unforeseen expenditure or loss of income, a working balance is necessary as a contingency. The 2009/10 budget allowed for a working balance of approximately £3m. This has been maintained at £3m for 2010/11, representing approximately £105 per property.

<b>2010/11 Original HRA Budget</b>	<b>£m</b>
<b>Expenditure</b>	
Maintenance and Management Services	59.677
Provision for bad and doubtful debts	0.803
Capital financing charges	33.083
	<u><b>93.563</b></u>
<b>Income</b>	
Rents and charges to tenants	88.520
Government Housing Subsidy	5.009
Interest receipts	0.034
	<u><b>93.563</b></u>
<b>Deficit for the year</b>	<u><u><b>0.000</b></u></u>

### 1.8 CAPITAL – A REVIEW OF THE CAPITAL STRATEGY

The Council's capital expenditure relates to the acquisition of new assets and the development of existing assets, which will be of benefit to the City Council for longer than one year.

These fixed assets include roads and infrastructure, schools and other operational buildings, housing and equipment and plant. It also includes the payment of grant to private sector homeowners for improvements or refurbishments and the payment of grants to private and voluntary sector organisations to carry out capital works.

The City Council's Capital Strategy outlines our capital investment over the period 2008 - 2011 and includes our investment plans and details of the funds it is leveraging in from its key partners, either nationally or locally.

A fundamental review of the Capital Strategy is currently being undertaken in light of the change in economic circumstances in the United Kingdom and Europe, which has had a significant effect on all local authorities. In particular the restrictions in public spending have reduced the level of funding available to the City Council and this situation will be managed through the Medium Term Financial Planning process. In addition the fall in property values has affected the affordability of capital programmes, with the financing of many schemes being reliant on the sales of council assets.

The strategy is a key element of the Medium Term Financial Strategy and the principles underlying the development of the capital strategy are that:

- All spending plans will be continuously reviewed to ensure they are aligned with identified need and provide value for money.
- Efforts will be made to maximise the availability of external sources of funding such as government grants, income and new partnership funding arrangements.
- Existing resources will be realigned within and between services to meet the priorities identified in the Council Plan and to support improvements in service delivery.

The following extract is from the Capital Programme report approved by Executive Board in February 2010 and shows the final reported projections for 2009/10. As the report was compiled prior to the end of the financial year the actual outturn in 2009/10 differs from the following table:

<b>Capital Programme</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Expenditure</b>				
Public Sector Housing	55.602	59.330	74.714	68.347
Local Transport Plan	13.713	16.396	9.899	10.097
Education	71.996	66.048	96.648	89.349
All Other Services	88.354	42.677	15.785	8.244
	<b>229.665</b>	<b>184.451</b>	<b>197.046</b>	<b>176.037</b>
<b>Forecast Funding</b>				
Supported Borrowing	48.103	41.804	51.005	46.247
Unsupported Borrowing	45.519	21.169	19.772	7.372
Capital Receipts	12.133	4.408	5.176	10.774
Revenue /Reserves/Funds	10.772	4.549	0.861	0.000
Grants & Contributions (inc MRA)	122.918	113.507	110.130	96.533
	<b>239.445</b>	<b>185.437</b>	<b>186.944</b>	<b>160.926</b>

The Capital Programme has regard to the financial resources available to fund it. The mains sources of funding are detailed below:

## **Borrowing**

Supported borrowing approval is borrowing costs supported by Revenue Support Grant. These resources are allocated to the relevant services – primarily Housing, Education and Transport. Additional supported borrowing granted during the year tends to be ring-fenced to particular projects or initiatives.

The Prudential Code enables councils to undertake additional borrowing as long as it is affordable, prudent and sustainable. This borrowing is unsupported (i.e. there is no Government grant towards borrowing costs) and can be used by the Council on any project it chooses.

## **Grants and Contributions**

These are specific to schemes or services and are therefore allocated in accordance with the grant approval or conditions of the contribution. The City Council has obtained significant levels of external finance to fund capital schemes from several sources including Europe, Central Government, the Lottery and the private sector.

The Council will continue to explore and embrace cost-effective opportunities for grants from external bodies.

## **Capital Receipts**

Capital receipts are generated from the disposal of fixed assets. Due to the volatile nature of capital receipts, resources available from this source are estimated at the start of the year and updated throughout the year. As at 31 March 2010 the balance of capital receipts unapplied is £0.038m (£0.028m of capital receipts were unapplied at 31 March 2009).

## **Reserves**

The Council held capital reserves of £5.224m at 31 March 2010 (£8.662m at 31 March 2009), which are earmarked to fund the capital programme.

## **Revenue**

There is, in theory, no limit on the level of capital expenditure that can be funded from the revenue budget. However, in practice the amount funded from revenue is limited by the impact on Council Tax levels.

## **New Sources of Capital Funding**

The Council will continue to examine the potential for resolving any shortfall in available capital funding through the use of alternative delivery vehicles.

These include Private Finance Initiative (PFI), which attracts additional Government support, public/private partnerships, joint venture companies and development partnerships.

Capital expenditure incurred during 2009/10 was financed from the following sources

**Capital expenditure financed by:**

	<b>£m</b>	<b>%</b>
Supported Borrowing	46.773	21.6%
Unsupported Borrowing	38.878	18.0%
Capital Receipts	6.162	2.8%
Government Grants	96.370	44.6%
Major Repairs Allowance	10.268	4.7%
Other Grants and Contributions	12.610	5.8%
Revenue/Internal Funds	5.522	2.5%
<b>Total</b>	<b>216.583</b>	<b>100.0%</b>

The City Council's capital strategy made full use of all available resources and funding has been carried forward where required to meet commitments now falling in 2010/11.

## **1.9 CURRENT BORROWING FACILITIES**

The Local Government Act 2003 provides the legislative framework for borrowing undertaken by the City Council. On 9 March 2009, the City Council approved an operational boundary on the level of external debt during 2009/10 of £586m (£530m 2008/09). Actual borrowing on 1 April 2009 was £490m (£495m at 1 April 2008) and this increased to £501m at 31 March 2010 (£490m at 31 March 2009).

During the year, new borrowing totalling £83m was raised, from the Public Works Loan Board (PWLB) to finance new capital expenditure and replace matured debt. In addition, £72m of existing PWLB debt was prematurely repaid during the year. The timing of this premature repayment during the year, based on movements in the interest rate yield curve, enabled revenue savings to be generated.

## **1.10 ISSUES ARISING IN 2010/11 AND BEYOND**

### **1.10.1 Nottingham Express Transit (NET) Line One**

#### **Background**

The City Council, in conjunction with Nottinghamshire County Council (the Promoters) entered into a Public Finance Initiative (PFI) agreement in 1999/00 to provide a new light rapid transit service in Nottinghamshire. Under the terms of the agreement, the Concessionaire, Arrow, designed, financed and built the NET Line One system and is responsible for operating the service over a 14km length, from Hucknall to Nottingham, with 23 tram stops en route, for an initial period of 27 years.

Arrow has obtained private finance through bank loans and equity investment to fund the scheme. Repayments of the loan will come from fare box revenues and service availability payments made by Nottingham City, with PFI grant payments being made to the Promoter, from Central Government. The availability payments to Arrow are scheduled to be paid over the 27 years of operation of the system, with PFI grant to be received by the promoter over the same period. The City Council's element of these sums is 80%.

### **City Council Reserve**

To further offset the projected shortfall in funding NET Line One (above), the City Council also provided for an additional annual revenue contribution to a separate (City Council) NET Reserve, commencing in 2001/02. At 1 April 2009 the balance of the Reserve was £0.380m, with a budgeted contribution of £1.074m in 2010/11.

As a consequence of changes to the Line One financial projections detailed above, it is now expected that this balance will not be needed for NET Line One and is available for other purposes. On 18 June 2008 Executive Board approved the use of £1.691m to facilitate the ongoing development of the Workplace Parking Levy scheme. On 24 February 2009 Executive Board agreed the transfer of £2.5m to general reserves, with £2m of this to be repaid. In 2009/10 £0.5m of this was repaid, leaving £1.5m outstanding. The annual additional contribution to the NET reserve is to be maintained in the base budget pending the results of the NET Phase Two procurement exercise. The balance of the City Council NET Reserve at 31 March 2010, including interest earned, was £1.832m.

### **County Council Withdrawal**

Following a change in political administration, the County Council has changed its policy and is no longer contributing to the development of NET Phase Two. NET Phase Two is fundamentally linked to NET Line One, so the County Council have given notice to pull out of the joint arrangements.

## **1.10.2 Nottingham Express Transit (NET) – Phase Two**

Up until 24 December 2009 The City Council, in conjunction with Nottinghamshire County Council (the Promoters) were separately developing Phase Two of NET. The proposals are for two additional lines, to Clifton and Chilwell. During 2009/10 an application for a Transport and Works Act Order (TWAo) was submitted to Central Government and a Public Enquiry was held. The TWAo was approved in April 2009, giving the City and County Councils the statutory powers required to construct and operate these new lines. Following a change of administration, the County Council withdrew from promoting NET Phase Two from 24 December 2009. On 13 July 2009 the City Council agreed to continue the NET Phase Two procurement as sole Promoter if and when the County Council withdrew.

It is intended to follow the financing structure of Line One, i.e. a PFI agreement being developed with a private sector partner for the design, build, financing and running of NET Phase Two. The successful concessionaire would also take over running NET Line One. Construction is scheduled to start in 2011 with trams running on the extended NET system by 2014.

Under current Department for Transport (DfT) rules, up to 75% of the cost will be financed by Central Government, with the remainder to be financed locally. The majority of the City Council's contribution is planned to come from a workplace parking levy. Agreement to proceed to procurement and commitment to funding was given by DfT on 31 July 2009, after approval of the Outline Business Case.

### **1.10.3 Workplace Parking Levy**

The transport strategy for Greater Nottingham, (the Local Transport Plan (LTP)) contains policies and measures to relieve road traffic congestion, including NET Phase Two, development of the bus network and a major redevelopment of Nottingham railway station. To fund the City Council share of these schemes, the introduction of a Workplace Parking Levy (WPL) is proposed, whereby businesses providing more than 10 car parking places for employees will be required to obtain a licence and pay an annual charge to the City Council (with certain exemptions, e.g. for disabled parking spaces).

The early development of this scheme was largely funded through Central Government contributions. In 2007/08, following a public consultation exercise, the City Council agreed in principle to proceed with WPL to come into force in April 2010. Due to the economic downturn, the City Council agreed to defer introduction of charging for the Workplace Parking Levy until 1 April 2012, in return for an additional level of grant from the DfT for NET Phase Two.

A specific reserve was created to meet the associated development costs, into which the £1.691m referred to above was transferred. At 31 March 2010 the balance of the Reserve was £1.005m.

### **1.10.4 Street Lighting PFI**

The City Council received approval for a street lighting PFI from the Department for Transport in 2007/08. The bid entailed a private sector service provider assuming responsibility for the City Council's street lighting for a period of 25 years. The private sector provider would be required to bring the stock up to agreed standards, which involves the replacement of around 25,000 old and poor condition lighting columns in the first 5 years of the contract, the installation of new 'white light' lanterns in all columns and the introduction of dimming capability to provide flexible control of lighting intensity and energy consumption. The start date for this contract is September 2010.

The PFI bid was approved by Central Government during 2007/08, providing a PFI credit of £44.6m as support towards the capital cost of the 5 year improvement programme. Following a protracted period of negotiation with private sector bidders (the 'competitive dialogue process') a Final Business Case was submitted and approved by the Department for Transport in April 2010. There is a need for additional annual resources to be provided by the City Council to meet the cost of later years' replacement columns and maintenance costs. To meet this 'affordability gap', the City Council has made an appropriate revenue provision within the Medium Term Financial Plan.

### **1.10.5 Building Schools for the Future (BSF)**

BSF is a Government initiative which aims to promote change in the quality of the nation's educational provision. The national BSF programme is aimed at rebuilding and/ or renewing school buildings so that every secondary school in England has 21<sup>st</sup> Century facilities.

Nottingham City Council has been accepted as a Wave 2 authority for part of its secondary estate and has procured a Local Education Partnership (LEP) in order to deliver this programme. The procurement reached financial close in June 2008, two schools have now been constructed and handed over to the City Council, with a third due for completion in June 2010. A fourth school is currently under construction and further schemes will be brought on line in the coming years.

The City Council is also in Wave 5 of the BSF programme and had its Outline Business Case for this Wave approved in January 2010.

### **1.10.6 LIFT Joint Service Centres**

NHS Local Improvement Trust (LIFT) is a public-private initiative that is sponsored by the Department of Health. Its principal aim is to replace old inadequate buildings with new health-related facilities. The City Council has completed the procurement of two new Joint Service Centres at Clifton and Hyson Green using the LIFT vehicle. Under this arrangement, which is supported by PFI Credits issued by the Department of Communities and Local Government (DCLG), the City Council enters into a Lease Plus agreement with the LIFT Company for a 25-year period.

The City Council is currently procuring a third LIFT Joint Service Centre to be located in Bulwell, with financial close completed in March 2010. DCLG have agreed a PFI Credit of £23m. Construction is expected to be completed in 2011/12 and upon handover of the facility payment of the Lease Plus payments will commence.

### **1.10.7 Work Place Strategy**

Work Place Strategy commenced during 2009/10; the principle of the strategy was to reduce the number of buildings used by the City Council and assist the Council in achieving its 2020 objectives and 2030 vision for:

- Lowering running costs and enabling regeneration, inward investment and creating the potential for local jobs for local people and
- Improving energy efficiency and achieving carbon neutrality.

The benefits to citizens, partners, stakeholders and businesses is to simplify the access to a comprehensive range of services; which are delivered or facilitated from a single site.

Phase 1 of the strategy saw the procurement of Loxley House and the mobilisation of 6 city centre operational sites into it, this enabled investment into BSF, with the approval of the development of the Sandfield site to support BSF. The remainder of the properties are programmed to be sold by 2012/13. Phase 2 is to rationalise the neighbourhood sites.

Capital receipts from the sale of vacated buildings and associated running costs and the efficiencies from a single site location are being utilised to fund the project.

## **1.11 FURTHER INFORMATION**

For further information about the accounts or if you require this information in an alternative language, large font or Braille, contact:

Resources Department  
Strategic and Corporate Finance  
Loxley House  
Station Street  
Nottingham  
NG2 3NG

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. For the 2009/10 accounts, the inspection period is 2 August to 27 August 2010.

# **Statement of Accounting Policies**

## **2 STATEMENT OF ACCOUNTING POLICIES**

### **2.1 GENERAL PRINCIPLES**

This section explains the accounting policies applied in producing the Statement of Accounts.

The Statement of Accounts summarises the Council's transactions for the 2009/10 financial year together with the financial position at the year-end of 31 March 2010. The Statement has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice (the Code of Practice), issued in 2009 by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

### **2.2 ACCRUALS OF INCOME AND EXPENDITURE**

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that expenditure is charged to the account in the period in which goods and services are received and, similarly, income is credited in the period in which it falls due, rather than simply being recorded when cash payments are made or received. In particular;

- Fees, charges and rents due from customers are accounted for as income at the date that the Council provides the associated goods or services.
- Expenditure incurred in respect of supplies is recorded when those supplies are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet. This policy is not followed for certain quarterly payments, including gas and electricity, where expenditure is recorded at the date of meter reading rather than being apportioned between financial years. This practice is consistently applied each year and, therefore, does not have a material effect on the year's accounts.
- Works are charged as expenditure when they are completed, before which they are carried as 'works in progress' on the Balance Sheet.
- Significant accruals can also arise from such items as Government grants and pay awards. The approach adopted in these cases is to make estimates on the basis of the best information that is presently available, or make forecasts of the cost of pay awards that are not yet settled but likely to apply to part of the financial year to which the accounts relate.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- Income and expenditure are credited and debited to the relevant service revenue account, except for capital expenditure which results in the creation of a fixed asset; this expenditure is contained in the balance sheet.

In many cases the value to be entered in respect of accrued transactions will be certain. In others, this value has to be estimated and reference is then made to past transactions and trends in order to determine the likely value. Where possible, and commonly in the case of highways and building works, the related assets or liabilities will be valued at the year-end by colleagues working in relevant services.

## **2.3 PROVISIONS**

Provisions are set aside where an event has taken place that will probably oblige the Council to provide settlement by a transfer of economic benefits but where the timing of that transfer remains uncertain. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the requirement to pay compensation.

Provisions are charged to the appropriate service revenue account in the year when the Council becomes aware of the obligation, based upon the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and, in those cases where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower than anticipated settlement is made), the provision is reversed and credited back to the relevant service revenue account.

Provisions are also set up for bad and doubtful debts, although these amounts are offset against the debtor balance on the balance sheet rather than being included in the provisions figure.

## **2.4 RESERVES**

Amounts set aside for future policy purposes or to cover contingencies are recorded in the Balance Sheet as reserves. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the Statement of Movement on the General Fund Balance so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council. These reserves are explained in the relevant policies below.

## **2.5 GOVERNMENT GRANTS AND CONTRIBUTIONS (REVENUE)**

Whether paid on account, by instalments or in arrears, Government grants and other third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance

that the monies will be received and the expenditure for which the grant is given has been incurred.

Revenue grants are matched in service revenue accounts with the expenditure to which they relate. Grants designed to cover general expenditure (e.g. the Revenue Support Grant) are credited at the foot of the Income and Expenditure Account after Net Operating Expenditure.

## **2.6 RETIREMENT BENEFITS**

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, Nottingham City Council has a commitment to make and disclose these retirement benefits at the time the employees earn their future entitlement to them.

The authority participates in two pension schemes:

- The Local Government Pension Scheme, administered locally by Nottinghamshire County Council – this is a funded defined benefit final salary scheme, meaning that the authorities and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.
- The Teachers Pension Scheme – administered by Capita Teachers' Pensions on behalf of the DCSF – this is accounted for as if it were a defined contributions scheme with contributions from teachers, together with employer's contributions, being paid by the Council to the scheme. This is treated as a defined contributions scheme as the arrangements for the scheme mean that the liabilities for benefits cannot be identified to the Council. No liability for future payment of benefits is recognised in the Balance Sheet and the Education service revenue account is charged with the employer's contributions payable to Teachers' Pension in the year.

The liabilities of the Nottinghamshire pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 1.5%, based on the indicative rate of return on a portfolio of long-dated index-linked gilts.
- The assets of the Nottinghamshire pension fund attributable to the Council are included in the balance sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

The change in the net pension 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 Income and Expenditure Account to the revenue accounts of 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 Net Cost of Services in the Income and Expenditure Account 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 Net Operating Expenditure in the Income and Expenditure Account.
- 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 Net Operating Expenditure in the Income and Expenditure Account.
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs.
- 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 Statement of Total Recognised Gains and losses.
- Contributions paid to Nottinghamshire pension fund – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund Balance 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 debits for the actual cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

#### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## 2.7 INTANGIBLE FIXED ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council is capitalised when it will bring benefits to the Council for more than one financial year. Within the current Balance Sheet, this treatment is typically applied to computer software. The balance is amortised on a straight line basis to the revenue account over the economic life, generally assessed as being 5 years. This reflects the consumption of economic benefits by the relevant service.

## 2.8 TANGIBLE FIXED ASSETS

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. This latter category will include those assets that are held as investments.

### Recognition of fixed assets

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

### Measurement of fixed assets

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bring the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

#### - Council Dwellings

The basis of valuation is the Existing Use Value for Social Housing (EUV-SH) as defined in the Royal Institute of Chartered Surveyors (RICS) valuation manual. The valuation exercise was carried out in accordance with guidance issued by the DCLG. Under this methodology, a desktop review by external valuers was completed in 2008/09. In 2009/10 based on a full valuation of beacon properties by Chartered Surveyors Herbert Button & Partners and Freeman & Mitchell. In accordance with the Statement of Recommended Practice, the valuation is adjusted by a regional adjustment factor in recognition of the Housing Stock's status as social housing.

#### - Operational land and buildings

Properties used for operational purposes, which include schools and office accommodation, are generally valued on the basis of current value in existing use. Certain specialist properties are valued at depreciated replacement cost including, for example, The National Ice Centre.

#### - Non-operational Properties:

Investment Properties and Surplus Assets, including commercial property lettings are valued at market value.

#### - Infrastructure and Community Assets

Examples of infrastructure assets will include roads and bridges whereas community assets include parks and land used for cemeteries and crematoria. The general approach is for infrastructure and community assets to be valued at depreciated historical cost.

#### - Vehicles, Plant and Computer Equipment

All assets are included at depreciated historic cost as a proxy for current value.

#### Revaluation of Fixed Assets

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every 5 years. Additional adjustments for material changes in property values arising as a result of impairments, acquisitions, enhancements and reclassifications are made to the annual statement of accounts.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised 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 of Fixed Assets

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value.

Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account.
- Otherwise – the required adjustment is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

#### De Minimis Levels

All assets acquired after 1 April 1994 are included in the Balance Sheet, regardless of their cost, provided they are acquired using capital resources. However, where the original cost of vehicles, plant and other equipment, or the current valuation of property, acquired before this date is less than a prescribed amount, as detailed below, the asset is not included in the Balance Sheet.

## De Minimis Levels

	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.005

### Disposals and Capital Receipts

When an asset is disposed of, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal and netted off against the carrying value of the asset at the time of disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10k are categorised as capital receipts. A proportion of receipts relating to HRA disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve.

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 from the Capital Adjustment Account.

### Depreciation

Depreciation is provided for on fixed assets with a finite useful life. The annual charge to the Income and Expenditure Account is calculated by dividing the value of the asset by the estimated asset life. There is no depreciation on the assets in the year of acquisition, although a full year of depreciation is charged in the year of disposal. In accordance with recommended accounting practice, depreciation is not provided for in respect of freehold land and non-operational investment properties.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Estimated asset lives are generally as follows: IT equipment 5 years, infrastructure assets 25 years, community assets 25 years, vehicles 7 years and other equipment 5 years. The valuers provide an estimate of the life of each property.

## Grants and contributions

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. Where a direct link with a specific asset or group of assets is possible, the balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

## Charges to Revenue

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

The HRA currently receives a statutory charge in respect of interest only.

## Revenue Expenditure Funded From Capital under Statute (REFCUS)

The SORP 2008 replaced deferred charges with revenue expenditure funded from capital under statute (REFCUS). It is expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. It is normal practice within the Council for all REFCUS expenditure to be written out to the Income and Expenditure Account in the year in which it is incurred. Where the Council has determined to meet the cost of the expenditure from existing capital resources or by borrowing, entries via the Capital Adjustment Account and the Statement of Movement in the General Fund removes the impact on the level of council tax.

## **2.9 LEASES**

Rentals payable under operating leases are charged to the relevant service revenue account on a straight-line basis over the term of the lease. All primary rentals on finance leases have been paid with secondary 'peppercorn' rentals charged to revenue.

## **2.10 FINANCIAL LIABILITIES**

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 rate of interest for the instrument. For most of the borrowings that the Council has, it has been determined that the

amount presented in the Balance Sheet is the carrying amount of the loan at that date and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

## **2.11 FINANCIAL ASSETS**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

### **Loans and Receivables**

Loans and receivables are initially 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 amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement

However, the council has provided loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance

is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Where such assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Income and Expenditure Account.

## **2.12 STOCKS AND WORK IN PROGRESS**

Stocks are largely valued at latest purchase price and any difference between this and actual cost is not considered to be material. Other less significant stocks are valued at average or actual cost.

## **2.13 INTERESTS IN COMPANIES AND OTHER ENTITIES**

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses. The inclusion in the Council group is dependent upon the extent of the Council's interest and control over an entity. The determining factor for assessing the extent of interest and control is either through ownership of an entity, a shareholding in an entity or representation on an entity's board of directors. An assessment of all the Council's interests has been carried out during the year, in accordance with the Accounting Code of Practice, to determine the relationships that exist and whether they should be included in the Council's group accounts.

## **2.14 PRIVATE FINANCE INITIATIVE (PFI)**

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Where the City Council is deemed to control the services that are provided under the PFI and where ownership of the fixed asset will pass to the Council at the end of the contract for no additional charge, the City Council carries the fixed assets used under the contracts on the Balance Sheet together with a liability to reflect the obligation to make payments for the fixed asset.

Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as tangible fixed assets owned by the Council. The assessment of whether these assets appear on the balance sheet is determined under IFRIC 12.

NET line 1 has been assessed against the IFRIC 12 and remains off balance sheet. However as the Council has passed control of certain land and buildings over to the PFI contractor, this property will return to the Council at the end of the scheme (reversionary interests). An assessment has been made of the net present value that these assets will have at the end of the scheme (unenhanced) and a reversionary interest asset has been created in the Council's balance sheet. As the asset is stated initially at net present value, over the life of the scheme, the discount will need to be unwound by earmarking (decreasing) part of the unitary payment to ensure the reversionary interest is recorded at current prices when the interests revert to the Council.

In addition the assets created or enhanced under the PFI scheme are to pass to the Council at the end of the scheme (residual interests) at a cost less than fair value (including nil), an amount equal to the difference between the fair value and the payment to be made at the end of the contract is built up as a long term debtor over the contract life by reducing the amount of the unitary payment charged to revenue.

## **2.15 ACCOUNTING TREATMENT OF OVERHEADS**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice (BVACOP). The basis of allocation is generally the time spent by colleagues on relevant tasks, although other bases may be more appropriate in certain instances.

The following two exceptions are allowed and are accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services:

### **Corporate and Democratic Core**

These costs relate to the council's status as a multi-functional, democratic organisation and will include all aspects of councillors' activities, corporate, programme and service policy making and more general activities relating to governance and the representation of local interests.

### **Non Distributed Costs**

The BVACOP defines certain costs that cannot be attributed to the delivery of services and which, therefore, are not distributed. These will include, for example, the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

## **2.16 CONTINGENT LIABILITIES**

Material contingent liabilities are not recognised in the accounts but are disclosed in notes to the financial statements.

## **2.17 INTEREST ON INTERNAL BALANCES**

Interest on loans is charged to the Income and Expenditure Account based on the amount which is due and payable within the financial year. Interest, based on seven-day rates, is applied to cash balances on the following accounts:

- HRA – revenue transactions only
- Rent bonds

## **2.18 VALUE ADDED TAX (VAT)**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

## **2.19 DISCOUNTED/ACQUIRED OPERATIONS**

The Council had no material operations which were either discontinued or acquired in the year so no separate disclosure is required in respect of the revenue account and Balance Sheet.

## **2.20 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS**

Any material exceptional or extraordinary items are included within the cost of the relevant individual service or separately identified on the face of the Income and Expenditure Account. There are no exceptional or extraordinary Items in 2009/10.

## **2.21 POST BALANCE SHEET EVENTS**

Any material post Balance Sheet events, which provide additional evidence relating to conditions existing at the Balance Sheet, are detailed within the explanatory notes.

## **2.22 LANDFILL ALLOWANCE TRADING SCHEME**

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. The act also provides the legal framework for the Landfill Allowances Trading Scheme (LATS). The scheme allocates landfill allowances to each waste disposal authority, to be set against its verified BMW landfill usage.

2009/10 is a target year therefore no allowances can be brought forward from previous years or carried forward into 2010/11 however LATS can be traded within year.

Information from the market and DEFRA indicates that there are significant levels of surplus LATS, in excess of 1 million, within the country and that there has been minimal trading apart from those trades agreed in previous years. Therefore the LATS held by the Authority have nil value and have been valued as such within the Income & Expenditure Account.

# **Core Financial Statements**

### 3 CORE FINANCIAL STATEMENTS

#### 3.1 INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing Nottingham City Council during 2009/10. It includes all day-to-day expenses and related income on an accrual basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

Income and Expenditure Account	2008/09	2009/10		
	Restated Net Expenditure £m	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Central Services to the Public	3.089	4.008	(1.296)	2.712
Court Services	0.636	1.223	(0.595)	0.628
Cultural, Environmental, Regulatory and Planning	81.409	119.350	(42.227)	77.123
Childrens and Education Service	96.904	369.954	(259.191)	110.763
Highways and Transport Services	26.737	54.805	(27.058)	27.747
Local Authority Housing (HRA)	140.751	136.414	(93.923)	42.491
Other Housing Services	8.831	191.434	(185.269)	6.165
Adult Social Care	83.359	119.534	(40.255)	79.279
Exceptional Costs of Social Services				
Legal Settlements	0.000	0.000	0.000	0.000
Corporate and Democratic Core	11.230	62.350	(44.752)	17.598
Non Distributed Costs	10.636	6.030	0.000	6.030
<b>Net Cost of Services</b>	<b>463.582</b>	<b>1,065.102</b>	<b>(694.566)</b>	<b>370.536</b>
Gain on the disposal of fixed assets	(0.328)	11.228	(11.592)	(0.364)
(Surpluses)/deficits on trading undertakings not included in Net Cost of Services	26.005	31.342	(35.670)	(4.328)
(Surpluses)/deficits on works organisations not included in Net Cost of Services	(0.108)	37.696	(38.205)	(0.509)
Contribution from Bridge Estate	(1.616)	0.000	(1.294)	(1.294)
Interest payable and similar charges	37.908	25.779	0.000	25.779
Contribution of housing capital receipts to Government Pool	3.514	2.700	0.000	2.700
Effect of Wholly Owned Companies	1.818	1.885	0.000	1.885
Interest and Investment Income	(17.740)	0.000	(8.961)	(8.961)
Pensions Interest Costs and expected return on pensions assets	22.789	28.374	0.000	28.374
<b>Net Operating Expenditure</b>	<b>535.824</b>	<b>1,204.106</b>	<b>(790.288)</b>	<b>413.818</b>
Demand on the Collection Fund	(93.793)	0.000	(96.921)	(96.921)
General government grants	(54.931)	0.000	(66.931)	(66.931)
Non-domestic rates redistribution	(141.465)	0.000	(136.011)	(136.011)
<b>Deficit for the Year</b>	<b>245.635</b>	<b>1,204.106</b>	<b>(1,090.151)</b>	<b>113.955</b>

### 3.2 STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows Nottingham City Council's actual financial performance for the year, measured in terms of resources consumed and generated over the last year. The Council is required to raise Council Tax on a different accounting basis, the main differences being:

- Capital Investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than Council Tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits earned.

The General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the (Surplus)/Deficit on the Income and Expenditure Account and the General Fund Balance.

Statement of Movement on General Fund	Restated 2008/09 Net Expenditure £m	2009/10 Net Expenditure £m
Deficit for the year on the Income and Expenditure Account	245.635	113.955
Net additional amount required by statute and non-statutory proper practices (credited) to the General Fund Balance for the year.	(246.705)	(109.639)
<b>(Increase)/Decrease in General Fund Balance for the Year</b>	<b>(1.070)</b>	<b>4.316</b>
General Fund Balance brought forward	(10.304)	(11.374)
<b>General Fund Balance carried forward</b>	<b>(11.374)</b>	<b>(7.058)</b>

*The 2008/09 figures have been restated to show the effects of the changes to the Code of Practice on Local Authority Accounts see explanation on prior period adjustments*

See below for a breakdown of the net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the General Fund Balance for the year.

<b>Analysis of net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year.</b>	<b>Restated 2008/09</b>		<b>2009/10</b>	
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<i>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</i>				
Amortisation of Intangible Fixed Assets	(0.403)		(0.380)	
Depreciation and impairment of fixed assets	(242.308)		(132.917)	
Government Grants Deferred amortisation	13.317		9.172	
Revenue Expenditure Funded From Capital Under Statute	(10.891)		(0.545)	
Loss / (Gain) on sale of fixed assets	(0.137)		0.471	
Net charges made for retirement benefits in accordance with FRS17	<u>(53.462)</u>		<u>(43.160)</u>	
		(293.884)		(167.359)
<i>Amounts not included in the Income and Expenditure but required to be included by statute when determining the Movement on the General Fund Balance for the year</i>				
Statutory minimum revenue provision for capital financing	6.885		8.432	
Financial Instrument Adjustment Account	(5.137)		2.656	
NET Residual Interest	0.827		0.827	
NET Reversionary Interest	0.169		0.177	
Employers contributions payable to the NCC Pension Fund and retirement benefits payable direct to pensioners.	30.603		33.256	
Capital Expenditure charged in year to General Fund Balance	0.282		0.151	
Tfr from usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool.	<u>(3.514)</u>		<u>(2.700)</u>	
		30.115		42.799
<i>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</i>				
Housing Revenue Account balance	(1.178)		1.462	
Voluntary Revenue Provision for Capital Financing	4.549		4.004	
Transfer to/(from) Collection Fund Adjustment Account	0.215		(0.298)	
Transfer to/(from) Earmarked Reserves/Other Statutory Funds	<u>13.478</u>		<u>9.753</u>	
		17.064		14.921
<b>Net additional amount required by statute and non-statutory proper practices to be (credited) to the General Fund Balance for the year.</b>		<b><u>(246.705)</u></b>		<b><u>(109.639)</u></b>

### 3.3 STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of Nottingham City Council for the year and shows the aggregate increase or decrease in its net worth. In addition to the surplus or deficit generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

<b>Statement of Total Recognised Gains and Losses (STRGL)</b>	<b>Restated 2008/09 Net Expenditure £m</b>	<b>2009/10 Net Expenditure £m</b>
Deficit for the year on the Income and Expenditure Account	245.635	113.955
(Gains)/Losses arising on revaluation of fixed assets	68.948	(17.242)
Actuarial (gains)/losses on pension fund assets and liabilities	(60.567)	295.642
Attributable Movement on Collection Fund	(0.002)	0.000
Other (gains)/losses to be included	(5.312)	(0.078)
<b>Total Recognised (gains)/losses for the year</b>	<b>248.702</b>	<b>392.277</b>
Effect of Prior Period Adjustments		
Restated Balance Sheet as at 31 March 2009		1169.120
Previously published Balance sheet as at 31 March 2009		1168.949
<b>Additional (Gain)/loss arising from prior period adjustment</b>		<b>0.171</b>

*The 2008/09 figures have been restated to show the effects of the changes to the Code of Practice on Local Authority Accounts see explanation on prior period adjustments*

### 3.4 BALANCE SHEET

This statement summarise the Council's financial position as at 31 March 2010. It shows the balances and reserves at the Council's disposal, fixed assets and current assets employed in operations and the Council's long-term borrowing position.

Balance Sheet	Note	Restated 31 March 2009 £m	31 March 2010 £m
<b>Fixed Assets</b>			
Intangible Assets	27	0.973	1.407
Tangible Fixed Assets			
Operational assets			
- Council Dwellings		906.528	892.018
- Other land and buildings		836.574	883.649
- Vehicles, plant and equipment		26.876	38.252
- Infrastructure assets		176.534	182.520
- Community assets		17.705	19.998
<b>Total Operational Assets</b>	<b>20</b>	<b>1,965.190</b>	<b>2,017.844</b>
Non operational assets			
- Investment properties		154.101	143.763
- Assets under Construction		55.505	96.731
- Surplus Assets - Held for Disposal		17.207	9.603
<b>Total Non-operational Assets</b>	<b>20</b>	<b>226.813</b>	<b>250.097</b>
<b>TOTAL FIXED ASSETS</b>		<b>2,192.003</b>	<b>2,267.941</b>
Long term investments		5.068	32.057
Long term debtors	28	23.080	22.608
<b>TOTAL LONG TERM ASSETS</b>		<b>2,220.151</b>	<b>2,322.606</b>
Current assets:			
- Stocks and work in progress	39	0.828	0.912
- Debtors	40	67.755	69.137
- Investments		176.253	113.675
- Cash and bank		21.802	14.574
<b>TOTAL ASSETS</b>		<b>2,486.788</b>	<b>2,520.904</b>
Current liabilities:			
- Borrowing repayable on demand or within 12 months		(45.279)	(42.377)
- Creditors	40	(119.236)	(131.050)
- Bank overdraft		(7.178)	(14.281)
		<b>(171.693)</b>	<b>(187.708)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,315.095</b>	<b>2,333.196</b>
Borrowing repayable within a period in excess of 12 months		(450.183)	(463.824)
Deferred liabilities		(6.383)	(34.878)
Government grants-deferred		(206.055)	(291.266)
Unapplied grants and contributions		(50.386)	(26.206)
Liability related to defined benefit pension scheme	41	(411.492)	(717.038)
Provisions	34	(21.476)	(23.141)
<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>1,169.120</b>	<b>776.843</b>

Financed by:			
Capital Adjustment Account	35	1,313.168	1,196.247
Revaluation Reserve	35	188.766	202.024
Useable Capital Receipts		0.028	0.038
Deferred Capital Receipts	35	3.104	3.058
Financial Instruments Adjustment Account	35	(18.399)	(15.743)
Collection Fund Adjustment Account		(0.072)	(0.370)
Pensions Reserve	41	(411.492)	(717.038)
Housing Revenue Account		3.204	4.666
Fund Balances and Reserves	35	79.438	90.232
General Fund	35	11.374	7.058
Major Repairs Reserve	33	0.000	6.671
<b>TOTAL EQUITY</b>		<b>1,169.120</b>	<b>776.843</b>

*The 2008/09 figures have been restated to show the effects of the changes to the Code of Practice on Local Authority Accounts see explanation on prior period adjustments*

### 3.5 CASHFLOW STATEMENT

This statement summarises the cash received and payments made by the Council to third parties for both revenue and capital purposes. See Note 36 for notes to the cashflow statement.

Cashflow Statement	2008/09		2009/10	
	£m	£m	£m	£m
<b>Net cash inflow from operating activities</b>		<b>24.357</b>		<b>52.896</b>
<b>Returns on investments and servicing of finance</b>				
<b>Cash Outflows</b>				
Interest paid	(28.024)		(26.553)	
<b>Cash Inflows</b>				
Dividends received from investments	0.425		2.000	
Interest received	14.707	(12.892)	7.973	(16.580)
<b>Capital Activities</b>				
<b>Cash Outflows</b>				
Purchase of fixed assets	(108.047)		(199.696)	
Purchase of long-term investments	0.000		0.000	
Other capital cash payments	(3.205)		(0.976)	
<b>Cash Inflows</b>				
Sale of fixed assets	11.481		16.099	
Proceeds from Long Term Investments matured in the year	14.060		0.000	
Other capital cash receipts	21.684		15.316	
Capital grants received	82.106	18.079	74.634	(94.623)
<b>Net Cash inflow/(outflow) before financing</b>		<b>29.544</b>		<b>(58.307)</b>
<b>Management of Liquid Resources</b>				
Net (increase)/decrease in short-term deposits		(20.550)		33.329
Net (increase)/decrease in other liquid resources		0.000		(0.625)
<b>Financing</b>				
<b>Cash Outflows</b>				
Repayment of amounts borrowed	(10.623)		(71.924)	
Capital element of PFI Payments	0.000		(0.229)	
<b>Cash Inflows</b>				
New loans raised	5.258		83.350	
New short-term loans raised	0.177	(5.188)	0.075	11.272
<b>Net INCREASE IN CASH</b>		<b>3.806</b>		<b>(14.331)</b>

# **Notes to the Core Financial Statements**

#### 4 NOTES TO THE CORE FINANCIAL STATEMENTS

These notes provide information that supports, and helps in interpreting, the Core Financial Statements.

##### 1. Reconciliation Of Revenue Outturn Report To Income And Expenditure Account Net Cost Of Services.

<b>Reconciliation of revenue out-turn to Income and Expenditure net cost of services</b>	<b>Executive Board 16 June 2009 Net Expenditure 2008/09 £m</b>	<b>Executive Board 22 June 2010 Net Expenditure 2009/10 £m</b>
<b>PORTFOLIO</b>	<b>£m</b>	<b>£m</b>
Adult Support and Health	69.330	73.191
Children's Services	69.629	64.631
Community Safety, Partnerships and the Voluntary Sector	13.755	14.535
Employment and Skills	7.095	7.560
Environment and Climate Change	20.726	20.849
Housing Delivery	4.947	4.148
Leisure, Culture and Customers	21.884	21.743
Neighbourhood Regeneration	8.148	6.825
Resources, Economic Development and Reputation	19.880	21.014
Transport & Area Working	19.457	20.366
Corporate Items	2.294	10.572
<b>Net Cost of Services from Outturn Report</b>	<b>257.145</b>	<b>265.434</b>
Income and expenditure included above, but included below Net Cost of Services within the Income and Expenditure Account , or items not included in the outturn report	206.437	105.102
<b>Adjusted Net Cost of Services</b>	<b>463.582</b>	<b>370.536</b>
<b>Net Cost of Services from Income and Expenditure Account</b>	<b>463.582</b>	<b>370.536</b>

## 2. Explanation of the Prior Period Adjustments

The Income and Expenditure Account, Statement of Movement on General Fund Balance, Statement of Total Recognised Gains and Losses and Balance Sheet have been restated for material adjustments to 2008/09 comparative figures arising from changes in accounting policies. The changes are:

**Accounting for Council Tax:** For 2009/10 the Council Tax income included in the Income and Expenditure Account is the accrued income for the year. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund has been taken to a new Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on General Fund balance.

As the collection of Council Tax is in substance an agency arrangement, the cash collected by the council from Council Tax debtors belongs proportionately to the council as the billing authority and the major preceptors. This creates a debtor/creditor position between the council and the major preceptors who will now include their share of Council Tax debtors in their own Balance Sheet rather than the whole amount being shown in the councils Balance Sheet.

**Accounting for NNDR:** The 2009 SORP confirms that the collection of National Non-Domestic Rates (NNDR) is carried out by authorities as an agent on behalf of central government. The accounts therefore recognise an NNDR debtor in the Balance Sheet for cash collected but not paid over or overpaid to the Government at the Balance Sheet date.

**Private Finance Initiative (PFI):** The accounting requirements for PFI and similar contracts are no longer based on the UK accounting standard FRS 5 but on International Financial Reporting Standards (IFRS). PFI properties used to deliver the PFI services are now recognised on the Balance Sheet along with a liability for the financing provided by the PFI operator. Prior period adjustments have been made for Mary Potter LIFT Scheme.

## 3. Undischarged Obligations arising from Long-Term Contracts

### NET Line One

The City Council is committed to making monthly availability payments to the concessionaire responsible for the provision of the light rail Nottingham Express Transit Line One System, procured via a PFI contract. The City Council's share of the maximum remaining payment at 31 March 2010 is £375m (£393m at 31 March 2009), payable over the next 20 years, and funded from PFI grants payable by Central Government. This amount will be reduced if the tram operator fails to meet various performance targets (such as for punctuality of trams and cleanliness of tram stops).

The contract will end in November 2030, unless terminated early, in which case compensation may be due.

The specific liability in the next five years is:

<b>NET Line One</b>	<b>Liability 2009/10 £m</b>
<b>Year</b>	<b>£m</b>
2010/11	17.639
2011/12	17.992
2012/13	18.352
2013/14	18.719
2014/15	19.093

#### **Building Schools for the Future**

The City Council received handover of two PFI schools, Bigwood and Oakfield in 2009/10. The City Council's share of the remaining payment at 31 March 2010 is £142m payable over the next 24 years (in nominal terms assuming RPIX at 2.5%). This amount will be reduced if the schools are not maintained to agreed standards. The contract will end in 2034.

The specific liability in the next five years is:

<b>Building Schools for the Future</b>	<b>Liability 2009/10 £m</b>
<b>Year</b>	<b>£m</b>
2010/11	4.869
2011/12	5.147
2012/13	5.199
2013/14	5.251
2014/15	5.306

A further PFI school is intended to be added to this programme in the future.

#### **Building Schools for the Future (BSF) ICT Managed Services Contract**

The City Council reached service commencement on its BSF ICT Managed Services contract in 2009/10. The remaining payment on this contract at 31 March 2010 is £12m and is payable over the next 4 years. The amount will be reduced if schools are not brought into the contract or if the service is not provided to the agreed standards. The contract will end in August 2013.

The specific liability over the remaining 4 years is:

<b>Building Schools for the Future</b>	<b>Liability 2009/10 £m</b>
<b>Year</b>	
2010/11	6.024
2011/12	1.822
2012/13	1.661
2013/14	2.224

#### **Local Improvement Finance Trust (LIFT) Joint Service Centres**

The City Council has completed the procurement of two new Joint Service Centres at Clifton and Hyson Green using the LIFT vehicle. Under this arrangement, which is supported by PFI Credits issued by the Department of Communities and Local Government (DCLG), the City Council enters into a Lease Plus agreement with the LIFT Company for a 25-year period.

The City Council is currently procuring a third LIFT Joint Service Centre to be located in Bulwell, with financial close completed in March 2010. DCLG have agreed a PFI Credit of £23m. Construction is expected to be completed in 2011/12 and upon handover of the facility payment of the Lease Plus payments will commence for a 25 year period (£47m in nominal terms assuming RPI of 2.5% ending in 2036).

The specific liability in the next five years is:

<b>LIFT Joint Service Centres</b>	<b>Liability 2009/10 £m</b>
<b>Year</b>	
2010/11	1.101
2011/12	2.048
2012/13	2.570
2013/14	2.637
2014/15	2.699

Additional details relating to PFI schemes are contained in the following note.

#### 4. Service Concessions (including Private Finance Initiative PFI)

The accounting requirements for PFI and similar contracts are now based on International Financial Reporting Standards (IFRS) – specifically IFRIC 12 (Service Concession Arrangements). The new requirement applies to both contracts entered into from 1 April 2009 and existing PFI and similar contracts at 31 March 2009. The expectation is that that the PFI properties used to deliver the PFI services which are currently ‘off Balance Sheet’ will be required to be recognised on Balance Sheet along with a liability for the financing provided by the PFI operator.

All major schemes have been assessed under current accounting practice to determine if they should be brought onto the City Council’s balance sheet. The current guidance defines a service concession as the following:

“PFI arrangements typically involve a private sector entity (the operator) constructing or upgrading property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.”

If a scheme meets this definition then it is to be brought onto the balance sheet if the following tests are met in full:

- (a) the local authority controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price; and where
- (b) the local authority controls - through ownership, beneficial entitlement or otherwise - any significant residual interest in the property at the end of the term of the arrangement.

Although service concessions are generally PFI schemes, other long-term contracts can also fall under the rules. A review of long-term contracts and legal arrangements was carried out to consider whether any other schemes should be considered under these rules. The conclusion is presented below:

	<b>Meets concession definition?</b>	<b>Controls what services are provided?</b>	<b>Controls who receives services?</b>	<b>Controls at what price?</b>	<b>Controls significant residual interest?</b>	<b>Balance Sheet Treatment</b>
NET Line One	✓	✓	✓	x	✓	Off
Building Schools for the Future (BSF)	✓	✓	✓	✓	✓	On
Clifton Cornerstone Joint Service Centre	✓	✓	✓	✓	x	Off
Mary Potter Centre	✓	✓	✓	✓	✓	On
WRG Eastcroft Incinerator	✓	✓	✓	x	x	Off

The BSF Programme and Mary Potter Centre meet all the requirements and have thus been brought onto the balance sheet.

Both contractually and legally, the City Council cannot set the price on the tram, thus NET Line One remains off the balance sheet.

Clifton Cornerstone - the City Council has a sub-lease with the PCT. It has no option to buy the building at the end of the contract. It is thus considered as a lease rather than a service concession.

<b>Analysis of carrying values of assets and liabilities</b>	
	<b>£m</b>
Net Book Value of PFI Assets as at 31 March 2008	0.000
Additions	6.694
Depreciation 2008/09	0.000
<b>Net Book Value of PFI Assets as at 31 March 2009</b>	<b>6.694</b>
Net Book Value of PFI Assets as at 31 March 2009	6.694
Additions	29.041
Depreciation 2009/10	(0.082)
<b>Net Book Value of PFI Assets as at 31 March 2010</b>	<b>35.653</b>
Value of liability as at 31 March 2008	0.000
Additions	6.694
Movement in 2008/09	(0.172)
<b>Value of liability as at 31 March 2009</b>	<b>6.522</b>
Value of liability as at 31 March 2009	6.522
Additions	29.041
Movement in 2009/10	(0.044)
<b>Value of liability as at 31 March 2010</b>	<b>35.519</b>

### The details of payments due under PFI contracts

For PFI schemes under the current accounting rules, payments are broken down into elements. The overall payment is split between payments for services (such as repairs and caretaking), for the initial construction and for major renovations during the life of the contract. The expenditure for the initial construction is assumed to be borrowed and thus repayments are split between repayment of this initial borrowing and interest on it. There are often assumptions about inflation in the model and where this differs to actual inflation this can cause a small element known as contingent rent.

For the schools built by PFI the payments are split in the following way. This assumes that the second phase of Bigwood School will be completed in early Summer 2010:

	<b>Service Charge</b>	<b>Lifecycle Replacement</b>	<b>Finance Liability</b>	<b>Interest</b>	<b>Contingent Rent</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Payable with 1 year	1.419	0.000	0.456	2.797	0.037	4.709
Within 2-5 years	5.995	0.383	2.549	11.055	0.238	20.220
Within 6-10 years	7.390	1.912	4.316	12.408	0.413	26.439
Within 11-15 years	7.945	2.014	6.905	10.185	0.840	27.889
Within 16-20 years	8.989	3.870	9.322	6.849	0.499	29.529
Within 21-25 years	8.924	3.969	11.850	2.343	0.552	27.638
<b>TOTAL</b>	<b>40.662</b>	<b>12.148</b>	<b>35.398</b>	<b>45.637</b>	<b>2.579</b>	<b>136.424</b>

In the above table inflation is assumed at 2.5% as per the operator's financial model.

The Mary Potter Centre is the other scheme which has been partially brought onto the Council's balance sheet. This is a joint service centre shared with the NHS Nottingham City. The Council has brought its share of the overall centre onto its balance sheet. The costs are broken down as follows:

	<b>Service Charge</b>	<b>Lifecycle Replacement</b>	<b>Finance Liability</b>	<b>Interest</b>	<b>Contingent Rent</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Payable with 1 year	0.283	0.000	0.186	0.285	0.057	0.811
Within 2-5 years	1.131	0.125	0.790	1.053	0.356	3.455
Within 6-10 years	1.415	0.341	1.209	1.093	0.769	4.827
Within 11-15 years	1.601	0.557	1.395	0.795	1.113	5.461
Within 16-20 years	1.811	0.972	1.512	0.474	1.409	6.178
Within 21-25 years	1.199	0.313	1.276	0.089	1.213	4.090
<b>TOTAL</b>	<b>7.440</b>	<b>2.308</b>	<b>6.368</b>	<b>3.789</b>	<b>4.917</b>	<b>24.822</b>

In the above table inflation is assumed at 2.5% as per the operator's financial model.

## 5. Performance of Trading Undertakings

The Council has established 7 trading units where each Head of Service is required to operate in a commercial environment and balance their budget by generating income from other parts of the authority or other organisations.

Trading Undertaking	2008/09	2009/10		Net (Surplus) or Deficit £m
	Net (Surplus) or Deficit £m	Gross Expenditure £m	Gross Income £m	
Bereavement Services	0.180	1.742	(1.565)	0.177
Car Parks, Bus Stations and Park & Ride	(2.529)	6.777	(9.422)	(2.645)
Property	30.833	7.208	(10.204)	(2.996)
City Advertising	0.260	0.657	(0.456)	0.201
Markets	0.143	1.511	(1.488)	0.023
Royal Centre	(2.808)	12.834	(11.827)	1.007
Translation/Interpretation	(0.074)	0.613	(0.708)	(0.095)
<b>Contribution to the Income and Expenditure Account</b>	<b>26.005</b>	<b>31.342</b>	<b>(35.670)</b>	<b>(4.328)</b>

### Explanation of major variances on Trading Undertakings:

**Property** - During 2008/09 property trading account asset values were impaired by £36m, no large impairments were made in 2009/10.

**Royal Centre** - The 2008/09 accounts included a £3.8m VAT refund re Cultural Exemption.

## 6. Performance of Works Organisations

Certain functions that were previously delivered under CCT arrangements continue to be managed on that basis even though CCT no longer applies. The following table details the (Surplus)/Deficit on Works Organisations shown within the Income and Expenditure Account.

Works Organisations	2008/09 Net (Surplus) or Deficit £m	2009/10		Net (Surplus) or Deficit £m
		Gross Expenditure £m	Gross Income £m	
<b>Environment &amp; Regeneration</b>				
Highways and Sewer Work	(0.686)	12.021	(12.807)	(0.786)
Street Scene	0.122	15.095	(15.015)	0.080
Garage Revenue	(0.134)	2.919	(2.628)	0.291
<b>Adult Services, Housing &amp; Health</b>				
Building Cleaning	0.003	0.000	0.000	0.000
Education Catering	(0.078)	7.661	(7.755)	(0.094)
<b>Leisure and Community Services</b>				
Leisure Management	0.665	0.000	0.000	0.000
<b>(Surplus)/Deficit for the Year</b>	<b>(0.108)</b>	<b>37.696</b>	<b>(38.205)</b>	<b>(0.509)</b>

### Explanation of major variances on Works Organisations:

**Street Scene** - Improved management of the service area has resulted in a reduction in the deficit

**Garage Revenue** - Loss of a major contract to service Nottingham City Homes vehicles.

**Building Cleaning** - The nature of the building cleaning account in 2009/10 changed so that the budget provision is within the operational department and the expenditure and income for 2009/10 is shown within Net Cost of Services within the Income and Expenditure Account.

**Leisure Management** - The Leisure Management Service previously operated as a trading account with a Client & Contractor element, however in 2009/10 it was agreed to combine the two and the expenditure and income for 2009/10 is shown within Net Cost of Services within the Income and Expenditure Account.

## 7. Health Act 1999 Pooled Funds and Similar Arrangements

### Integrated Community Equipment Service (ICES)

Host organisation - Nottingham City Council.

The partnership is established between the following partners:

- Nottingham City Council
- Nottinghamshire County Council
- NHS Nottingham City
- NHS Nottinghamshire County

Funding is as set out in the statement. The partnership is established to provide health and social care equipment for children and adults who require assistance to perform essential activities in their daily living.

<b>Integrated Community Equipment Services (ICES)</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>
<b>Funding</b>		
Surplus/(Deficit) brought forward	0.585	0.547
Nottingham City Council	0.971	1.086
Nottinghamshire County Council	0.931	0.949
NHS Nottingham City	1.577	1.101
NHS Nottinghamshire County	1.152	1.175
Continuing Care Contributions	0.215	0.240
DLC Contribution/Rent	0.021	0.024
Other Miscellaneous	0.019	0.048
<b>Total Funding</b>	<b>5.471</b>	<b>5.170</b>
<b>Expenditure</b>		
Employee Costs	0.073	0.122
Property Costs	0.398	0.304
Transport Costs	0.000	0.000
Supplies and Services	3.978	3.743
Administrative Costs	(0.001)	0.002
Third Party Payments	0.476	0.466
<b>Total Expenditure</b>	<b>4.924</b>	<b>4.636</b>
<b>Balance of funding carried forward</b>	<b>0.547</b>	<b>0.534</b>

In 2009/10 agreed partner contributions covered the full costs of the service:

<b>Integrated Community Equipment Service (ICES)</b>		<b>2008/09</b>	<b>2009/10</b>
<b>Statement of Assets and Liabilities</b>		<b>£m</b>	<b>£m</b>
<b>Debtors</b>			
Nottinghamshire County Council	Minor Adaptations	0.039	0.036
<b>Creditors</b>			
Nottingham Rehab Supplies	Charges	0.400	0.546
Other Suppliers		0.027	0.000

### Nottingham City Adult Safeguarding Partnership Board

Host organisation - Nottingham City Council.

The partnership is established between the following partners:

- Nottingham City Council
- Nottinghamshire Probation Service
- NHS Nottingham City
- Nottingham Healthcare Trust

Funding is as set out in the statement. The partnership is established to provide a safeguarding service for adults.

<b>Nottingham City Adult Safeguarding Partnership Board</b>	<b>2009/10</b>
	<b>£m</b>
<b><u>Funding</u></b>	
Nottingham City Council	0.067
Nottinghamshire Probation Service	0.001
NHS Nottingham City	0.066
Nottingham Healthcare Trust	0.010
<b>Total Funding</b>	<b>0.144</b>
<b>Expenditure</b>	
Employee Costs	0.041
Property Costs	0.000
Transport Costs	0.000
Supplies and Services	0.006
Administrative Costs	0.004
Third Party Payments	0.007
<b>Total Expenditure</b>	<b>0.058</b>
<b>Balance of funding carried forward</b>	<b>0.086</b>

In 2009/10 agreed partner contributions covered the full costs of the service.

## 8. Government Grants (not attributable to specific services)

The funding received by the authority as general government grants and included in the Income and Expenditure Account is analysed in the table below.

<b>Analysis of General Government Grants</b>	<b>2008/09</b>	<b>2009/10</b>
	£m	£m
<b>Central Government</b>		
Revenue Support Grant (RSG)	(19.693)	(31.393)
Area Based Grant (ABG)	(33.374)	(21.830)
Local Authority Business Growth Incentive	(1.864)	(0.234)
Working Neighbourhood Fund	0.000	(13.066)
Housing Planning & Delivery Grant	0.000	(0.407)
	<b>(54.931)</b>	<b>(66.931)</b>

### Local Area Agreement Performance Reward Grant

The Local Area Agreement (2006-2009) included 12 reward targets which would attract a maximum of £8.76m performance reward grant. An audited claim of £5.239m was submitted to Government Office in December 2009 based on the level of the achievement of those targets as at the end of 2008/09. The first instalment of £2.418m was received in 2009/10 but the Government announced on 10th June 2010 that the balance to be included in the second instalment will now not be paid.

## 9. Members'/Councillors' Allowances

Under the Local Authority (Members' Allowances) (England) Regulations 2003, the City Council is required to disclose annually the total sum paid to councillors under the Council's Members Allowances Scheme.

<b>Members'/Councillors Allowances</b>	<b>2008/09</b>	<b>2009/10</b>
	£m	£m
Basic Allowance	0.627	0.639
Special Responsibility Allowance	0.406	0.419
Other Costs	0.004	0.004
	<b>1.037</b>	<b>1.062</b>

The details of the amounts paid to individual Councillors' are to be published in the Nottingham Evening Post.

## 10. Employee remuneration

The number of senior employees whose remuneration was £50,000 or more, in bands of £5,000, were:

Employee remuneration £	Number of Employees	
	2008/09	2009/10
50,000 - 54,999	110	105
55,000 - 59,999	49	68
60,000 - 64,999	39	45
65,000 - 69,999	13	22
70,000 - 74,999	11	7
75,000 - 79,999	11	11
80,000 - 84,999	14	9
85,000 - 89,999	7	10
90,000 - 94,999	2	7
95,000 - 99,999	2	0
100,000 - 104,999	2	2
105,000 - 109,999	1	1
110,000 - 114,999	1	1
115,000 - 119,999	2	0
120,000 - 124,999	1	0
125,000 - 129,999	0	0
130,000 - 134,999	0	1
135,000 - 139,999	0	0
140,000 - 144,999	4	3
145,000 - 149,999	1	1
150,000 - 154,999	0	0
155,000 - 159,999	0	0
160,000 - 164,999	0	0
165,000 - 169,999	0	1
170,000 - 174,999	0	0
175,000 - 179,999	0	0
180,000 - 184,999	0	0
185,000 - 189,999	0	0
190,000 - 194,999	0	0
195,000 - 199,999	0	0
200,000 - 204,999	0	0
205,000 - 209,999	0	0
210,000 - 214,999	0	1
215,000 - 219,999	0	0
220,000 - 224,999	0	0
225,000 - 229,999	0	0
230,000 - 234,999	0	0
235,000 - 239,999	0	0
240,000 - 244,999	1	0

This analysis excludes pension contributions made by the City Council as employer and therefore, represents the gross pay of the individuals concerned.

The following table sets out the remuneration disclosures of Senior Officers whose salary is £150k or more per year:

Post Holder Information	Salary (Including fees & Allowances)	Expense Allowances	Compensation for loss of employment	Total remuneration excluding pension contributions	Pension Contributions	Total remuneration including pension contributions
	£	£	£	£	£	£
<b><u>2008/09</u></b>						
Chief Executive - M Frater	10,499	128	230,569	241,196	1,711	242,907
	<b>10,499</b>	<b>128</b>	<b>230,569</b>	<b>241,195</b>	<b>1,711</b>	<b>242,907</b>
<b><u>2009/10</u></b>						
Chief Executive - J Todd	165,000	486		165,486	27,720	193,206
Corporate Director -B Horne	122,266	152	88,963	211,381	20,541	231,922
	<b>287,266</b>	<b>638</b>	<b>88,963</b>	<b>376,867</b>	<b>48,261</b>	<b>425,128</b>

The following tables set out the remuneration disclosures of Senior Officers whose salary is less than £150k but equal to or more than £50k or more per year. For the purposes of this note Senior Officers are defined by the Regulations as those employees who have a role in the overall management of Nottingham City Council.

Post Holder Information	Salary (Including fees & Allowances)	Other	Expense Allowances	Compensation for loss of employment	Total remuneration excluding pension contributions	Pension Contributions	Total remuneration including pension contributions
	£	£	£	£	£	£	£
<b>2008/09</b>							
Corporate Director - Adult, Support & Health	144,653				144,653	23,578	168,231
Corporate Director – Children’s Services	101,179	1,200	34		102,413	16,682	119,095
Corporate Director - Community & Culture	144,653		10		144,663	23,578	168,241
Corporate Director- Environment & Regeneration	144,653				144,653	23,578	168,231
Deputy Chief Executive and Corporate Director - Resources	144,653	2,741	187		147,581	24,025	171,606
Director - Communications & Marketing	72,279	1,000	701		73,980	11,939	85,919
Director - Corporate Partnerships	86,736		368		87,104	14,132	101,236
Director - One Nottingham	80,077	1,100	367		81,544	13,226	94,770
	<b>918,883</b>	<b>6,041</b>	<b>1,667</b>	<b>-</b>	<b>926,591</b>	<b>150,738</b>	<b>1,077,329</b>

Post Holder Information	Salary (Including fees & Allowances)	Other	Expense Allowances	Compensation for loss of employment	Total remuneration excluding pension contributions	Pension Contributions	Total remuneration including pension contributions
	£	£	£	£	£	£	£
<b><u>2009/10</u></b>							
Corporate Director - Adult, Support & Health	120,544		80	12,825	133,449	20,251	153,700
Corporate Director - Childrens Services	144,653		152		144,805	24,302	169,107
Corporate Director - Community & Culture	144,653				144,653	24,302	168,955
Deputy Chief Executive and Corporate Director - Resources	144,653		25		144,678	24,302	168,980
Director - One Nottingham *	111,067		81		111,148	18,651	129,799
Director - Corporate Partnerships	86,836		33		86,869	14,588	101,457
Director - Communications & Marketing	74,712		1,062		75,774	12,551	88,325
	<b>827,118</b>	<b>-</b>	<b>1,433</b>	<b>12,825</b>	<b>841,376</b>	<b>138,947</b>	<b>980,323</b>

Director – One Nottingham

In 2009/10 there were two post holders in the year and a single post holder would fall into the £110 to £115k bracket shown above.

## 11. Related parties

The City 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 the reader 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 sets the statutory framework within which the Council operates, provides most of the funding in the form of grants and prescribes the terms of many transactions that the Council has with other parties. General government grants received are shown on the Income and Expenditure Account and analysed in Note 8.

<b>Analysis of Grants</b>	<b>2008/09</b>	<b>2009/10</b>
	Receipts	Receipts
	£m	£m
<b>Central Government</b>		
Dedicated Schools Grant	159.276	156.755
National Non-Domestic Rate Pool	141.465	136.011
Other Revenue Grants > £10m		
- Department for Education and Skills Standards Fund	31.084	31.262
- Department for Communities and Local Government Supporting People Programme	24.750	23.587
- Department of Transport Nottingham Express Transit - PFI Special Grant	18.104	18.104
- Department for Works and Pensions Council Tax Benefit	27.406	30.436
Mandatory Rent Allowances: subsidy	49.700	63.898
Rent Rebates Granted to HRA Tenants	52.593	55.138

### Councillors

Councillors have direct control over the Council's financial and operating policies. The total cost of Councillors' allowances paid during 2008/09 and 2009/10 is shown within the notes to the accounts.

During 2009/10, the value of works and services (greater than £0.500m) to companies in which Councillors' had an interest are as follows:

<b>Payments to companies</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>
Connexions Nottinghamshire	5.785	5.728
Experience Nottinghamshire	0.675	0.249
Nottingham Energy Partnership	0.038	1.202
The Renewal Trust	0.627	0.664

### Precepts

The City Council paid the following precepts during 2008/09 and 2009/10:

<b>Precepts</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>
Nottinghamshire and City of Nottingham Fire & Rescue Service	4.890	5.099
Nottinghamshire Police Authority	10.883	11.504
Environment Agency - Flood Defence Levy	0.078	0.080

## Subsidiary and Associated Companies

The following are significant related party transactions with the City Council's subsidiary and associated companies. Further information on all companies can be found within the Group Accounts section.

Subsidiary and Associated Companies	2008/09		2009/10	
	Receipts	Payments	Receipts	Payments
	£m	£m	£m	£m
<b>Nottingham City Transport</b>				
Concessionary Fares		5.710		6.010
Season ticket passes provided to the City Council		0.109		0.085
Skylink Service and Link 1 & 2 Park and Ride Services.		0.269		0.702
Non-Domestic Business Rates	0.179		0.180	
Interest on Loan	0.005		0.005	
<b>Nottingham City Homes (NCH) Ltd</b>				
Management and repair of homes		68.695		69.447
General services provided to NCH Ltd	6.732		6.555	
<b>Nottingham Ice Centre Ltd</b>				
Rent	0.100		0.100	
Other Expenses	0.198		0.206	
Asset purchases for the company	0.177		0.347	
Sales		0.097		0.053
Revenue Grant		0.165		0.185
<b>EnviroEnergy Ltd</b>				
Purchase of steam from NCC	1.555		1.609	
Supply of Energy		0.384		0.362
Other operating costs including rent, rates and motor repair costs	0.463		0.468	
Interest on Prudential borrowing	0.056		0.049	
<b>Highfields Trust</b>				
Revenue Grant		0.146		0.127
<b>Harvey Hadden Trust</b>				
Revenue Grant		0.169		0.155
<b>Bridge Estate</b>				
Balance transferred to General Fund	1.616		1.319	
<b>Arrow Light Rail Ltd</b>				
Availability Payments		16.954		24.774
Other expenses		0.585		1.506

## Chief Officers

The City Council operated a car and cycle loan scheme and repayments during 2009/10 paid these amounts in full.

The Council has prepared this disclosure in accordance with its current interpretation and understanding of FRS8 and its applicability to the public sector.

## 12. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by the Department for Children, Schools and Families, through the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment for DSG receivable for 2009/10 are as follows:

<b>Dedicated Schools Grant</b>	<b>Central Expenditure £m</b>	<b>ISB £m</b>	<b>Total £m</b>
Final DSG for 2009/10			156.755
Brought forward from 2008/09			6.746
Carry Forward to 2010/11 agreed in advance			(0.151)
<b>Agreed budgeted distribution in 2009/10</b>	<b>34.275</b>	<b>129.075</b>	<b>163.350</b>
Actual central expenditure	16.480		
Actual ISB deployed to schools		134.826	
Local authority contribution for 2009/10	0.000	0.000	0.000
<b>Carry Forward to 2010/11</b>	<b>17.795</b>	<b>(5.751)</b>	<b>12.195</b>

## 13. Audit Costs

In 2009/10 Nottingham City Council incurred the following fees relating to external audit and inspection:

<b>Audit costs</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>
Fees payable to the Audit Commission for the certification of grant claims and returns	0.087	0.074
Fees payable to the Audit Commission in respect of statutory inspection	0.100	0.000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	0.395	0.415
	<b>0.582</b>	<b>0.489</b>

## 14. Movement in Fixed Assets

### a) Operational Assets

<b>Fixed Assets Operational Assets</b>	<b>Council Dwellings £m</b>	<b>Other Land and Buildings £m</b>	<b>Vehicles Plant and Equipment £m</b>	<b>Infra- structure Assets £m</b>	<b>Community £m</b>	<b>TOTAL £m</b>
<b>Opening Book Values as at 31 March 2009</b>						
Gross Book Value	906.588	896.729	40.520	220.916	20.243	2,084.996
Accumulated Depreciation	0.000	(28.094)	(13.644)	(44.382)	(2.538)	(88.658)
Accumulated Impairment	(0.060)	(32.061)	0.000	0.000	0.000	(32.121)
<b>Net Book value at 31-03-09</b>	<b>906.528</b>	<b>836.574</b>	<b>26.876</b>	<b>176.534</b>	<b>17.705</b>	<b>1,964.217</b>
<b><u>Movement in 2009/10</u></b>						
Additions	50.049	48.877	17.830	14.812	2.884	134.452
Additions PFI	0.000	29.041	0.000	0.000	0.000	29.041
Disposals in Year	(2.545)	0.000	(0.109)	0.000	0.000	(2.654)
Depreciation	(22.092)	(12.557)	(6.345)	(8.826)	(0.591)	(50.411)
Impairment Reversals	0.060	0.300	0.000	0.000	0.000	0.360
Impairments in the Year	(22.450)	(22.342)	0.000	0.000	0.000	(44.792)
Reclassifications	(5.056)	17.558	0.000	0.000	0.000	12.502
Revaluation Gains	20.677	7.931	0.000	0.000	0.000	28.608
Revaluation Losses	(33.153)	(21.732)	0.000	0.000	0.000	(54.885)
<b>Net Book value at 31-03-10</b>	<b>892.018</b>	<b>883.649</b>	<b>38.252</b>	<b>182.520</b>	<b>19.998</b>	<b>2,016.437</b>
Gross Book Value	895.640	961.466	54.030	234.615	23.109	2,168.860
Accumulated Depreciation	0.000	(36.529)	(15.778)	(52.095)	(3.111)	(107.513)
Accumulated Impairment	(3.622)	(41.287)	0.000	0.000	0.000	(44.909)
<b>Net Book value at 31-03-10</b>	<b>892.018</b>	<b>883.649</b>	<b>38.252</b>	<b>182.520</b>	<b>19.998</b>	<b>2,016.437</b>

b) Non-Operational Assets

<b>Fixed Assets</b>				
<b>Non-Operational Assets</b>	<b>Investment Properties £m</b>	<b>Under Construction £m</b>	<b>Surplus Assets - Held for Disposal £m</b>	<b>Total £m</b>
<b>Opening Book Values as at 31 March 2009</b>				
Gross Book Value	154.108	55.505	18.055	227.668
Accumulated Depreciation	0.000	0.000	0.000	0.000
Accumulated Impairment	(0.007)	0.000	(0.848)	(0.855)
<b>Net Book value at 31-03-09</b>	<b>154.101</b>	<b>55.505</b>	<b>17.207</b>	<b>226.813</b>
<b><u>Movement in 2009/10</u></b>				
Additions	0.179	65.238	0.302	65.719
Disposals in Year	0.000	0.000	(12.038)	(12.038)
Depreciation	0.000	0.000	0.000	0.000
Impairment Reversals	0.080	0.000	0.000	0.080
Impairments in the Year	(0.179)	0.000	(4.182)	(4.361)
Reclassifications	(2.450)	(24.012)	13.960	(12.502)
Revaluation Gains	0.603	0.000	3.120	3.723
Revaluation Losses	(8.571)	0.000	(8.766)	(17.337)
<b>Net Book value at 31-03-10</b>	<b>143.763</b>	<b>96.731</b>	<b>9.603</b>	<b>250.097</b>
Gross Book Value	143.912	96.731	13.850	254.493
Accumulated Depreciation	0.000	0.000	0.000	0.000
Accumulated Impairment	(0.149)	0.000	(4.247)	(4.396)
<b>Net Book value at 31-03-10</b>	<b>143.763</b>	<b>96.731</b>	<b>9.603</b>	<b>250.097</b>

## 15. Capital Expenditure and Financing

<b>Capital Expenditure and Financing</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£m</b>	<b>£m</b>
<b>Opening Capital Financing Requirement</b>	<b>483.522</b>	<b>499.795</b>
<i>Capital Investment</i>		
Operational Assets	78.038	135.268
Non Operational Assets	33.099	65.719
Revenue Expenditure Funded From Capital Under Statute & Long Term Debtors	11.561	15.596
<i>Sources of Finance</i>		
Capital Receipts	(9.188)	(6.162)
Government Grants and other contributions	(58.479)	(108.980)
Sums set aside from revenue	(26.874)	(15.790)
Minimum Revenue Provision	(7.335)	(15.645)
Additional Revenue Provision	(4.549)	(4.004)
Other adjustments	0.000	0.164
<b>Closing Capital Financing Requirement</b>	<b>499.795</b>	<b>565.961</b>
<b>Movement in the Year</b>	<b>16.273</b>	<b>66.166</b>
<i>Explanation of movements in the Year</i>		
Expenditure financed by Supported Borrowing	20.093	46.773
Expenditure financed by Unsupported Borrowing	8.064	38.878
Less: Amounts set aside	(11.884)	(19.649)
Add: Other Adjustments		0.164
<b>Increase in Capital Financing Requirement</b>	<b>16.273</b>	<b>66.166</b>

## 16. Revenue Expenditure Funded From Capital Under Statute

Grants are made to private sector homeowners and voluntary sector organisations to carry out capital works. The expenditure is written out to the Income and Expenditure Account in the year in which it is incurred.

## 17. Commitments under Capital Contracts

Significant commitments as at 31 March 2010 under capital contracts are as follows:

<b>Capital commitments</b>	<b>Contract Period</b>	<b>at 31March 2009 £m</b>	<b>at 31March 2010 £m</b>
Bulwell Academy - Construction of new academy	2009/12	26.319	5.701
NUSA Academy - Construction of new academy	2009/12	23.725	6.356
ICT Managed Services - Installation in BSF schools	2009/15	11.356	9.437
Bluebell Hill Primary School - Remodelling	2010/11	0.000	1.069
Henry Whipple Primary School - Remodelling	2010/11	0.000	1.604
Robin Hood Primary School - Remodelling	2010/11	0.000	1.668
Rosehill Special School - Remodelling	2010/12	0.000	6.777
Nottingham Academy - Construction of new academy	2010/13	0.000	40.121
Cantrell Primary & Nursery - Demolition & Rebuild of Nursery Provision	2010/11	0.000	1.233
Eastcroft Incinerator Waste Recycling Contract	2009/11	10.285	3.743
Loxley House - Accommodation works for new Council Headquarters building	2010/11	0.000	1.250
Project Access - Development of new Corporate Contact Centre	2010/11	0.000	1.871
2008/09 Contracts with Commitments less than £1m as at 31 March 2010		31.582	2.822
		<b>103.267</b>	<b>83.203</b>

The City Council's approved Capital Programme for the next three financial years is as follows:

<b>Capital Programme</b>	<b>£m</b>
2010/11	184.451
2011/12	197.046
2012/13	176.037

For further information please refer to the “Review of the Capital Strategy” within the Explanatory Foreword.

## 18. Information on Tangible Fixed Assets held by Nottingham City Council

The analysis of fixed assets specifies assets owned by the Council included in the Consolidated Balance Sheet.

Information on Tangible Fixed Assets	Numbers as at 31 March 2009	Numbers as at 31 March 2010
<b><u>Council Dwellings</u></b>	28,930	28,598
<b><u>Operational Buildings</u></b>		
Major Administrative Buildings	8	9
Car Parks and Bus Station	25	25
Cemeteries and Crematoria	7	7
Retail Markets	4	4
Toilets	14	9
Depots and Workshops	3	2
Homes and Day Centres for the Elderly and Disabled	13	12
Community Homes and Family Centres	23	23
Primary, Secondary and Special Schools	92	83
Community Centres	49	50
Leisure Centres, Sports Halls and Facilities	10	10
Libraries	20	18
Museums and Entertainment Centres	9	10
National Ice Centre	1	1
Joint Service Centre (PFI)	1	1
<b><u>Operational Equipment</u></b>		
Computers (Excluding Schools Curriculum PCs)	8,097	8,200
Vehicles	407	459
<b><u>Infrastructure Assets</u></b>		
B' Roads	24.9 kms	24.8 kms
Other Minor Roads	703.5 kms	701.4 kms
Principal Roads	62.0 kms	62.0 kms
<b><u>Community Assets</u></b>		
Parks and Open Spaces (hectares)	1,861	1,861
<b><u>Investment Properties</u></b>		
Industrial and Commercial Lettings	2,000 (Approx)	2,000 (Approx)

The reduction in the number of schools includes the transfer of schools provision to separate legal entities. New Academies, Foundation and Trust Schools are included in this transfer. Schools buildings remain on the Council's balance sheet pending the construction of new facilities.

A review of the provision of public toilets has identified 5 sites that are closed

Top Valley, Western Boulevard and Bestwood Library were all closed in 2009/10. A new library at Southglade leisure centre was opened.

Loxley House, the new Council headquarters building was acquired in 2009/10.

Road lengths are those reported in the Department for Transport's R199B annual return.

## 19. Leases

### Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

### Vehicles, Plant and Other Equipment

Until 31 March 2004 most of the fleet was funded by operating leases. In addition to the vehicle fleet, operating leases were sometimes used, to also fund the acquisition of mowers, printing equipment, Information Technology (IT) and communications. Rentals are payable in advance and charged to the Income and Expenditure Account on an accruals basis. From 1 April 2004 no new operating leasing has been undertaken.

£0.654m was paid in 2009/10 (£1.234m in 2008/09). The sum paid in 2009/10 includes collection, inspection and damage charges on vehicles returned to lessors. At 31 March 2010 to further rental payments of £0.277m were committed. The sum will be discharged over future years and charged to the Income and Expenditure Account as follows:

<b>Leasing</b>	
<b>Sum Discharged</b>	<b>£m</b>
2010/11	0.210
2011/12	0.013
2012/13	0.005
Future Years	0.000
<b>Total</b>	<b>0.228</b>

### Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- 1) a charge for the acquisition of the interest in the equipment, and
- 2) a finance charge

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

### Works Perks

In 2005/06 a scheme called "Works Perks" was introduced allowing employees to acquire bikes and computers and cover the cost by sacrificing salary. Agreed suppliers effectively sell the bikes and computers to a leasing company and the leasing company leases the assets to the Council, under a finance lease. Sums equivalent to the lease rentals are deducted from the employees pay.

<b>Works Perks</b>	<b>£m</b>	<b>Bikes £m</b>	<b>Computers £m</b>	<b>Total £m</b>
<b>Value as at 1 April 2009</b>	<b>0.015</b>	<b>0.015</b>	<b>0.000</b>	<b>0.015</b>
Additions	0.000	0.000	0.000	0.000
Discharged	0.000	(0.015)	0.000	(0.015)
<b>Value as at 31 March 2010</b>	<b>0.015</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

All outstanding obligations were fully discharged by 31 March 2010 leaving no liability into future years.

## 20. Tangible Fixed Asset Valuation

### Properties

Operational properties have been valued in accordance with FRS15. In addition to the Council's 5-year rolling programme of property revaluations, adjustments for material changes in property values arising as a result of impairments, acquisitions, enhancements and reclassifications are made to the annual statement of accounts.

With the exception of the Housing Stock, internal qualified valuers led by the Head of Estates, John Sadler BSc MBA MRICS complete annual property revaluations as required.

An impairment review of the valuation of all council properties was completed as at 31 March 2010 by internal qualified valuers. No overall adjustment arising as a result of a significant change in the property market was deemed necessary in 2009/10.

### Council Dwellings

Council dwellings have been re-valued in 2009/10 based on a full valuation of beacon properties by Chartered Surveyors Herbert Button & Partners and Freeman & Mitchell. In accordance with the Statement of Recommended Practice, the valuation is adjusted by a regional adjustment factor in recognition of the Housing Stock's status as social housing.

Vehicles, plant and equipment have been valued at net current replacement cost, deemed to be depreciated historical cost.

Infrastructure and Community assets are valued at historical cost, net of depreciation where applicable.

### Fixed Assets Valuation History

The following statement shows the cumulative effect of acquisitions, disposals, revaluations, and annual charges of depreciation and impairment applied to tangible fixed asset categories.

#### Valuation History of Tangible Fixed Assets carried at current value

	Operational Assets					Non-Operational Assets	Total
	Council Dwellings	Other Land & Buildings	Vehicles & Equipment	Infrastructure	Community		
	£m	£m	£m	£m	£m	£m	£m
Valued at Depreciated Historical Cost	0.000	0.000	38.252	182.520	19.998	0.000	240.770
Valued at Current Value							
2005/06	0.000	360.764	0.000	0.000	0.000	7.267	368.031
2006/07	0.000	72.137	0.000	0.000	0.000	17.439	89.576
2007/08	0.000	234.373	0.000	0.000	0.000	8.898	243.271
2008/09	0.000	107.847	0.000	0.000	0.000	139.776	247.623
2009/10	892.018	108.529	0.000	0.000	0.000	76.716	1,077.263
	892.018	883.649	38.252	182.520	19.998	250.097	2,266.534

## 21. Intangible Fixed Assets

<b>Intangible Fixed Assets</b>	<b>Software Licences £m</b>
<b>Opening Book Values as at 31 March 2009</b>	
Gross Book Value	2.212
Accumulated Depreciation	(1.239)
Accumulated Impairment	0.000
<b>Net Book value at 31-03-09</b>	<b>0.973</b>
<b>Movement in 2009/10</b>	
Additions	0.814
Disposals in Year	0.000
Depreciation	(0.380)
Impairment Reversals	0.000
Impairments in the Year	0.000
Reclassifications	0.000
Revaluations (inc accumulated depreciation & Impairment)	0.000
<b>Net Book value at 31-03-10</b>	<b>1.407</b>
Gross Book Value	2.709
Accumulated Depreciation	(1.302)
Accumulated Impairment	0.000
<b>Net Book value at 31-03-10</b>	<b>1.407</b>

## 22. Long Term Debtors

Long Term Debtors	Restated 2008/09 £m	2009/10 £m
Assets Transferred to Other Bodies	1.851	1.164
Council House Sales	0.378	0.296
Eastside Disposal	2.630	2.630
EnviroEnergy	0.803	0.605
Equity Loan Scheme	0.000	0.243
Housing Advances	0.063	0.051
Local Education Partnership	0.324	0.324
Local Government Reorganisation	0.113	0.000
Miscellaneous Loans	0.269	0.434
NET - Residual interest	4.133	4.959
NET - Reversionary interest	8.382	8.559
Nottingham Bluecoat School and Technology College	1.790	1.619
Nottingham Forest Football Club	1.009	0.000
Nottingham Rugby Club	0.147	0.147
Nottinghamshire Cricket Club	1.188	1.200
Building Schools for the Future-ICT Agreement	0.000	0.377
	<b>23.080</b>	<b>22.608</b>

2008/09 published balances contained in this note in respect of Bluecoat School & Technology College and Nottingham Forest Football Club have been restated, to reflect an amendment of £2.463m between long-term and short-term debt. This is purely a presentational amendment and has not changed the overall outstanding debt position at 31 March 2009.

Details for Long Term Debtors (Greater than £1m) are listed below:

### Assets Transferred to Other Bodies

Following reorganisation in 1974, certain debts transferred to Nottinghamshire County Council. The debt relates to specific schemes and each is repayable over a set period. The annual recharge of principal is based on a 5% increase each year in the principal repayment sum. Some of the schemes were calculated to be repaid over 40 and 60 years. The debtor will continue for many years.

### Eastside Disposal

By an agreement dated November 2006, the Council sold the former Lower Level Station and the W2 Buildings to Heathcote Holdings. The terms of the sale set out a capital payment of £2.2m linked to RPI deferred for a period of up to 7 years during which time the Council receive an annual payment of £0.175m. The Council may call on the capital payment at any time during the 7 year period and following receipt of this, the annual payment will cease.

Alternatively, Heathcote Holdings may provide the Council with an investment property of equivalent value.

#### NET Residual interest

The NET Residual interest represents newly developed assets provided by the Nottingham Express Transit Operator to be transferred to the City Council at the end of the existing contract period for NET Line One.

#### NET Reversionary interest

The NET Reversionary interest represents the present value of land assets to be returned to the City Council at the end of the existing contract period for NET Line One.

#### Nottinghamshire County Cricket Club

In September 2007, the City Council approved a loan of £1.230m to Nottinghamshire County Cricket Club.

#### Nottingham Bluecoat School and Technology College

The Council has provided a loan to the Nottingham Bluecoat School and Technology College of £2.44m, to be repaid over 8 years to 2014/15. The purpose of this loan is to finance an overspend on the Aspley campus redevelopment.

### 23. Analysis of Net Assets Employed

The following note is intended to provide information on the net assets of Nottingham City Council, split by General Fund, HRA, Works Organisations and Trading Operations.

<b>Analysis of Net Assets Employed</b>	<b>Restated 2008/09 £m</b>	<b>2009/10 £m</b>
General Fund	88.368	(277.115)
Housing Revenue Account	938.788	920.964
Works Organisations and Trading Operations	141.964	132.994
	<b>1,169.120</b>	<b>776.843</b>

### 24. Interests in Subsidiary and Associated Companies

See Note 1 to the Group Accounts for details of Nottingham City Council's interests in Subsidiary and Associated Companies.

## 25. Icelandic Bank Investments

Early in October 2008 the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £41.6m deposited across 3 of these institutions, with varying maturity dates and interest rates as follows:

### Icelandic Bank Investments

<b>Bank</b>	<b>Principal £m</b>	<b>From</b>	<b>To</b>	<b>Rate</b>
Glitnir	5.000	20/04/07	20/04/09	5.92%
Landsbanki	4.000	15/06/07	15/06/09	6.43%
Glitnir	6.000	30/11/07	28/11/08	5.98%
Heritable	3.300	18/03/08	21/11/08	5.93%
Landsbanki	3.500	14/05/08	13/05/09	6.05%
Heritable	5.500	14/05/08	13/05/09	6.05%
Heritable	4.000	18/07/08	22/04/09	6.24%
Heritable	2.800	22/07/08	21/07/09	6.37%
Landsbanki	6.000	19/09/08	27/04/09	6.21%
Landsbanki	1.500	19/09/08	21/08/09	6.35%
	<b>41.600</b>			

All monies within these institutions remain subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Council will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the Council considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below.

As the available information is not definitive as to the amounts and timings of payments to be made by the administrators/receivers, it is likely that further adjustments will be made to the accounts in future years.

### Heritable Bank

Heritable Bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. The latest creditor progress report issued by the administrators Ernst & Young on 28 January 2010 outlined that the return to creditors was projected to be 85% by September 2012. To 31 March 2010, the authority has received dividend payments of £5.6m, constituting principal and interest, representing repayments of

35p in the £. Based on the latest advice, the authority has decided to recognise an impairment based on it recovering a total of 85p in the £. In calculating the impairment the Authority has made assumptions re the timing of recoveries in line with the timetable suggested in the latest advice from CIPFA. The final payment is expected in September 2012.

Recoveries are expressed as a percentage of the authority's claim in the administration, which includes interest accrued up to 6 October 2008.

### Landsbanki Islands hf

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008, its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a Winding Up Board. Old Landsbanki's affairs are being administered under Icelandic law.

The Winding Up Board has accepted the claims of Nottingham City Council in respect of its deposits and has deemed that they have priority creditor status under Icelandic law. This status is the subject of a legal challenge by other Landsbanki creditors in the Icelandic courts. However, the latest advice from CIPFA, in the form of a Local Authority Accounting Panel Bulletin (LAAP82, May 2010) states that the LAAP "considers, on the basis of the legal advice obtained by local authorities and advice provided by the Local Government Association, that it remains the most likely outcome that the claims will enjoy priority status".

The latest creditors' report in respect of Landsbanki was issued on 26 March 2010. Based on the information in that report, and assuming that the priority status of the Council's claim is upheld, a total recovery of 95p in the £ has been assumed at this stage, through a series of instalment repayments. The final instalment is not however expected until 2018.

### Glitnir Bank hf

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008, its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law.

The Winding Up Board has accepted the claims of Nottingham City Council in respect of its deposits but has not recognised its priority creditor status under Icelandic law at this stage. This decision is the subject of a legal challenge in the Icelandic courts and a final resolution of the matter is not expected until late 2011. However, the latest advice from CIPFA, in the form of a Local Authority Accounting Panel Bulletin (LAAP82, May 2010) states that the LAAP "considers, on the basis of the legal advice obtained by local authorities and advice provided by the Local Government association, that it remains the most likely outcome that the claims will enjoy priority status".

The latest information available regarding Glitnir bank net assets, taken from the 2009 accounts, indicates that all priority status creditors are able to be repaid in full. Based on this information, a recovery of 100p in the £ has therefore been assumed at this stage, with payment being received after the legal proceedings have been resolved, in 2011.

## Impairment

Based on the assumed percentage recoveries above, the City Council would have to write off £3.1m of the £41.6m originally invested with Icelandic banks. This sum would, in due course, be a charge against the income and expenditure account.

In accordance with proper accounting practice, an impairment loss has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits, in order to recognise the anticipated loss of interest to the authority until monies are recovered. (This assumes that the investments would continue to earn interest at the rate agreed from maturity date to the actual repayment date). This provides a current impairment loss of £11.206m and an accrual of interest due of £4.527m, which have been recognised in the Income and Expenditure Account in 2009/10

The Authority has taken advantage of the Capital Finance Regulations (S.I.2009/321) to defer the impact of this impairment on the General Fund, and the impairment and interest figures have been transferred to the Financial Instruments Adjustment Account. Further adjustments to these calculations will be made in future accounts as more information becomes available.

## Foreign Exchange Risk

Deposits with Landsbanki and Glitnir banks were converted into Icelandic Krona on 22 April 2009. The sterling value received by the City Council will depend on the prevailing exchange rate and may be different from the equivalent value on 22 April 2009. Currency restrictions mean that there is no futures market for the Icelandic Krona and it is therefore not possible to price the exchange risk. However, the latest advice from CIPFA, in the form of its LAAP Bulletin 82 (May 2010) is that at the moment “any net increase or decrease in the amount of repayments received by authorities is not expected to be material”. Exchange rate risk has therefore been ignored in estimating future cash flows.

## 26. Disclosure of Financial Assets and Liabilities from 1 April 2009

The operation of the City Council's Treasury Management function is regulated through the Local Government Act 2003 and through this Act by DCLG Investment Guidance, the CIPFA Code of Practice for Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities. In advance of each year the City Council approves a treasury strategy reviewing risk and expected activities during the year.

The 2009 SORP requires disclosure of information pertaining to the scope, significance and risk associated with the City Council's financial instruments.

## Financial Instruments Balances

A financial instrument arises from a contract which gives rise to a financial asset of one organisation and a financial liability of another. The City Council's balance sheet contains a range of such financial instruments, both liabilities and assets.

Changes in accounting policies, introduced from 1 April 2008, require the values of financial instrument expressed at amortised cost to reflect any accrued interest or impairment in value. The table below shows the appropriate value of all financial instruments on the City Council's balance sheet as at 31 March 2010. The investments figures reflect the impairment of deposits placed with Icelandic banks, which is explained in detail in note 25.

Financial Instruments Balances	Long Term		Current	
	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m	31 March 2010 £m
<b>Financial Liabilities</b>				
<b>i) at amortised cost</b>				
Borrowing - principal	446.225	463.824	43.487	37.403
plus interest	4.067	0.000	0.718	4.012
plus accounting adjustments	(0.109)	0.000	1.074	0.962
Creditors *	0.000	0.000	117.005	129.481
	<b>450.183</b>	<b>463.824</b>	<b>162.284</b>	<b>171.858</b>
<b>ii) at fair value through I&amp;E</b>	0.000	0.000	0.000	0.000
<b>TOTAL</b>	<b>450.183</b>	<b>463.824</b>	<b>162.284</b>	<b>171.858</b>
<b>Investments</b>				
<b>i) loans and receivables at amortised cost</b>				
Investments - principal	0.000	26.000	179.550	120.743
plus interest	0.000	0.000	6.556	5.511
plus accounting adjustments	0.000	0.550	(9.834)	(11.756)
Debtors*	0.000	0.000	60.181	62.219
Long-term debtors	23.080	22.608	0.000	0.000
	<b>23.080</b>	<b>49.158</b>	<b>236.453</b>	<b>176.717</b>
<b>ii) available-for-sale financial assets</b>	0.000	0.000	0.000	0.000
<b>iii) at fair value through I&amp;E</b>	0.000	0.000	0.000	0.000
<b>iv) unquoted equity investment (at cost)</b>	0.477	0.763	0.000	0.000
<b>TOTAL</b>	<b>23.557</b>	<b>49.921</b>	<b>236.453</b>	<b>176.717</b>

\* Excludes non-contractual creditors and debtors such as NNDR, and Council Tax.

## Financial Instruments – Items of interest, expense, gains and losses

The following table discloses the income and expenditure recognised in the Income and Expenditure account during 2009/10 in respect of all financial assets and liabilities not held at fair value, calculated using the effective interest method:

<b>Financial Instruments Gains and Losses</b>	<b>2009/10</b>
	<b>£m</b>
Interest expense	(23.959)
Losses on derecognition	0.000
<b>Interest payable and similar charges</b>	<b>(23.959)</b>
Interest income	8.952
Gains on derecognition	0.000
<b>Interest and investment income</b>	<b>8.952</b>
Gains on revaluation	0.000
Losses on revaluation	0.000
Amounts recycled to the I&E Account after impairment	(1.372)
<b>Surplus from reval. of financial assets</b>	<b>(1.372)</b>
<b>Net (loss) for the year</b>	<b>(16.379)</b>

During 2009/10 the only significant gain or loss in either the Income & Expenditure Account or the STRGL was in respect of deposits held with Icelandic banks which are explained in detail in note 25.

### Fair value of assets and liabilities carried at amortised cost

Financial liabilities and assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining life of the instruments, using the following assumptions:

- For PWLB loans, the fair value has been based on the interest rates and the premature repayment rates in force on the relevant day (31 March).
- For other loans, relevant premature repayment rates have been applied to provide a fair value.
- Where an instrument has a maturity of less than 12 months, the fair value is taken to be the principal outstanding, plus accrued interest.
- The fair value of trade and other creditors and debtors is taken to be the billed amount.
- The fair value of investments excludes all sums deposited with Icelandic banks which have been accounted for separately – see note 25.

The calculated fair values are as follows:

Fair Values	31 March 2009		31 March 2010	
	Carrying Amount £m	Fair value £m	Carrying Amount £m	Fair value £m
PWLB debt	434.415	501.788	445.466	491.438
Market loans	50.457	53.545	50.455	50.981
3% stock	2.335	1.417	2.335	1.406
Bonds	2.849	2.849	2.465	2.465
Other debt	5.407	5.407	5.481	5.481
Trade creditors	117.005	117.005	129.481	129.481
<b>Financial liabilities</b>	<b>612.468</b>	<b>682.011</b>	<b>635.683</b>	<b>681.252</b>
Investments (< 1 year)	141.994	141.994	110.780	110.780
Investments (> 1 year)	0.000	0.000	0.000	0.000
Debtors	60.181	60.181	62.219	62.219
Long-term debtors	23.080	23.080	22.608	22.608
<b>Financial investments</b>	<b>225.255</b>	<b>225.255</b>	<b>195.607</b>	<b>195.607</b>

The fair value of the debt is greater than the carrying amount because the City Council's portfolio of loans includes fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

All loans and receivables held on the balance sheet at 31 March were issued at par. They have been accounted for on the balance sheet on an amortised cost basis, and reflect the principal outstanding, plus any accrued interest at 31 March 2010, giving a 'carrying amount' at year-end. The fair value of these investments has been determined by reference to market rates at 31 March each year.

#### Disclosure of nature and extent of risk arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the City Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the City Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the City Council as a result of changes in such measures as interest rates or equity prices.

## Overall Procedures for Managing Risk

The City 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 set out through a legal framework set out in the *Local Government Act 2003* and the associated regulations. These require the City 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.

Overall the procedures require the City 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 exposures in 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 counterparties in compliance with the Government Guidance;

These procedures are required to be reported and approved at the meeting of the City Council which also sets the annual budget and Council Tax. The procedures are included within an annual Treasury Management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Councillors.

The City Council maintains written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk, and the investment of the City Council's surplus cash, through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

## Credit risk

Credit risk arises from deposits with banks and financial institutions. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria.

The following analysis summarises the City Council's potential maximum exposure to credit risk in respect of its cash investments at 31 March 2010, based on experience of default assessed by the ratings agencies. Outstanding deposits with Icelandic banks amounting to £36.1m at 31 March 2010, have been excluded from this table, and have been separately accounted for – see note 25.

The historical experience of default has been taken from a credit rating organisation used by the City Council. As a consequence of the high credit rating criteria maintained by the City Council, no adjustment has been deemed necessary to reflect current market conditions.

Provision for trade debtor default is provided for through impairment of the principal sum (a bad debt provision), based on local experience.

Credit Risk	Amount at	Historical	Adj for	Estimated
	31 March	Experience	market	maximum
	2010	of Default	31 March	exposure
	£m	%	2010	to default
			%	£m
<b>Counterparties</b>				
AAA rated	20.600	0.000%	0.000%	0.000
AA rated	90.000	0.040%	0.040%	0.036
Trade debtors	62.219	0.000%	0.000%	0.000
<b>Total</b>	<b>172.819</b>			<b>0.036</b>

### Liquidity risk

The City Council has ready access to borrowings from the Money Markets to cover day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The City 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.

The City Council manages its liquidity position through the risk management procedures outlined above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures, as required by the Code of Practice.

### Refinancing and Maturity Risk

The City Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the City Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The City Council approved treasury and investment strategies address the main risks and the central treasury team addresses the operational risks within these approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure that sufficient liquidity is available for the City Council's day-to-day cash flow needs, and that the spread of longer term investments provides stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of the principal element of financial liabilities is:

Financial liabilities	31 March 2009	31 March 2010
	£m	£m
Less than 1 year	43.487	37.430
1 to 2 years	5.671	28.646
2 to 5 years	49.823	67.975
5 to 10 years	3.994	64.993
More than 10 years	384.196	299.643
Irredeemable	2.540	2.540
	<b>489.711</b>	<b>501.227</b>

All trade and other creditors are payable in less than one year and are not shown in the above table.

The maturity analysis of the principal element of loans and receivables is shown below. The Icelandic bank deposits have been expressed based on the current forecast of recovery percentages and dates – see note 25.

Loans and receivables	31 March 2009	31 March 2010
	£m	£m
Less than 1 year	149.890	113.720
1 to 2 years	8.280	17.446
2 to 5 years	10.940	2.890
More than 3 years	6.570	9.594
	<b>175.680</b>	<b>143.650</b>

Trade debtors are payable in less than one year and are not shown in the above table.

### Market risk

*Interest rate risk* - the City Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the City Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. Market and forecast interest rates are monitored within the year, to adjust exposures appropriately.

*Price risk* - the City Council does not generally invest in equity shares but does have shareholdings to the value of £0.763m in a number of joint ventures and in local industry. These holdings are generally illiquid and are shown in the balance sheet at cost. The equity holding in Nottingham City Transport Limited is excluded from the financial instruments disclosure notes because this interest is shown at cost within the authority's group accounts. The Council is exposed to losses arising from movements in the value of these holdings. As the holdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead, it maintains "open book" arrangements with the companies concerned so that the Council can monitor factors that might cause a fall in the value of specific holdings.

*Foreign exchange risk* – the City Council has no financial assets or liabilities denominated in foreign currencies, other than deposits with Icelandic banks which are addressed separately (see note 25). It therefore has no other exposure to loss arising from movements in exchange rates.

## 27. Provisions

These accounts represent amounts set aside for a specific purpose to meet expenditure in future years.

Provisions	As at	Movement During Year		As at
	2008/09 £m	Utilised £m	Established £m	31 March 2010 £m
Insurance Fund	(4.130)	0.000	(0.444)	(4.574)
Job Evaluation	(17.346)	0.000	(1.221)	(18.567)
<b>Total</b>	<b>(21.476)</b>	<b>0.000</b>	<b>(1.665)</b>	<b>(23.141)</b>

### Insurance Provision

Nottingham City Council maintains an insurance provision to meet the cost of claims arising from self-insured risks and risks which fall below the external policy retention levels.

The major costs met from the provision arise from fire losses, liability claims made against the Council and accidental damage to Council vehicles. In order to limit the Council's exposure to these risks the external fire, motor and liability policies have been arranged with excesses of £0.100m, and £50k respectively. To further protect the Council's exposure to significant payments, stop losses are in place, which limit the total value of claims that the Council will have to fund in one policy year; the stop losses for the 2009/10 policy year were £5m across all classes. Other costs falling on the provision include self-insured risks.

Contributions to the insurance provision arise from annual charges to service areas. These maintain the insurance provision at a sufficient level to meet future claim liabilities, which includes an element of incurred but not reported claims. In addition to the known and estimated future liabilities there are also potential liabilities on the fund that have not been included in the fund balance.

### Municipal Mutual Insurance (MMI)

A number of outstanding liabilities and IBNR (incurred but not reported) claims currently sit with MMI. The company is in run off. If the company becomes formally insolvent, the Council, as a member of MMI, will be called upon to contribute to claims if the financial results warrants. If the scheme of arrangement is triggered the amount the Council are liable for is the total carried forward claim payments less £50k. This is estimated at £2m.

### Pre Fund Exposures

This relates to claims that pre date the coverage provided by the provision. There are some claims that will be submitted dating back to the 1950/1960's and will be high value complex claims where insurers cannot be traced. These claims are rare but should no insurer be traced the costs would have to met from the provision.

### Employers Liability (EL) Policy Wording

There is uncertainty concerning the definition of 'incident date' for EL claims which has yet to be decided by the Courts. The current interpretation of 'incident date' is the date of exposure to the injuring substance, which in the case of asbestos claims is 1950 onwards. Historic insurers such as MMI are liable for the costs of these claims. MMI are challenging this interpretation, arguing the policy wording meaning of 'incident date' is the date of injury occurring and not exposure date. If there is a change to the definition to date of injury occurring the claims would then fall on later insurers. The Council carry a £50k excess per claim post 1992 and the first £50k of each claim would have to be met from the provision. It is anticipated that the number of these claims will continue to rise as more people are diagnosed. It is anticipated that these claims will not peak until 2017.

### Nottinghamshire County Council Fund

At the time of unitary status the County Council's insurance fund was 'closed'. All claims relating to services previously delivered by the County which occurred before 1 April 1998 are administered by the County and paid from the closed fund. In the event the fund becomes exhausted the City Council's share of the deficit will be 23%. At 31 March 2010, Nottinghamshire County Council were predicting a surplus of £47k Nottingham City Council's share of this surplus would be £11k.

### **Job Evaluation**

This provision is to meet historic equal pay liabilities which have been recognised by the Council. It is anticipated that the majority of these payments will be agreed within the 2010/11 financial year; however, some payments may be the subject of Employment Tribunals. In addition the Council has committed to pay compensation to those colleagues who would have gained under the new proposed arrangements had they been introduced with effect from 1 April 2006. This is the subject of detailed negotiations, however, it is anticipated that this will be paid in 2010/11.

## 28. Movement on Earmarked Reserves during the year

<b>Earmarked Reserves</b>	<b>Restated 31 March 2009 £m</b>	<b>Transfers (to)/from Revenue £m</b>	<b>Other Movements £m</b>	<b>31 March 2010 £m</b>
<b>Capital</b>				
Revenue Reserves for Capital	8.398	0.646	(3.939)	5.105
Other Capital Reserves	0.264	0.032	(0.177)	0.119
<b>Earmarked Reserves - Capital</b>	<b>8.662</b>	<b>0.678</b>	<b>(4.116)</b>	<b>5.224</b>
<b>Revenue</b>				
Area Based / Working Neighbourhood	2.742	4.595	0.000	7.337
Business Growth Incentive	1.616	(0.449)	0.000	1.167
Housing Benefits	0.978	0.621	0.000	1.599
Insurance Reserve	4.744	0.000	0.000	4.744
Investment reserve	0.878	(0.248)	0.580	1.210
Investment Management	5.235	(0.720)	0.000	4.515
Job Evaluation - Equal Pay	1.878	2.105	0.000	3.983
Performance Reward	0.000	2.027	(0.500)	1.527
Medium Term Financial Plan	4.568	(4.545)	(0.023)	0.000
NET PFI Grant Joint Fund	3.712	0.356	0.000	4.068
Nottingham First Project	0.125	1.914	0.200	2.239
NET City Reserve Fund	0.380	1.452	0.000	1.832
Street Lighting PFI	0.000	1.013	0.000	1.013
Workplace Parking Enquiry	1.346	(0.340)	(0.000)	1.006
Other Earmarked Revenue Reserves	3.914	0.623	(0.266)	4.271
<b>Earmarked Reserves - Earmarked</b>	<b>32.116</b>	<b>8.405</b>	<b>(0.009)</b>	<b>40.512</b>
<b>Specific</b>				
School Statutory Reserve - Central	8.722	4.324	0.000	13.046
School Statutory Reserve - Schools	7.423	2.062	0.000	9.485
NHS Local Imp Finance (LIFT)	2.381	0.181	(0.062)	2.501
E-Government/IT Fund	5.668	2.599	(1.214)	7.053
Supporting People	11.274	(2.532)	0.000	8.742
Other Specific Reserves	3.192	0.478	0.000	3.670
<b>Earmarked Reserves - Specific Purposes</b>	<b>38.660</b>	<b>7.113</b>	<b>(1.276)</b>	<b>44.497</b>
<b>Total Reserves</b>	<b>79.438</b>	<b>16.196</b>	<b>(5.402)</b>	<b>90.232</b>

**The purpose of each earmarked reserve (greater than £2m) is listed below:**

**Earmarked Reserves for Capital £5.224m**

Revenue Reserves for Capital Purposes £5.105m

Over the years sums have been appropriated into this reserve to provide funding for capital investment over and above that provided by central government and that which can be met from capital receipts. The balance represents the sum still available and earmarked for future capital investment.

**Other Earmarked Reserves £40.512m**

Area Based Grant (ABG) / Working Neighbourhood Fund (WNF) £7.337m

Area Based Grant (ABG) is a non-ringfenced grant and as such no conditions are imposed in respect of its use. ABG is therefore a general grant and is included within the Income and Expenditure Account with other general income sources.

This reserve represents the carried forward unspent grant of £6.367m in respect of WNF and £0.970 other ABG. One Nottingham have approved their programme of WNF schemes for 2010/11 and 2011/12. This reserve has been established to hold these funds until required.

Insurance Reserve £4.744m

The reserve has been replenished in the year to reflect the potential future liabilities in relation to insurance claims.

Investment Management Reserve £4.515m

The creation of an Investment Management Reserve was formally approved by the Executive Board on 21 June 2005. The reserve was created, with the aim of providing a fund in anticipation of future volatility in revenue charges arising in the Financing Transactions budget.

Job Evaluation – Equal Pay £3.983m

Annual revenue contributions are made to earmark resources to support the costs relating to Job evaluation it is estimated that this will be finalised during 2010/11.

Nottingham Express Transit (NET) £4.068m

NET Joint Reserve

This reserve reflects net surplus PFI grant receipts, plus earned interest, reserved to meet future revenue shortfalls in respect of the scheme for the provision of NET Line One, and shows the City Council's 80% share of this fund. Following changes to the profile of PFI grant payments from Central Government, and a delay to the start of availability payments to the concessionaire, it is now considered that a significant proportion of the accrued balance to date will not be needed for NET Line One and is available for other purposes. In February 2007, Executive Board approved the use of surplus NET Line One monies to meet the ongoing development costs of NET Phase 2.

#### Nottingham First Project £2.239m

This reserve was approved as part of the 2008/09 closedown process and received further contributions during 2009/10 to support Work Place Strategy implementation costs and prudential borrowing repayments. This investment supports future savings and efficiencies identified agreed in the 2010/11 MTFP.

#### Funds only available for specific purposes £44.496m

##### Schools' Statutory Reserve – Other £13.046m

This represents unspent school balances; these funds have not been delegated to schools but remain under the control of the Local Authority. Part of the reserve is used to finance a school loan scheme, whereby schools are advanced funding and then repay this over a maximum period of three years.

##### Schools' Statutory Reserve – Schools £9.485m

This represents unspent school balances on elements of Dedicated Schools Grant that is managed centrally. As part of the City's Fair Funding Scheme schools are allowed to carry forward unspent balances from one financial year to the next. Equally, any deficit balances are deducted from the following year's school budget share letter. The £9.485m total schools balance is made up of £9.847 surpluses and (£0.362m) deficits.

<b>Schools Statutory Reserve</b>	<b>31 March 2009 £m</b>	<b>Movement £m</b>	<b>31 March 2010 £m</b>
Primary Schools	5.064	1.825	(6.890)
Secondary Schools	1.999	0.120	(2.119)
Special Schools	0.426	(0.028)	(0.398)
Nursery Schools	(0.067)	0.145	(0.078)
<b>Schools Statutory Reserve-Schools</b>	<b>7.423</b>	<b>2.062</b>	<b>(9.485)</b>

#### NHS Local Improvement Finance Trust (LIFT) £2.501m

LIFT is a public-private partnership initiative that is sponsored by the Department of Health. Its principal aim is to replace old and inadequate buildings with new health-related facilities.

The City Council has procured two new Joint Service Centres at Clifton and Hyson Green using the LIFT vehicle. Under this arrangement, which is supported by PFI Credits issued by Communities and Local Government (CLG), the City Council enters into a Lease Plus agreement with the LIFT Company for a 25-year period.

As part of the accounting arrangements for the schemes, a 'fund' is established into which PFI grant and required contributions from service departments will be paid in order to provide certainty as to the annual City Council contributions that will be required for the duration of the contract.

#### IT Development/E Government Fund £7.053m

A major programme of computer hardware and software upgrades was implemented during the late 1990s and early 2000s. These included the introduction of One World, Acorn, etc. Part of the overall funding programme for all the proposals identified revenue savings. To ensure these "revenue" savings were achieved, the relevant budgets were reduced and equivalent sums appropriated directly to the IT Development Fund.

These sums continue and provide a reserve for continuing development in the IT hardware and software of the authority.

#### Supporting people £8.742m

The Supporting People Programme Grant received in 2009/10 was £23.587m. Payments made were £26.119m. A sum of £2.532m has been transferred from the Supporting People Programme Grant Reserve during 2009/10. The reserve has been built up over several years where grant received was in excess of the payments made.

### MOVEMENT ON OTHER RESERVES DURING THE YEAR

Other Reserves	31 March 2009 £m	(To)/from Revenue £m	Other Movements £m	31 March 2010 £m
Capital Adjustment Account	1,313.168	(125.910)	8.989	1,196.247
Revaluation Reserve	188.766	13.281	(0.023)	202.024
Useable Capital Receipts	0.028	12.463	(12.453)	0.038
Deferred Capital Receipts	3.104	0.000	(0.046)	3.058
Financial Instruments Adjustment Account	(18.399)	2.656	0.000	(15.743)
Collection Fund Adjustment Account	(0.072)	0.000	(0.298)	(0.370)
Pensions Reserve	(411.492)	(9.904)	(295.642)	(717.038)
Housing Revenue Account	3.204	1.462	0.000	4.666
Funds & Balances	79.438	16.196	(5.402)	90.232
General Fund	11.374	(4.316)	0.000	7.058
Major Repairs Reserve	0.000	(16.711)	23.382	6.671
	<b>1,169.120</b>	<b>(110.784)</b>	<b>(281.493)</b>	<b>776.843</b>

#### The purpose of each reserve is listed below:

##### Capital Adjustment Account

This account represents the amalgamation of accumulated fixed asset revaluation gains up to 31 March 2007 with the balance arising from setting aside resources to finance capital expenditure. This balance is reduced by the write down of the historical cost of fixed assets as they are consumed by depreciation or impairments or written off on disposal.

##### Revaluation Reserve

This reserve records the accumulated gains on the fixed assets held by the authority arising from increases in value as a result of inflation or other factors. Introduced into the Statement of Accounts with a zero balance in 2007/08, the closing balance on the Revaluation Reserve at 31 March 2010 only shows revaluation gains accumulated since 1 April 2007

### Useable Capital Receipts

This account holds capital receipts from the sale of fixed assets including the net receipts from the sale of council houses. The receipts are used to finance capital expenditure. The balance at the end of the year represents receipts which have yet to be applied to fund capital investment.

### Deferred Capital Receipts

Balances represent future receipts, normally due over a period of time and includes the principal element of council house mortgage repayments. The balance also includes capital receipts that will occur in the future as part of currently agreed contractual arrangements.

### Financial Instrument Adjustment Account (FIAA)

In response to the changes in accounting policies for 2007/08 for financial instruments, the DCLG introduced statutory regulations to ensure that there was no disproportionate impact on levels of Council Tax from these changes. These regulations affect the rate at which premiums and discounts arising on repaid borrowing are amortised to the General Fund Reserve and the rate at which interest is charged to the General Fund Reserve in respect of some loans.

Statutory regulations allow premiums to be amortised to revenue over the lifetime of either the repaid loan or any replacement loan, whichever is the greater. Discounts must be amortised over the lesser of the remaining lifetime of the repaid loan and 10 years.

In accordance with proper accounting practice, the impairment loss of £11.012m relating to the Icelandic Bank investments has been recognised in the Income and Expenditure Account during the period 2008-2010.

The Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £11.012m has been transferred to the Financial Instruments Adjustment Account.

The FIAA reflects the cumulative difference between the amounts chargeable to the Income and Expenditure account under UK GAAP and the amount chargeable to the General Fund Reserve under the above statutory requirements.

### Collection Fund Adjustment Account

This account represents Nottingham City Council's share of the Collection Fund balance.

### Pensions Reserve

The cost of retirement benefits is recognised in the Income and Expenditure Account when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge required against Council Tax is based upon the cash payable in the year. This mismatch is represented by an appropriation to or from the pensions reserve. The balance of the reserve is an estimate of the value of pension liabilities and the net change in the reserve during the year equates to the net change in the pensions liability recognised in the Income and Expenditure Account.

### Housing Revenue Account and Major Repairs Reserve

Further details available within the Housing Revenue Account section.

### Funds & Balances

Please refer to the earmarked reserves note.

## General Fund Balance

The General Fund is the main fund of the Council to which all revenue receipts are credited and from which all revenue liabilities are discharged; all such transactions are recorded in the City Council's Income and Expenditure Account. The reduction of £4.316m in the General Fund during 2009/10 (increase £1.070m 2008/09) represents the surplus/ (deficit) on the Income and Expenditure Account and the movement on the Statement of Movement on the General Fund Balance.

## 29. Contingent Liabilities and Post Balance Sheet Events

### Employment Tribunal Cases

There are a small number of Employment Tribunal cases outstanding together with the potential costs arising from the cases. Due to the stage that the cases are at, it is very difficult to make an accurate cost analysis.

### Pension deficit Nottingham City Council and Nottingham City Homes

During 2006/7 Supporting People floating support services were re-tendered and as a result the contracts for a number of services delivered by Nottingham City Homes were awarded to new service providers. The issue of pension provision for the transferring employees has become a significant issue delaying the transfer to the new contracts. The Actuary's assessment that was undertaken as part of this has highlighted a deficit relating to the pension fund for the transferring NCH employees in the region of £0.093m.

### FRS17 values change from RPI to CPI

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. It is estimated that this change will reduce the value of an average employer's FRS17 liabilities in the Fund by around 6-8%.

### Planning Application Appeal -Waste Recycling Group

A planning application to extend the incinerator (3<sup>rd</sup> line) was declined. This decision was appealed against by Waste Recycling Group (WRG) and the appeal was successful. There will be extensive negotiation over what the City should pay based on the Secretary of State decision. These negotiations will involve independent cost arbitrators so the process once the claim is submitted will take a while to resolve.

### Insurance Claims

In 1992-1993, one of the Council's insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. Whilst insurers have continued to meet run off claims in full, all claims settled after 1 October 1992 have been paid under the Scheme of Arrangement which provides for a claw back of payments if MMI's assets are inadequate to meet all these liabilities. The final position will remain uncertain until all outstanding claims have been concluded by MMI.

### Robin Hood Centre

The Council has been formally advised that the charitable company operating the centre on Maid Marion Way Nottingham closed and went into voluntary liquidation on the 6 February 2009. Although this matter is being pursued we have not received notification from the liquidators as to the potential return of the Council's £0.100m investment.

#### Housing Benefit/Council Tax Subsidy 2008/09

During the audit of the 2008/09 final claim errors were found in the sample testing of the claim. A qualification letter has been sent to Department of Works and Pensions (DWP) and to date no correspondence has been received from them regarding acceptance of the findings in the letter or the extent to which the findings are being accepted. The maximum estimate of the financial effect is £2.241m.

#### Contractual claim regarding NET Line One remedial works

Negotiation with Arrow Light Rail Ltd for NET Line One remedial works at Royal Centre and other minor claims.

#### Data circuits termination costs

The move to Loxley House from current operational buildings will result in a number of circuits becoming redundant. The contracts will be terminated earlier than the expiration dates of the contract and will incur costs. Negotiations are ongoing with the current contractor to reduce any financial impact.

#### Icelandic banks litigation

Early in October 2008 the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £41.6m deposited across 3 of these institutions. The financial statements reflect that Nottingham City Council in respect of its deposits is deemed to have priority creditor status under Icelandic law. Although this status is the subject of a legal challenge by other Landsbanki creditors in the Icelandic courts. However, the latest advice from CIPFA, in the form of a Local Authority Accounting Panel Bulletin (LAAP82, May 2010) states that the LAAP "considers, on the basis of the legal advice obtained by local authorities and advice provided by the Local Government association, that it remains the most likely outcome that the claims will enjoy priority status". There will a financial impact if priority creditor status is not upheld.

### 30. Date of Issue

The Statement of Accounts was authorised for issue on 24 September, by Carole Mills-Evans, Deputy Chief Executive and Director of Resources.

### 31. Trust Funds

The City Council acts as sole trustee for the following trust funds. The funds do not represent assets of the Council, and they have not been included in the Balance Sheet.

Trust Fund	Gross Income £m	Gross Expenditure £m	Net Expenditure £m	Assets £m	Liabilities £m
Bridge Estate	(1.782)	0.463	(1.319)	30.120	(0.333)
Education Trust Funds	0.001	0.000	0.001	0.075	0.000
Harvey Hadden Stadium Trust	(0.016)	0.171	0.155	0.004	(0.004)
Highfields Leisure Park Trust	(0.122)	0.249	0.127	0.893	(0.004)
Childrens Trust Funds	(0.005)	0.006	0.001	0.124	(0.124)
Derby Road British School Exhibition Fund	(0.007)	0.005	(0.002)	0.090	(0.006)

#### Bridge Estate

Please refer to the information contained in the group accounts.

#### Education Trust Funds

Transferred from Nottinghamshire County Council and currently administered by Childrens and Families Services Department (Student Awards Section).

#### Harvey Hadden Stadium

On 18 July 1955 the court made a scheme and order for an athletics stadium to be erected out of the bequest of Harvey Hadden. Under the terms of the scheme the Council was stated to be the owner of Bilborough Park and used its statutory powers to set aside part of the land for use as a stadium. Construction of the stadium began in 1955 with completion in 1960/61. The entire legacy of Harvey Hadden funded part of the cost of construction. Therefore, it follows that the land on which the stadium is built is subject to the Council's obligation to make it available for the use of the stadium charity.

Under the court order there is a requirement for "the Corporation" – now Nottingham City Council – to maintain the stadium built with those funds, "under the name of Harvey Hadden Stadium in good order and condition in perpetuity for the purposes of public recreation".

The objective of the Trust is to provide public recreation for the people of the City of Nottingham forever.

#### Highfields Leisure Park Trust

The Highfields Leisure Park Trust was created by indenture in 1920 as a gift from Sir Jesse Boot, founder of Boots the Chemist. The land conveyed to the Council was, for the most part, laid out as a park. The land lies to the south of the University and to the north of the railway. It is divided along the east-west axis by University Boulevard.

To the north of University Boulevard is a large boating lake with lakeside walks, formal gardens and fine turf sports facilities including putting, bowls and croquet greens. Plantations of rhododendrons and mature trees provide a unique natural backdrop to enhance the park setting. To the south of University Boulevard are playing fields, for winter and summer outdoor sports, running track and tennis courts together with an indoor tennis centre.

The objective of the Trust is to provide public recreation and pleasure grounds for the people of the City of Nottingham forever.

#### Children's Trust Funds

These are balances held on behalf of children who are in the care of the Authority. The Authority administer the funds on behalf of the children, funds are released to cover special item requests while in care and when the child comes of age.

#### Derby Road British School Exhibition

This fund was established for the purpose of providing financial assistance to children and young people who are citizens of the City of Nottingham and under the age of 21; for promoting their education, including social and physical training.

### 32. Stock and Work in Progress

<b>Stock and Work In Progress</b>	<b>31 March 2009 £m</b>	<b>31 March 2010 £m</b>
Community & Culture - Leisure Management	0.048	0.046
Community & Culture - Libraries	0.004	0.000
Community & Culture - Museums	0.131	0.152
Community & Culture - Woodthorpe Grange	0.039	0.034
Environment & Regeneration - Garage	0.010	0.003
Environment & Regeneration - Highways	0.095	0.150
Environment & Regeneration - Stores	0.189	0.205
Environment & Regeneration - Woodfield		
Industries	0.235	0.237
Royal Centre	0.022	0.019
Community & Culture - Bereavement Services	0.029	0.026
Performance & Strategy - Design & Print	0.023	0.040
Resources - 25 Year Gift Vouchers	0.003	0.000
	<b>0.828</b>	<b>0.912</b>

### 33. Analysis of Debtors, Bad Debt Provision and Creditors

	Restated		Debtor 31 March 2010 £m	Bad Debt Provision 31 March 2010 £m
	Debtor	Bad Debt Provision		
	31 March 2009	31 March 2009		
	£m	£m		
Adult Residential Services	1.659	(0.651)	2.428	(0.817)
Commercial Rents	2.494	(0.672)	1.489	(0.621)
Council Tax	19.923	(12.349)	18.377	(11.459)
Enviroenergy	10.547	(8.651)	12.047	(10.006)
Government Departments	13.648	0.000	15.603	0.000
Housing Benefits	5.742	(3.938)	5.347	(2.572)
Housing Rents	7.262	(5.255)	5.640	(4.249)
HM Revenue & Customs	5.265	0.000	5.980	0.000
Nottingham City Homes	6.939	0.000	3.737	0.000
On-Street Parking	0.825	(0.490)	0.815	(0.467)
Other Local Authorities	6.829	0.000	5.271	0.000
Payments in Advance	3.909	0.000	5.395	0.000
Poll Tax	4.680	(4.680)	4.679	(4.679)
Other Sundry Debtors	16.270	(1.551)	18.854	(1.655)
	105.992	(38.237)	105.662	(36.525)
<b>Debtors</b>		<b>67.755</b>		<b>69.137</b>

For 2009/10 NNDR debtors are not recognised within the Balance Sheet, but instead are recognised as a debtor for cash collected from NNDR debtors as agent of the Government but not paid to the Government, or overpaid, at the Balance Sheet date.

Creditors	Restated	
	31 March 2009	31 March 2010
	£m	£m
Government		
Departments	(9.275)	(7.315)
Other Local Authorities	(11.655)	(11.935)
Inland Revenue	(6.440)	(5.743)
Nottingham City Homes	(9.444)	(0.249)
Receipts in Advance	(24.867)	(32.663)
Other Sundry Creditors	(57.555)	(73.145)
	<b>(119.236)</b>	<b>(131.050)</b>

### 34. Defined Benefit Pensions Schemes – the requirements of FRS17

Financial Reporting Standard 17 (FRS17) Accounting for Retirement Benefits is based on the principle that the operating costs of providing retirement benefits should be accounted for at the time the Authority is committed to give them even if the actual giving will be many years into the future. FRS17 also requires that related finance costs be recognised in the period in which they arise. The implementation of FRS17 has a nil impact on the Council Tax.

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 Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year.

	Local Government Pension Scheme		Teachers Pension Scheme	
	£m		£m	
<b>Income and Expenditure Account</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2008/09</b>	<b>2009/10</b>
<i>Net Cost of Services</i>				
current service cost	21.807	13.228		
past service cost	6.723	1.093	2.143	0.465
<i>Net Operating Expenditure</i>				
interest cost	62.547	58.667	1.501	1.575
expected return on scheme assets	(41.259)	(31.868)		
<b>Net Charge to the Income and Expenditure Account</b>	<b>49.818</b>	<b>41.120</b>	<b>3.644</b>	<b>2.040</b>
<i>Statement of Movement on the General Fund Balance</i>				
- reversal of net charges made for retirement benefits in accordance with FRS17	(49.818)	(41.120)	(3.644)	(2.040)
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>				
<b>Employer's contributions payable to scheme</b>	<b>28.556</b>	<b>31.252</b>	<b>2.047</b>	<b>2.004</b>

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and losses of £295.642m (£60.567m 2008/09) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is £407.716m.

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed that 50% of retiring members will opt to increase their lump sums to the maximum allowed.

Assets and Liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities

	Funded liabilities: Local Government Pension scheme		Unfunded liabilities: Teachers Pension Scheme	
	£m		£m	
	2008/09	2009/10	2008/09	2009/10
<b>01/04/2009</b>	<b>(1,025.306)</b>	<b>(880.249)</b>	<b>(25.460)</b>	<b>(24.489)</b>
Current service cost	(21.807)	(13.228)	0.000	0.000
Interest cost	(62.547)	(58.667)	(1.501)	(1.575)
Unfunded pension payments	1.274	1.302	0.000	0.000
Contributions by scheme participants	(10.244)	(9.940)	0.000	0.000
Actuarial gains and losses	208.415	(423.897)	2.568	(4.736)
Losses (gains) on curtailments	(0.707)	1.497	0.000	0.000
Benefits paid	30.673	31.273	2.047	2.004
Past service costs	0.000	0.000	(2.143)	(0.465)
<b>31/03/2010</b>	<b>(880.249)</b>	<b>(1,351.909)</b>	<b>(24.489)</b>	<b>(29.261)</b>

Reconciliation of fair value of scheme assets:

<b>Local Government Pension Scheme</b>		
<b>£m</b>		
	<b>2008/09</b>	<b>2009/10</b>
<b>01-Apr</b>	<b>595.550</b>	<b>493.247</b>
Expected return on Scheme Assets	41.259	31.868
Actuarial gains and losses	(150.415)	132.991
Losses (gains) on curtailments	0.000	(2.590)
Employer contributions	28.556	31.252
Contributions by scheme participants	10.244	9.940
Benefits paid	(31.947)	(32.575)
<b>31-Mar</b>	<b>493.247</b>	<b>664.133</b>

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2009 for the year to 31 March 2010). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The actual return on scheme assets in the year was £164.860m (2008/09 (£109.156)).

### Scheme history

The table below shows for the current accounting period and the previous four accounting periods:

- the present value of the scheme liabilities, the fair value of the scheme assets and the surplus or deficit in the scheme:

	2005/06*	2006/07	2007/08	2008/09	2009/10
<b>Present value of liabilities</b>		<b>As restated</b>	<b>As restated</b>		
Local Government Pension Scheme	(874.117)	(877.232)	(1,025.306)	(880.249)	(1,351.910)
Teachers Pension Scheme	(24.563)	(24.497)	(25.460)	(24.489)	(29.261)
Fair value of assets in the Local Government Pension Scheme	544.964	592.474	595.550	493.247	664.133
<b>Surplus/(deficit) in the scheme:</b>					
Local Government Pension Scheme	(329.153)	(284.758)	(429.756)	(387.003)	(687.777)
Teachers Pension Scheme	(24.563)	(24.497)	(25.460)	(24.489)	(29.261)
<b>Total</b>	<b>(353.716)</b>	<b>(309.255)</b>	<b>(455.216)</b>	<b>(411.492)</b>	<b>(717.038)</b>

\*The Council has elected not to restate fair value of scheme assets for 2005/06 as permitted by FRS 17 (as revised).

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £717.038m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, reducing the overall net worth to £777.135m for 2009/10.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy.

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.
- finance is only required to be raised to cover Teachers pensions when the pensions are actually paid.

The projected pension expense for the year to 31 March 2011 is shown below:

<b>Projected Pension Expense for the year to 31 March 2011</b>	<b>£m</b>
Service Cost	29.938
Interest Cost	74.588
Return on Assets	(45.864)
<b>Total</b>	<b>58.662</b>
Employer Contributions	27.621

#### Sensitivity Analysis

The following table sets out the impact of a change in the discount rates on the Total Liabilities and projected service cost with a plus/minus one year age rating adjustment to the mortality assumption.

<b>Sensitivity Analysis</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b><i>Adjustment to Discount rate</i></b>	0.1%	0.0%	-0.1%
Present Value of Total Liabilities	1,324.878	1,351.909	1,379.574
Projected Service Cost	28.896	29.938	31.007
<b><i>Adjustment to mortality age rating assumption</i></b>	+1 year	None	-1 year
Present Value of Total Liabilities	1,300.884	1,351.909	1,403.416
Projected Service Cost	28.487	29.938	31.401

## Basis for estimating assets and liabilities

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 dependant on assumptions about mortality rates, salary levels etc. Both the Teachers Pension Scheme and the Nottinghamshire County Council Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Nottinghamshire County Council Fund being based on the results of the latest Triennial Actuarial Valuation of the scheme as at 31 March 2007.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Teachers Pension Scheme	
	2008/09	2009/10	2008/09	2009/10
<b>Long -term expected rate of return on assets in the scheme:</b>				
Equity Investments	6.9%	7.4%	N/A	N/A
Gilts	4.0%	4.5%	N/A	N/A
Bonds	6.5%	5.5%	N/A	N/A
Property	6.4%	6.9%	N/A	N/A
Cash	3.0%	3.0%	N/A	N/A
<b>Mortality assumptions</b>				
Longevity at 65 for current pensioners:				
Men	20.30	20.30	20.30	20.30
Women	23.91	23.91	23.91	23.91
Longevity at 65 for future pensioners:				
Men	21.22	21.22		
Women	24.91	24.91		
Rate of inflation	3.0%	3.9%	3.0%	3.9%
Rate of increase in salaries	4.5%	5.4%	4.5%	5.4%
Rate of increase in pensions	3.0%	3.9%	3.0%	3.9%
Rate for discounting scheme liabilities	6.7%	5.5%	6.7%	5.5%
Take-up of option to convert annual pension into retirement lump sum	50.0%	50.0%		

The Teachers Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2009	31 March 2010
	%	%
Equity		
Investments	59.0	68.0
Gilts	15.0	9.0
Other bonds	6.0	6.0
Property	16.0	15.0
Cash	4.0	2.0
	<b>100</b>	<b>100</b>

#### History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010. (Experience adjustments are changes that have arisen because events have not coincided with actuarial assumptions made at the last scheme valuation).

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	%	%	As restated %	As restated %	%	%
<b><i>For the Local Government Scheme</i></b>						
Differences between the expected and actual return on assets	100	12.9	2.1	-7.5	-30.5	20.0
Experience gains and losses on liabilities	N/A	-2.4	0	-3.6	0	0

## 35. Pension Contributions

### Teachers

In 2009/10 Nottingham City Council paid £9.170m to the Teachers Pension Agency in respect of teachers pension costs, this represents 14.1% of teachers pensionable pay. The figures for 2008/09 were £9.517m, 14.1% of pensionable pay. In addition, the Council is responsible for all pension payments relating to gratuities and added years it has awarded. In 2009/10 these amounted to £0.741m (£0.689m in 2008/09).

### Other Employees

During 2009/10, the employer's contribution for other employees was £25.666m, representing 16.8% of pensionable payroll (£25.834m representing 16.3% in 2008/09).

The actuarial valuation for the 3 year period commencing 1 April 2008 sets out the following employer pension fund contribution rates for Nottingham City Council:

2008/09	16.3% of pensionable pay
2009/10	16.8% of pensionable pay
2010/11	17.4% of pensionable pay

Nottingham City Council is also responsible for all pension payments relating to discretionary added years benefits it has awarded, together with the related inflation increases. The annual costs are funded by charges to services. In 2009/10 these amounted to £0.019m (£0.017m in 2008/09).

### 36. Notes to the Cashflow Statement

Reconciliation between the net surplus or deficit on the Income and Expenditure Account to the revenue activities net cash inflow shown on the Cash Flow Statement.

<b>Reconciliation between the net surplus or deficit on the Income and Expenditure Account to the revenue activities net cash inflow shown on the Cash Flow Statement.</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>
	-	
<b><i>Surplus/(deficit) for the year</i></b>	246.944	(112.843)
<b><i>Non Cash Transactions</i></b>	271.563	143.640
<b><i>Adjustment for items reported separately on Cashflow</i></b>		
Interest and Investment Income	-17.416	(8.961)
Interest payable and similar charges	37.633	25.779
Gain or loss on the disposal of Fixed Assets	-0.328	(0.364)
<b><i>Items on an accrual basis</i></b>		
(Increase)/Decrease in Stocks	-0.048	(0.084)
(Increase)/Decrease in Debtors	-6.188	(4.492)
Increase/(Decrease) in Creditors	-13.915	10.221
Movement in Pensions Deficit		
<b>Revenue Activities Net Cash Inflow:</b>	<b>24.357</b>	<b>52.896</b>

Analysis of Net Debt

Analysis of Debt	Cash	Short Term Deposits	Short Term Investments	Amounts relating to Major Preceptors & NNDR	Loans due < one year	Loans due > one year	Deferred Liabilities	Net Debt
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2008	10.818	154.000	2.997	0.000	(43.928)	(456.458)	(0.235)	<b>(332.806)</b>
Receipt/payment of interest accrued	0.000	0.000	(2.997)	0.000	4.685	0.000	0.000	<b>1.688</b>
Other Cashflows in year	3.806	20.550	0.000	(2.545)	(1.250)	6.218	0.220	<b>26.999</b>
Other Non Cash changes	0.000	0.000	1.703	0.000	(4.786)	0.057	(6.368)	<b>(9.394)</b>
<b>Restated Balance at 31 March 2009</b>	<b>14.624</b>	<b>174.550</b>	<b>1.703</b>	<b>(2.545)</b>	<b>(45.279)</b>	<b>(450.183)</b>	<b>(6.383)</b>	<b>(313.513)</b>
Balance at 1 April 2009	14.624	174.550	1.703	(2.545)	(45.279)	(450.183)	(6.383)	<b>(313.513)</b>
Receipt/payment of interest accrued	0.000	0.000	(4.045)	0.000	4.786	0.000	0.000	<b>0.741</b>
Other Cashflows in year	(14.331)	(27.807)	0.000	(0.625)	2.128	(13.644)	0.244	<b>(54.035)</b>
Other Non Cash changes	0.000	0.000	(30.729)	0.000	(4.012)	0.003	(28.739)	<b>(63.477)</b>
<b>Balance at 31 March 2010</b>	<b>0.293</b>	<b>146.743</b>	<b>(33.071)</b>	<b>(3.170)</b>	<b>(42.377)</b>	<b>(463.824)</b>	<b>(34.878)</b>	<b>(430.284)</b>

Reconciliation of changes in cash to movement in net debt

Reconciliation of changes in cash to movement in net debt	Restated 2008/09		2009/10	
	£m	£m	£m	£m
<b>Increase/(Decrease) in cash in year</b>		<b>3.806</b>		<b>(14.331)</b>
<b>Cash inflow/(Outflow) from management of liquid resources</b>		<b>15.008</b>		<b>(32.476)</b>
<b>Cash inflow from:</b>				
New Loans raised		(5.435)		(83.425)
<b>Cash outflow from:</b>				
Loans repaid	10.403		71.909	
Payment of interest accrued at last balance sheet date	4.685		4.786	
Deferred liabilities repaid	0.220	15.308	0.244	76.939
<b>Change in net debt resulting from cash flows</b>		<b>28.687</b>		<b>(53.293)</b>
<b>Other Non Cash changes:</b>				
Adjustments following re-measurement of Loans	0.057		0.000	
Interest accrued at year end on Short Term Investments	5.929		2.999	
Transfer to/from Long Term Investments	5.282		(32.547)	
Adjustments to fair value and impairments of Short Term Investments	(9.508)		(1.179)	
New Deferred Liabilities	(6.368)		(28.739)	
Interest accrued at year end on loans and finance leases carried at nominal value	(4.786)	(9.394)	(4.012)	(63.478)
<b>Net Debt Brought Forward</b>		<b>(332.806)</b>		<b>(313.513)</b>
<b>Net Debt Carried Forward</b>		<b>(313.513)</b>		<b>(430.284)</b>

Analysis of changes in cash and liquid resources during the year

<b>Analysis of changes in cash and liquid resources during the year</b>	<b>2007/08</b>	<b>Restated 2008/09</b>	<b>Movement 2008/09</b>	<b>2009/10</b>	<b>Movement 2009/10</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Short Term Investments	2.997	1.703	(1.294)	(33.071)	(34.774)
Short Term Deposits	154.000	174.550	20.550	146.743	(27.807)
Amounts relating to Council Tax and NNDR	0.000	(2.545)	(2.545)	(3.170)	(0.625)
Cash	16.540	21.802	5.262	14.574	(7.228)
Bank Overdraft	(5.722)	(7.178)	(1.456)	(14.281)	(7.103)
Increase/(Decrease) in year	<u>167.815</u>	<u>188.332</u>	<u>20.517</u>	<u>110.795</u>	<u>(77.537)</u>

Analysis of Government Grants shown in the Cash Flow Statement

Details of grants over £10m are shown within the related parties note to the accounts.

# **Supplementary Financial Statements and Notes**

## **5 SUPPLEMENTARY FINANCIAL STATEMENTS AND NOTES**

### **5.1 INTRODUCTION TO HOUSING REVENUE ACCOUNT**

The City Council is required by the provisions of the Local Government and Housing Act 1989 to maintain a separate Housing Revenue Account (HRA). The purpose of this account is to report transactions relating to dwellings available to provide accommodation and other properties ancillary to the housing function.

#### Resource Accounting in the HRA

In 2001/02, the Government introduced a new financial framework for local authority housing based on resource accounting. The purpose behind resource accounting is to increase the transparency of financial reporting, particularly with regard to the use of resources. The HRA's primary capital resource is its housing stock. A depreciation charge is included in the accounts to reflect the cost of maintaining its capital value.

#### The Major Repairs Allowance

The introduction of the new financial framework changed the way in which capital expenditure on housing assets was financed. A Major Repairs Allowance (MRA) has now largely displaced borrowing approvals. The MRA is an element of housing subsidy and represents an annual amount deemed equivalent to the cost of maintaining the housing stock in its current condition. The allowance is calculated by the Government using a range of national and regional cost factors applied to the City's stock profile. This calculated allowance is intended to reflect the annual cost to the authority of replacing individual building components as they reach the end of their useful life.

#### Arms Length Management Fee

On 1 April 2005, an Arms Length Management Organisation, Nottingham City Homes, was created to manage the housing stock. In 2009/10, a £34.525m (£34.709m 2008/09) management fee was paid to Nottingham City Homes Ltd (NCH Ltd). The management fee has been allocated across the various activities within the HRA, based on the original contractual split and any subsequent agreed amendments to the fee.

## 5.2 HOUSING REVENUE INCOME AND EXPENDITURE ACCOUNT

### Housing Revenue Account Income and Expenditure Account

	2008/09 £m	2009/10 £m
<b>Income</b>		
Gross Rental Income		
Dwelling Rents	(85.800)	(87.430)
Non Dwelling Rents	(1.562)	(1.553)
Charges for Services and Facilities	(0.393)	(0.398)
HRA Subsidy Receivable	(4.220)	(4.331)
Contributions towards expenditure	(0.240)	(0.211)
<b>Total Income</b>	<b>(92.215)</b>	<b>(93.923)</b>
<b>Expenditure</b>		
Repairs and Maintenance	30.042	30.810
Supervision and Management	28.197	28.809
Rents, rates, taxes and other charges	2.128	1.944
Increased Provision for Bad or Doubtful Debts	0.634	0.245
Depreciation and impairment of fixed assets	171.870	74.468
Debt Management Costs	0.095	0.136
<b>Total Expenditure</b>	<b>232.966</b>	<b>136.412</b>
<b>Net Cost of Housing Revenue Account Services</b>	<b>140.751</b>	<b>42.489</b>
HRA services share of Corporate and Democratic Core	0.041	0.042
<b>Net Cost of Services</b>	<b>140.792</b>	<b>42.531</b>
(Gain) on sale of HRA fixed assets	(0.819)	(0.579)
Interest payable and similar charges	12.953	11.929
Interest and Investment Income	(0.031)	(0.037)
<b>Deficit for the year on HRA Services</b>	<b>152.895</b>	<b>53.844</b>

### 5.3 STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

#### Statement of Movement on the Housing Revenue Account Balance

	2008/09 £m	2009/10 £m
<b>Deficit for year on the HRA Income and Expenditure Account</b>	152.895	53.844
<i>Net additional amount required by statute to be (credited) to the HRA balance for the year</i>	(151.717)	(55.306)
<b>(Increase)/Decrease in the HRA Balance</b>	<b>1.178</b>	<b>(1.462)</b>
Housing Revenue Account Balance Brought Forward	(4.382)	(3.204)
<b>Housing Revenue Account Balance Carried Forward</b>	<b>(3.204)</b>	<b>(4.666)</b>

## 5.4 NOTE TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

<b>Net additional amount required by statute to be (credited) to the HRA balance for the year</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>
<b>Items included in the Housing Revenue Account Income and Expenditure Account but excluded from the movement on the HRA Balance for the year</b>		
Difference between amounts charged to income and expenditure for amortisation of premiums and discounts and the charge for the year determined in accordance with statute.	1.841	1.020
Difference between any other items of income and expenditure determined in accordance with the SORP and determined in accordance with the statutory HRA requirement	(152.839)	(51.084)
Gain or (loss) on sale of HRA Fixed Assets	0.819	0.579
<b>Items not included in the Housing Revenue Account Income and Expenditure Account but included in the movement on the HRA Balance for the year</b>		
Transfer to/from Major Repairs Reserve	(2.160)	(6.443)
Voluntary set aside for repayment of debt	0.622	0.622
<b>Net additional amount required by statute to be debited or (credited) to the Housing Account Balance for the year</b>	<b>(151.717)</b>	<b>(55.306)</b>

## 5.5 NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. Housing Stock

The City Council was responsible for managing the following housing stock:

Housing Stock	31 March 2009 Number	31 March 2010 Number
<b>House and Bungalows</b>		
- 1 Bedroom	1,011	1,006
- 2 Bedroom	5,909	5,889
- 3 Bedroom	10,956	10,903
- 4 or more Bedrooms	597	596
<b>Flats</b>		
- 1 Bedroom	6,930	6,798
- 2 Bedrooms	3,205	3,153
- 3 or more Bedrooms	322	253
<b>Total</b>	<b>28,930</b>	<b>28,598</b>

### 2. Valuation of Housing Assets

The value of land, houses and other property within the HRA in 2009/10 was as follows:

Valuation of Housing Assets	Value at 31 March 2009 £m	Value at 31 March 2010 £m
<b>Operational Assets</b>		
Council Dwellings	906.528	892.018
Other Land and Buildings		
Land	0.503	0.952
Buildings	0.889	1.049
Vehicles, IT and Other Equipment	0.762	0.574
Infrastructure	20.516	20.458
	<b>929.198</b>	<b>915.051</b>
<b>Non-operational Assets</b>		
Land	4.621	3.308
Buildings	9.234	5.457
	<b>13.855</b>	<b>8.765</b>
<b>Total value of Assets</b>	<b>943.053</b>	<b>923.816</b>

### 3. Asset Value of Dwellings

The vacant possession valuation of Council dwellings at 31 March 2010 was £1,791.28m. The Balance Sheet value of dwellings was £892.018m. The difference of £899.26m reflects the fact that social housing rents generate a lower income stream than could be obtained in the open market. Operational assets in a commercial environment are required to earn a rate of return. The value placed on such assets will reflect the required economic rate of return in relation to the income streams that the assets might be expected to generate throughout their economic life. To the extent that income streams are constrained to serve a wider social purpose, the value of capital assets employed for this purpose will be reduced.

Council dwellings have been re-valued in 2009/10 based on a full valuation of beacon properties by Chartered Surveyors Herbert Button & Partners and Freeman & Mitchell.

### 4. The Major Repairs Reserve

The purpose of this reserve is to earmark funding to provide for the long-term maintenance of the housing stock. Movements on the reserve in 2009/10 were as follows:

<b>Major Repairs Reserve</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>
<b>Balance Brought Forward</b>	0.000	0.000
<b>Credits to the Reserve</b>		
Depreciation on HRA Assets	(19.004)	(23.382)
	(19.004)	(23.382)
<b>Debits to the Reserve</b>		
Capital Expenditure	16.844	10.268
Appropriation to HRA	2.160	6.443
<b>Balance Carried Forward</b>	<b>0.000</b>	<b>(6.671)</b>

### 5. Summary of Capital Expenditure

Capital expenditure of £51.527m (£30.379m in 2008/09) in respect of HRA assets was financed from a range of sources in 2009/10.

This is set out below:

<b>HRA Capital Expenditure and Financing</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>
<b>Capital Expenditure</b>	30.379	51.527
<b>Financed by:</b>		
Borrowing	12.277	40.923
Capital Receipts	0.000	0.185
Major Repairs Allowance (MRA)	16.844	10.268
Other Grants and Contributions	1.258	0.151
	<u>30.379</u>	<u>51.527</u>

## 6. Summary of Capital Receipts

Capital receipts of £4.005m (£4.970m in 2008/09) arose from the sale of land, houses and other property within the HRA in 2009/10. Of this total, £3.515m (£4.598m in 2008/09) related to the disposal of houses and flats under the right to buy scheme.

## 7. Depreciation

Depreciation was charged in respect of HRA operational assets in 2009/10 as follows:

<b>HRA Depreciation</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>
<b>Depreciation</b>		
Dwellings	17.849	22.092
Other Operational HRA Assets	1.155	1.290
	<u>19.004</u>	<u>23.382</u>

## 8. Impairment

Impairment costs of £51.439m (£153.112m in 2008/09) have been charged in 2009/10.

£24.630m (£137.365m in 2008/09) is in respect of revaluation losses arising as a result of the revaluation of housing dwellings undertaken in 2009/10. There are no revaluation gains accumulated on the revaluation reserve to offset losses against. The losses are debited to the Housing Revenue Account Income and Expenditure Account. This is accordance with the Statement of Recommended Practice.

£17.943m (£16.093m in 2008/09) relates to capital expenditure that has been incurred which has not increased the value of assets.

£1.424m relates to demolition of housing dwellings undertaken in 2009/10.

£7.449m relates to the decommissioning of housing dwellings in preparation for demolition in 2010/11

There is an impairment reversal of £7k in respect of impairment costs charged in previous years in relation to properties that have been fire damaged. (In 2008/09 there was an impairment reversal of £345,550 in respect of fire damaged properties.)

The impairment costs are reversed out in the Statement of Movement on the HRA balance, so there is no impact on rent levels.

## 9. Housing Subsidy

The Housing Revenue Account records the receipt of £4.331m (£4.220m 2008/09) in Housing Subsidy in 2009/10. This is an estimate, the amount claimed being subject to audit. The subsidy elements are generally based on notional items, which differ from the credit and debit items that are posted to the actual Housing Revenue Account. These are broken down as follows:

<b>HRA Housing Subsidy</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£m</b>	<b>£m</b>
<b>Subsidy elements:</b>		
Charges for Capital	17.051	14.919
Interest on Receipts	(0.044)	(0.034)
Maintenance Allowance	33.126	33.335
Major Repairs Allowance	16.844	16.939
Management Allowance	20.106	20.774
Rent Constraint Allowance	0.046	0.000
Rent	(82.909)	(81.602)
<b>Total Subsidy</b>	<b>4.220</b>	<b>4.331</b>

Housing Subsidy is based on a series of allowances paid to the Council by the Government. Allowances for management and maintenance are based on the audited number of dwellings held by the Council. A Major Repairs Allowance (MRA) is also based on the City's stock profile and is intended to reflect the cost of maintaining the housing stock in its existing condition. The MRA is transferred to the Major Repairs Reserve (see note 4).

A further allowance is paid to subsidise the cost of capital charges. It is based on the amount of debt deemed to be eligible for subsidy multiplied by a Consolidated Rate of Interest (CRI).

These allowances are offset by a deduction to reflect rent income received. This is based on the number of dwellings held multiplied by a specified guideline rent.

#### 10. Rent Arrears and Bad Debt Provision

Gross rent arrears (including service charges and overpaid housing benefit) in respect of current and former tenants amounted to £5.643m at 31 March 2010 (£6.077m at 31 March 2009). A total bad debt provision of £4.571m has been established at 31 March 2010 (£5.534m at 31 March 2009).

#### 11. Average Rent for HRA Dwellings

##### Average Rent for HRA Dwellings

Year	Average Rent (£)
2004/05	45.83
2005/06	48.07
2006/07	50.68
2007/08	52.94
2008/09	56.04
2009/10	57.98

The average rent figures have been calculated on a 50-week basis and exclude service charges.

## 5.6 COLLECTION FUND

This statement summarises the transactions of the Collection Fund, a statutory fund distinct from the General Fund of the City Council. The Collection Fund accounts independently for income relating to Council Tax, Community Charge and Business Rate payers. The costs of administering collection are accounted for in the General Fund. Collection Fund balances are consolidated into the City Council's balance sheet.

<b><u>Collection Fund</u></b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£m</b>	<b>£m</b>
<b><u>INCOME</u></b>		
Income from Council Tax	(84.611)	(85.387)
<b>Transfers from General Fund</b>		
Council Tax Benefit	(27.428)	(30.151)
Income collectable from business ratepayers	(124.932)	(129.089)
Release of excess Bad Debt Provision on Poll Tax	(0.001)	0.000
Contribution towards previous years' deficit	0.000	(0.292)
<b>TOTAL INCOME</b>	<b>(236.972)</b>	<b>(244.918)</b>
<b><u>EXPENDITURE</u></b>		
Precepts - Police Authority	10.883	11.504
- Fire Authority	4.890	5.099
- City Council General Fund	93.577	97.468
<b>Business Rates</b>		
Payment to national pool	122.822	125.534
Cost of collection	0.500	0.504
Amounts written off and provision for losses	1.337	2.786
Interest on refunds	0.273	0.265
<b>Council Tax</b>		
Amounts written off and provision for losses	2.436	2.108
Residual Poll Tax Payment to General Fund	0.001	0.000
<b>TOTAL EXPENDITURE</b>	<b>236.719</b>	<b>245.268</b>
Movement on the Collection Fund Balance (Surplus)/Deficit Brought Forward from previous year	(0.253)	0.350
	0.336	0.083
<b>(SURPLUS)/DEFICIT CARRIED FORWARD</b>	<b>0.083</b>	<b>0.433</b>

## 5.7 NOTES TO THE COLLECTION FUND

### 1. Council Tax

Under the Local Government Finance Act 1992, council tax replaced community charge as the local tax directly supporting local authority expenditure. It was introduced on 1st April 1993. Council tax is broadly based on the capital value of domestic property as estimated at 1st April 1991 and classified into 8 bands. Charges are calculated dividing the preceptors' income requirements by the council tax base (the total number of properties in each band, adjusted for discounts and expressed as an equivalent number of Band D dwellings). This gives the basic amount of council tax for a band D property, which when multiplied by the specified proportion (as follows) will give the individual amount due.

	<b>2008/09</b>	<b>2009/10</b>
Council Tax Base	74,733	75,281
Council Tax (Band D) Property	£1,463.21	£1,515.28

<b>Band</b>	<b>Average Number of Properties</b>	<b>Taxable Properties after discounts, exemptions etc.</b>	<b>Conversion Factor to Band D</b>	<b>Band D Equivalents</b>
A	85,040	67,257	6/9	44,838
B	21,118	16,025	7/9	12,464
C	14,863	11,418	8/9	10,149
D	6,408	5,000	9/9	5,000
E	2,284	1,942	11/9	2,373
F	981	871	13/9	1,258
G	686	606	15/9	1,010
H	109	61	18/9	122

### 2. National Non-Domestic Rates

Non-domestic rates are organised on a national basis. Local businesses are required to pay, subject to transitional arrangement, an amount calculated by applying a sum specified by central government (expressed as a rate in the pound) to the rateable value of their property.

The City Council is responsible for collecting and paying over this amount to the NNDR pool administered by central government. The government redistributes sums paid into the pool on the basis of a fixed amount per head of population.

	<b>2008/09</b>	<b>2009/10</b>
	<b>£m</b>	<b>£m</b>
Rate in the pound	46.2p	48.5p
Total non-domestic rateable value per NNDR system	312,024,316	312,471,631

### 3. Redistribution of Collection Fund Surplus/ Deficit

The surplus/(deficit) on the closing balance of the Collection Fund as at 31<sup>st</sup> March is allocated as follows:

	<b>2008/09</b>	<b>2009/10</b>
	<b>£m</b>	<b>£m</b>
Nottingham City Council	0.072	0.370
Nottinghamshire Police Authority	0.007	0.044
Nottinghamshire and City of Nottingham Fire and Rescue Authority	0.004	0.019
	<b>0.083</b>	<b>0.433</b>

# **Group Financial Statements and Notes**

## **6. GROUP FINANCIAL STATEMENTS AND NOTES**

### **6.1 INTRODUCTION TO GROUP ACCOUNTS**

#### **1. Introduction**

The Accounting Code of Practice requires that where a local authority has material financial interests and a significant level of control over one or more organisations, it should prepare Group Financial Statements. The standard main financial statements consider the Council only as a single entity. Therefore the group financial statements provide an overall picture of the Council's financial activities and the resources employed in carrying out those activities as a group. The group accounts contain core financial statements similar to those included in the Council's single entity statements, consolidated with figures for the Council's subsidiaries and an associate.

The following pages include:

- Group Income and Expenditure Account
- Reconciliation of the Single Entity Surplus/Deficit to the Group Surplus/Deficit
- Group Statement of Total Recognised Gains and Losses
- Group Balance Sheet
- Group Cash Flow Statement

#### **2. Inclusion within the Group Accounts**

The Council maintains relationships with a number of organisations over which it has varying degrees of control or influence. A full assessment of all the Council's joint arrangements has been carried out in accordance with the SORP 2009 Sections 6.8 - 6.9. Group relationships were determined by using the flow chart and definitions taken from Annex 1 of the SORP which is consistent with UK GAAP.

Inclusion in the Nottingham City Council Group is dependant on the extent of the Council's interest and control over the entity. Where an interest has been identified, entities are categorised into one of the following relationships:

- **Subsidiary** – where the Council exercises control and gains benefits/exposures to risks arising from this control. These entities are included in the group.
- **Associates** – where the Council exercises a significant influence and has a participating interest. Where these are material they have been included in the group.
- **Joint Ventures** – where the Council exercises joint control with one or more organisations. Where these are material they have been included in the group.
- **Simple Investment** – where the Council holds an insufficient interest to justify inclusion in the group financial statements. These entities are not included in the group.
- **No group relationship** – where interest is not an entity in its own right or the Council has an insufficient interest in the entity to justify inclusion in the group financial statements. These entities are not included in the group.

Materiality is applied to Group Accounts as set out in Section 6.12 of the SORP 2009. Entities which have been identified as falling within the scope of Group Accounts but after full consideration are deemed not to be material in terms of exposure to risk are excluded.

For each of the group entities, the group accounts include a share of the operating results, assets and liabilities. Subsidiaries are accounted for on an acquisition basis with inter-group transactions written out. An associate has been accounted for by including the Council's share of their net operating results.

For 2009/10 the financial details of these organisations have been consolidated within the Group Accounts where it is considered that those details have a material effect upon those accounts.

Details of the Council's relationship with each of them are given in Group Accounts Note 1.

The Group Accounts for 2009/10 have been completed using accounts from the following companies:

#### Audited

- Nottingham Ice Centre Limited
- Nottingham City Transport Limited
- Enviroenergy Limited
- Nottingham City Homes Limited
- Connexions Nottinghamshire Limited
- Guidelines Career Services Limited

#### Unaudited

- Bridge Estate

### **3. Accounting policies used in preparing the Group Financial Statements**

The financial statements produced by individual group entities have been realigned in order to ensure consistent accounting policies in the preparation of the Group Statements. The accounting policies followed in the preparation of the Group Financial Statements differ from those applicable to the authority's primary financial statements only in the following respects:

1. Fixed assets held by group entities which are sufficiently specialist in nature not to fall within the scope of the Council's accounting policies are valued in accordance with the accounting policies of the individual entities.
2. Any trust funds which the Council controls and which generate economic benefits or deliver goods or services in accordance with the authority's objectives have been evaluated in terms of their impact on the Group Financial Statements. Where this impact has been judged to be material the trust has been included.

## 6.2 GROUP INCOME AND EXPENDITURE ACCOUNT

Group Income & Expenditure Account	2008/09	2009/10		
	Restated Net Expenditure £m	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Gross Expenditure, Income and Net Expenditure on the continuing operations of the local authority group	<b>321.559</b>	969.359	(646.133)	<b>323.226</b>
Gross Expenditure, Income and Net Expenditure on the Housing Revenue Account on the local authority group	<b>140.751</b>	136.414	(93.923)	<b>42.491</b>
Reporting authority's share of the operating result of an associate	<b>(0.242)</b>	0.000	(0.080)	<b>(0.080)</b>
<b>Net Cost of Services</b>	<b>462.068</b>	<b>1,105.773</b>	<b>(740.136)</b>	<b>365.637</b>
Gain on the disposal of fixed assets	<b>(0.328)</b>	11.228	(11.592)	<b>(0.364)</b>
Amount payable into the Housing Capital Receipts Pool	<b>3.514</b>	2.700	0.000	<b>2.700</b>
(Surpluses)/Deficits on trading undertakings and works organisations	<b>25.897</b>	69.039	(73.876)	<b>(4.837)</b>
Interest payable	<b>40.669</b>	27.859	0.000	<b>27.859</b>
Reporting authority's share of interest payable of an associate	<b>0.037</b>	0.210	0.000	<b>0.210</b>
Interest and investment income	<b>(18.742)</b>	0.000	(7.667)	<b>(7.667)</b>
Reporting authority's share of interest and investment income of an associate	<b>(0.344)</b>	0.000	(0.004)	<b>(0.004)</b>
Pensions interest costs and expected return on pensions assets	<b>22.789</b>	29.951	0.000	<b>29.951</b>
Effect of Wholly Owned Companies	<b>0.000</b>	0.001	0.000	<b>0.001</b>
Bridge Estate	<b>0.000</b>	0.000	0.025	<b>0.025</b>
Taxation of Group Entities	<b>0.536</b>	0.709	0.000	<b>0.709</b>
Reporting authority's share of taxation of an associate	<b>0.085</b>	0.012	(0.031)	<b>(0.019)</b>

Dividend payable by subsidiary companies	<b>(0.425)</b>	0.000	(2.000)	<b>(2.000)</b>
Minority interest share of profits of subsidiaries	<b>0.085</b>	0.131	0.000	<b>0.131</b>
<b>Net Expenditure</b>	<b>535.841</b>	<b>1,247.613</b>	<b>(835.281)</b>	<b>412.332</b>
Demand on the Collection Fund	<b>(93.793)</b>	0.000	(96.921)	<b>(96.921)</b>
General government grants	<b>(54.931)</b>	0.000	(66.931)	<b>(66.931)</b>
Non-domestic rates redistribution	<b>(141.465)</b>	0.000	(136.011)	<b>(136.011)</b>
<b>(Surplus)/Deficit for the Year</b>	<b>245.652</b>	<b>1,247.613</b>	<b>(1,135.144)</b>	<b>112.469</b>

### 6.3 RECONCILIATION OF THE SINGLE ENTITY SURPLUS OR DEFICIT FOR THE YEAR TO THE GROUP SURPLUS OR DEFICIT

Reconciliation of the Single Entity Surplus or Deficit for the Year to the Group Surplus or Deficit	Restated 2008/09 £m	2009/10 £m
Deficit on Nottingham City Council's Income and Expenditure Account for the year	245.635	113.955
<b>Less:</b> subsidiary dividend income	0.425	2.000
<b>Add:</b> (Surplus)/deficit arising from other entities included in the group accounts analysed into the amounts attributable to:		
<b>Subsidiaries</b>	0.056	(3.297)
<b>Associate</b>	(0.464)	(0.189)
<b>Group account deficit for the year</b>	<b>245.652</b>	<b>112.469</b>

### 6.4 GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Group STRGL	Restated 2008/09 £m	2009/10 £m
Net deficit for the year	245.652	112.469
(Gains)/Losses arising on revaluation of fixed assets	72.637	(17.241)
Actuarial (gains)/losses on pension fund assets and liabilities	(61.905)	325.623
Other (gains) recognised in the STRGL	(5.120)	(0.057)
Attributable Movement on Collection Fund	(0.002)	0.000
<b>Total Recognised losses for the year</b>	<b>251.262</b>	<b>420.794</b>
Prior Year Adjustment	1.985	0.000
	<b>253.247</b>	<b>420.794</b>

## 6.5 GROUP BALANCE SHEET

Group Balance Sheet	Restated	31 March 2010
	31 March 2009	
	£m	£m
<b>Fixed Assets</b>		
Intangible Assets	0.973	1.407
Tangible Fixed Assets		
Operational assets		
- Council Dwellings	906.528	892.018
- Other land and buildings	838.347	885.318
- Vehicles, plant and equipment	53.030	67.701
- Infrastructure assets	176.534	182.520
- Community assets	17.705	19.998
<b>Total Operational Assets</b>	<b>1,993.117</b>	<b>2,048.962</b>
Non operational assets	251.857	275.464
<b>TOTAL FIXED ASSETS</b>	<b>2,244.974</b>	<b>2,324.426</b>
Long term investments	13.224	37.900
Long term debtors	19.427	21.699
<b>TOTAL LONG TERM ASSETS</b>	<b>2,277.625</b>	<b>2,384.025</b>
Current assets:		
- Stocks and work in progress	3.040	3.326
- Debtors	51.354	67.124
- Investments	176.252	118.857
- Cash and bank	37.381	19.212
<b>TOTAL ASSETS</b>	<b>2,545.652</b>	<b>2,592.544</b>
Current liabilities:		
- Borrowing repayable on demand or within 12 months	(48.760)	(42.377)
- Creditors	(125.022)	(158.602)
- Bank overdraft	(7.177)	(14.281)
	<b>(180.959)</b>	<b>(215.260)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>2,364.693</b>	<b>2,377.284</b>
Borrowing repayable within a period in excess of 12 months	(450.310)	(463.824)
Creditors: Amounts falling due after more than one year	(11.303)	(10.706)
Deferred liabilities	(7.792)	(36.898)
Government grants-deferred	(206.055)	(291.266)
Unapplied grants and contributions	(50.386)	(26.207)
Liability related to defined benefit pension scheme	(440.434)	(768.418)
Provisions	(22.792)	(25.138)
<b>TOTAL ASSETS LESS LIABILITIES</b>	<b>1,175.621</b>	<b>754.827</b>

Capital Adjustment Account	1,323.344	1,206.401
Useable Capital Receipts	4.243	0.038
Deferred Capital Receipts	3.511	3.058
Financial Instruments Adjustment Account	(18.399)	(15.742)
Revaluation Reserve	203.444	216.649
Pensions Reserve	(432.273)	(762.645)
Housing Revenue Account	3.205	4.665
Fund Balances and Reserves	79.662	101.911
Un-earmarked Reserves	11.374	7.058
Collection Fund Adjustment Account	(0.072)	(0.370)
Profit and loss and other reserves of group entities	(2.944)	(6.748)
<b>Group Balances and Reserves</b>	<b>1,175.095</b>	<b>754.275</b>
Minority Interest - Equity	0.526	0.552
<b>Total Balances and Reserves</b>	<b>1,175.621</b>	<b>754.827</b>

## 6.6 GROUP CASHFLOW STATEMENT

Group Cash Flow Statement	2008/09 £m	2009/10 £m
<b>Net Cash Inflow from Revenue Activities</b>	<b>33.031</b>	<b>51.846</b>
<b>Returns on Investments and Servicing of Finance</b>		
<b>Cash outflows</b>		
Interest Paid	(29.687)	(26.558)
Preference dividend	0.000	(0.288)
<b>Cash inflows</b>		
Interest received	16.396	8.446
Dividends received from investments	0.425	2.000
Taxation	(0.301)	(0.129)
<b>Capital Activities</b>		
<b>Cash outflows</b>		
Purchase of fixed assets	(109.320)	(200.358)
Purchase of long-term investments	(1.102)	0.000
Other capital cash payments	(3.205)	(0.976)
<b>Cash inflows</b>		
Sale of fixed assets	12.113	16.099
Proceeds from Long Term Investments matured in the year	16.337	0.000
Capital grants received	82.106	74.634
Other capital cash receipts	21.684	15.316
<b>Net Cash Inflows/(Outflows) before Financing</b>	<b>38.477</b>	<b>(59.968)</b>
<b>Management of Liquid Resources</b>		
Net increase/(decrease) in short-term deposits	(20.550)	33.329
Net increase/(decrease) in other liquid resources	(9.912)	(9.552)
<b>Financing</b>		
<b>Cash outflows</b>		
Repayments of amounts borrowed	(10.879)	(72.278)
Capital element of finance lease rental/PFI payments	(3.568)	(0.229)
Dividends paid on preference shares	(0.735)	0.000
<b>Cash inflows</b>		
New long-term loans raised	5.258	83.350
New short-term loans	0.178	0.075
<b>Net Increase in Cash</b>	<b>(1.731)</b>	<b>(25.273)</b>

## 6.7 NOTES TO THE GROUP ACCOUNTS

### 1. Reconciliation of Net Surplus on Group Income and Expenditure Account to Net Cash Inflows before financing.

Reconciliation of Net Surplus on Group Income and Expenditure Account to Net Cash Inflows before financing.	2008/09 £m	2009/10 £m
<b><i>(Deficit) for the year on the Group Income and Expenditure Account</i></b>	(246.038)	(112.469)
<b><i>(Deficit) for the year on the HRA and Collection Fund</i></b>	(0.923)	1.112
<b><i>Non-Cash Transactions</i></b>	275.831	135.445
<b><i>Adjustment for items reported separately on cashflow</i></b>		
Adjust for Returns on Investment and Servicing of Finance	21.450	16.311
<b><i>Items on an accrual basis</i></b>		
(Increase)/Decrease in Stocks	(0.294)	(0.286)
(Increase)/Decrease in Debtors	(5.387)	4.674
Increase/(Decrease) in Creditors	(10.016)	10.288
Movements in Pension Deficit	(1.592)	(3.229)
<b>REVENUE ACTIVITIES NET CASH INFLOW</b>	<b>33.031</b>	<b>51.846</b>

## 2. Details of Subsidiary Entities, Associates and Trust Funds included in the Group Accounts

### Subsidiary Entities

#### **Nottingham City Transport Limited (NCT Ltd) (Registered Number: 2004967)**

##### **Nature of Business**

The company's main activities are the operation of public transport in the Nottingham city area, running both buses and trams within its business.

##### **Relationship with the Authority**

This company is controlled by Nottingham City Council and commenced trading on 26 October 1986. The total shareholding owned by Nottingham City Council is 95%. Transdev Plc has a minority interest in NCT of 5% which comprises of 238,526 B Ordinary shares at £1 each.

The company has the following shares in issue:

- 4,532,000 "A" Ordinary shares at £1 each, which are owned by the City Council.
- 238,526 "B" Ordinary shares at £1 each, which are owned by Transdev Plc.
- 2,882,750 £1 cumulative, convertible, redeemable preference shares owned by Transdev Plc. These shares carry a 10% coupon rate and are convertible at the rate of 3.64 preference shares to 1 "B" Ordinary share at any time. The shares are redeemable by the shareholder at any time after 1 January 2005, and by the Company at any time after 1 January 2010.

The "A" and "B" shares rank pari passu in all material respects.

The accounting treatment in respect of the minority interest has been reviewed in 2009/10 and now takes account of 100% with an adjustment for the minority interest.

##### **Accounts**

Copies of the accounts of NCT Ltd can be obtained from Companies House, Crown Way, Maindy, Cardiff.

##### **Audit Opinion**

The accounts used to produce the 2009/10 Group Accounts are audited.

## **Enviroenergy Limited (Registered Number: 4131345)**

### **Nature of the business**

Its main activities are the production of heat and steam for supply to domestic and commercial customers, along with the generation and sale of electricity.

### **Relationship with the Authority**

Nottingham City Council is the ultimate controlling party of Enviroenergy Ltd, which owns 100% of the issued share capital. Nottingham City Council acquired the business and associated assets of the company on 28 June 2001.

### **Accounts**

Copies of the accounts of Enviroenergy Ltd can be obtained from Companies House, Crown Way, Maindy, Cardiff.

### **Audit Opinion**

The accounts used to produce the 2009/10 Group Accounts are audited.

## **Nottingham Ice Centre (Registered Number: 3563341)**

### **Nature of the business**

The principal activity of the company is to manage the trading aspects of the National Ice Centre.

### **Relationship with the Authority**

Nottingham City Council is the ultimate controlling party of Nottingham Ice Centre Ltd, which owns 100% of the issued share capital.

### **Accounts**

Copies of the accounts of NIC Ltd can be obtained from Companies House, Crown Way, Maindy, Cardiff.

### **Audit Opinion**

The accounts used to produce the 2009/10 Group Accounts are audited.

## **Nottingham City Homes Limited (Registered Number: 05292636)**

### **Nature of the business**

The principal activities of the company are to act as the managing agent of Nottingham City Council's housing stock, and to provide a repairs and maintenance service to the landlord in respect of these properties.

### **Relationship with the Authority**

The company is incorporated as a private company limited by guarantee under the Companies Act 1985. As such it has no share capital. The company's sole member is Nottingham City Council.

### **Accounts**

Copies of the accounts of Nottingham City Homes Ltd can be obtained from Companies House, Crown Way, Maindy, Cardiff.

### **Audit Opinion**

The accounts used to produce the 2009/10 Group Accounts are audited.

### **Associates**

#### **Guidelines Career Services Limited (Registered Number: 06399370)**

##### **Nature of the business**

Guidelines provide career guidance to adults. The company develops and markets a range of products associated with the career services including training and assessment, information resources and quality assurance services

##### **Relationship with the Authority**

The company is jointly owned by Nottingham City Council and Nottinghamshire County Council.

##### **Accounts**

Copies of the accounts of Guidelines Career Services Ltd can be obtained from Companies House, Crown Way, Maindy, Cardiff.

### **Audit Opinion**

The accounts used to produce the 2009/10 Group Accounts are audited.

#### **Connexions Nottinghamshire Ltd (Registered Number: 4172770)**

##### **Nature of the business**

Connexions provide quality guidance, support and personal development services for all 13-19 year olds in Nottinghamshire. Connexions Personal Advisers, based in schools, colleges, Connexions centres and in the community, can provide help and advice on a range of issues from careers, employment, training and education to health, housing, money and relationships. Supporting the face-to-face Personal Adviser service is a wealth of information services both paper-based and online. At Connexions, their vision is to significantly reduce youth unemployment in Nottinghamshire and raise achievement at all levels. To do this they recognise that they must work with and support partner organisations, particularly those who provide opportunities for young people, parents, employers and young people.

##### **Relationship with the Authority**

The company is jointly owned by Nottingham City Council and Nottinghamshire County Council.

##### **Accounts**

Copies of the accounts of Connexions Nottinghamshire Ltd can be obtained from Companies House, Crown Way, Maindy, Cardiff.

### **Audit Opinion**

The accounts used to produce the 2009/10 Group Accounts are audited.

## Trust Funds

### **Bridge Estate (Registered Number: 220716)**

#### **Nature of the Trust Fund**

The earliest mention of Bridge Estate is in 1302. Since that date, various bequests of land and property have been made, the income from which being set aside for the maintenance of bridges over the River Trent. By 1882 the income generated by the Estate was in excess of that required for the maintenance of Trent Bridge and consequently the objectives of the Estate were extended by virtue of section 78 of the Nottingham Corporation Act 1882.

The objectives of the charity are as follows:

- Provide for the efficient maintenance and repair of Trent Bridge and the approaches to it.
- In effect, to set up a contingency fund for the possible construction of such new bridge or bridges over the River Trent as may be found necessary or desirable.
- The residue of such income is to be applied as the Trustee thinks best for the improvement of the City of Nottingham and the public benefit of its inhabitants.

It was established in 1945 that Bridge Estate was, and had from the beginning been, a charity. Consequently, the property of the Estate and the Council as Trustee are subject to the law affecting charitable trusts, the jurisdiction of the Charity Commissioners and the provisions of the Charities Act 1960.

#### **Relationship with the Authority**

Bridge Estate is a charity of which Nottingham City Council is sole trustee. All transactions relating to Bridge Estate are subject to the same Financial Regulations and procedures as those relating to land held by the City Council. The role of trustee has been delegated to the members of the Audit Committee.

#### **Accounts**

Copies of the accounts of Bridge Estate can be obtained from Financial Accounting, Resources, Loxley House, Station Street, Nottingham, NG2 3NG

#### **Audit Opinion**

The accounts used to produce the 2009/10 Group Accounts are unaudited.

### Other joint arrangements with Nottingham City Council:

The Council has considered its relationship with companies, associates, joint arrangements and partnerships and the following organisations have been excluded from the Group financial statements on the basis of risk and materiality.

#### **Harvey Hadden Stadium Trust (Registered Number: 522271)**

##### **Nature of the Trust Fund**

On 18 July 1955 the court made a scheme and order for an athletics stadium to be erected out of the bequest of Harvey Hadden. Under the terms of the scheme the Council was stated to be the owner of Bilborough Park and used its statutory powers to set aside part of the land for use as a stadium. Construction of the stadium began in 1955 with completion in 1960/61. The entire legacy of Harvey Hadden funded part of the cost of construction. Therefore, it follows that the land on which the stadium is built is subject to the Council's obligation to make it available for the use of the stadium charity.

Under the court order there is a requirement for "the Corporation" – now Nottingham City Council – to maintain the stadium built with those funds, "under the name of Harvey Hadden Stadium in good order and condition in perpetuity for the purposes of public recreation".

The objective of the Trust is to provide public recreation for the people of the City of Nottingham forever.

##### **Relationship with the Authority**

Harvey Hadden Stadium Trust, Nottingham is a charity of which Nottingham City Council is sole trustee. The Trustees are Councillors of the City Council. The Executive Board of the City Council meets to make recommendations on the management of the Charity in their capacity as Trustees. All transactions relating to Harvey Hadden Stadium Trust are reported to the Council in the same way as transactions involving Council business. An annual report is submitted by the Trustees, which follows the format outlined by the Charity Commission regarding Harvey Hadden Stadium Trust.

#### **Highfields Leisure Park Trust (Registered Number: 1006603)**

##### **Nature of the Trust Fund**

The Highfields Leisure Park Trust was created by indenture in 1920 as a gift from Sir Jesse Boot, founder of Boots the Chemist. The land conveyed to the Council was, for the most part, laid out as a park. The land lies to the south of the University and to the north of the railway. It is divided along the east-west axis by University Boulevard.

To the north of University Boulevard is a large boating lake with lakeside walks, formal gardens and fine turf sports facilities including putting, bowls and croquet greens. Plantations of rhododendrons and mature trees provide a unique natural backdrop to enhance the park setting. To the south of University Boulevard are playing fields, for winter and summer outdoor sports, running track and tennis courts together with an indoor tennis centre.

The objective of the Trust is to provide public recreation and pleasure grounds for the people of the City of Nottingham forever.

### **Relationship with the Authority**

Highfields Leisure Park Trust, Nottingham is a charity of which Nottingham City Council is sole trustee. The Trustees are Councillors of the Executive Board who are appointed by the City Council. The Executive Board of the City Council meets to make recommendations on the management of the Charity in their capacity as Trustees. All transactions relating to Highfields Leisure Park Trust are reported to the Council in the same way as transactions involving Council business. An annual report is submitted by the Trustees, which follows the format outlined by the Charity Commission regarding Highfields Leisure Park Trust .

### **EMBC Procurement Ltd (Registered Number: 5882746)**

#### **Nature of the Company**

The principal activity of the company from 2009/10 onwards is to be that of contract manager, regulator and broker of an Internet Service Provider network for education and schools in the East Midlands. The main purpose of this is to provide a safe and secure network for schools and other educational establishments.

#### **Relationship with the Authority**

The company is wholly owned by the Local Authorities of Derbyshire, Leicester City, Leicestershire, Lincolnshire, Northamptonshire, Nottingham City, Nottinghamshire, and Rutland.

### **Local Education Partnership (Registered Number; 6506329)**

#### **Nature of the Trust Fund**

This company was set up in June 2008 and the principal activities of the company are the provision of the construction project development and partnering services within the Education section in accordance with the terms and agreement set up with Nottingham City Council.

#### **Relationship with the Authority**

Nottingham City Council has a 10% shareholding in the company. 10% is also held by the Building for Schools Future Investment and 80% is held by Carillion.

### **Nottingham Business Development Limited (Registered Number: 6055235)**

#### **Nature of the Company**

Nottingham Business Development Limited's principal activity is to build business links between Nottingham and China, and particularly with priority sectors in key geographically targeted areas:

- Environmental technology
- Transport
- Healthcare (Biotech)
- Construction/Property
- Banking and Finance
- Food and drink

Building links for Higher Education and Further Education are a further focus for the company.

The company is also dedicated to building links and facilitating projects in political, educational and cultural exchanges.

#### **Relationship with the Authority**

The two Directors are full time employees of the City Council. The Council contributes £0.020m towards the administration costs of running an office in China.

#### **Nottingham Regeneration Ltd (NRL) (Registered Number: 3665996)**

##### **Nature of the company**

The main focus of the NRL is firmly on the delivery of sustainable physical regeneration and the key objectives are as follows:

1. To improve the local economy to underpin Nottingham's position as a core city;
2. Assist in providing opportunities for employment and training;
3. Help create balanced communities with greater and better housing choice, and
4. Set new standards of design quality and sustainability to inspire a more creative approach to the built environment.

##### **Relationship with the Authority**

Joint partnership with the East Midlands Development Agency, English Partnerships, Greater Nottingham Partnership, Nottingham City, Nottinghamshire County, Rushcliffe Borough, Gedling Borough, Broxtowe Borough and Ashfield District Councils. The Greater Nottingham Local Authorities strengthened their input over the year with the arrival of the Chief Executive of Rushcliffe Borough Council on the Board.

# **Statement of Responsibilities for the Statement of Accounts**

## 6. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Authority's Responsibilities

The authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that responsibility rests with the Chief Finance Officer.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts.

The statement of accounts was approved at a meeting of the Audit Committee on 25 June 2010.

Councillor Williams  
Chair of the Audit Committee  
Date: 29 June 2010

### The Chief Finance Officer's Responsibilities

I am responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the Statement of Recommended Practice, issued in 2007 by the Chartered Institute of Public Finance and Accountancy (the Code of Practice).

In preparing this Statement of Accounts, I have:

- Selected suitable accounting policies and then applied them consistently.
- Made judgments and estimates that were reasonable and prudent.
- Complied with the Code of Practice.

I have also:

- Kept proper accounting records that were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

These financial statements replace the unaudited financial statements authorised at the meeting of Audit Committee on 25 June 2010. The certification and record of approval by Councillors included in the statement of accounts originally approved by Councillors does not need to be repeated in the updated statement of accounts.

I certify that the accounts present a true and fair view of the financial position at 31 March 2010 and its income and expenditure for the year.

Carole Mills-Evans  
Chief Finance Officer, Deputy Chief Executive & Corporate Director of Resources  
Loxley House  
Station Street  
Nottingham  
NG2 3NG  
Date: 30 September 2010

# **The Annual Governance Statement**

## **Scope of responsibility**

Nottingham 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. The 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, it is essential that proper arrangements are put in place to ensure sound governance and effective exercise of Council functions. This includes effective risk management.

The Council has approved and adopted a code of corporate governance consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. This Statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

## **The purpose of the governance framework**

The governance framework comprises the systems and processes, culture and values, by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. It enables monitoring of the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

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

The governance framework has been in place at the Council for the year ended 31 March 2010 and up to the date of approval of the annual report and Statement of Accounts.

## **Arrangements for identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users**

The function of governance is to ensure that the Council and its partners fulfil their purpose and achieve their intended outcomes for citizens and service users and operate in an effective, efficient, economic and ethical manner. This concept should guide all governance activity. The Council has to develop and promote a clear vision of its purpose and intended outcomes for citizens and service users that are clearly communicated, both within the Council and to external stakeholders.

The Council has accepted that knowledge and understanding of local communities and neighbourhoods is critical to delivering fit for purpose services. Improving public involvement with the work of the Council has been identified as a priority.

The City Council's long term vision is "Go-ahead Nottingham: Safe, clean, ambitious and proud." The vision was developed through consultation with a wide range of citizens, businesses, community, voluntary and faith groups and public agencies across Nottingham. It is shared by our partners and sets a common goal to be achieved whilst summarising the Council's objectives and priorities.

The Council, working with partners, developed an outline long term vision and strategic thinking based upon extensive consultation. The result was 2030 Vision and the Sustainable Community Strategy. The Nottingham Plan to 2020 is the overall plan for the City agreed in July 2009, and is built on a clear evidence base following extensive research and consultation. This plan is jointly owned by the Council and its key partners, providing clear strategic direction to 2020 and has three cross cutting themes of being environmentally sustainable, raising aspirations and achieving fairness and equality of opportunity.

The Council's key objectives for the next three years are contained in the Council Plan 2009-12. This plan has recently been updated to be in close alignment with the Nottingham Plan to 2020 and to reflect national agendas such as Safeguarding and Sustainability. Ultimately this means the City Council's priorities over both the short and long term and those of its key partners are in accord. The principles underpinning the plan are summarised in a 'Message Map' which sets the purpose of "Leading Nottingham" and gives direction and focus for the Council. The Council Plan 2009-12 has clear priorities with associated performance measures.

The Council uses various media for communicating its vision. Examples are publications including 'Nottingham Arrow', the staff magazine 'Impact' and use of City Council's the intranet and internet sites. The Nottingham Arrow is posted to all households in the City, making it an ideal platform to inform local residents about what the City Council is doing. Nine special 'area' editions are published four times a year with information local to the City's different neighbourhoods.

### **Arrangements for reviewing the authority's vision and its implications for the authority's governance arrangements**

Good governance flows from a shared ethos or culture, as well as from systems and structures. Consequently it is important that clear values and objectives are set and processes implemented to assess their effectiveness. Where appropriate the review mechanism should enable problems to be identified and corrective action to be taken. Progress against the City Council's strategic priorities is monitored and reported to the Executive Board each quarter.

The Audit Commission's organisational assessment has reflected the effectiveness of the Council's arrangements and states *"Overall Nottingham City Council performs well. The Council is improving its planning, its leadership and its capacity. It has put in place a number of significant new plans over the last year, and ambitions for the city are now clear. It works in an increasingly effective way with partners such as health services and the Police, and is more outward facing. Major investment programmes to transform neighbourhoods and improve transport, schools, housing and local facilities are making progress and resulting in improvements that people notice."*

The overview and scrutiny function is undertaken by the Overview and Scrutiny Committee, supported by standing panels. It also manages the process and commissions task and finish panels and reviews. The Overview and Scrutiny Committee:

- contributes to policy development and helps to shape major plans and strategies,
- publicly holds the Executive to account for the decisions it makes,
- reviews issues of concern or particular interest to the people of Nottingham,
- examines matters of wider public interest which are not necessarily the responsibility, or sole responsibility, of the Council, but which affect the well-being of the City and its people, and
- manages the call-in process in accordance with the Overview and Scrutiny rules in the Constitution.

As a consequence the Committee plays an important role in supporting the programme of improvements to Council services. Councillors with an overview and scrutiny role work independently, openly and transparently and the recommendations made are founded in the evidence received from experts in the fields being reviewed, service users and colleagues. The Committee and Panels try to involve representatives of non-council organisations, interest groups and members of the public in their activities where it is considered that such involvement would bring new perspectives, expertise and/or specialist knowledge, to allow scrutiny to fulfil its role. Councillors on the Committee keep an overview of the development of major Council plans and strategies such as the Council Plan, and may make suggestions for improvements. External inspection reports and the recommendations contained within are also considered by the Committee, in order to gain most benefit from the inspectors' recommendations and help embed good practice in the area of inspection. An annual report on scrutiny activity is produced, covering the vision for Overview and Scrutiny, its role and its method of working. The scrutiny function work demonstrates that it is holding the Executive to account when considered necessary.

Portfolio Holders are charged with the general responsibility to promote and be accountable for the services in their portfolio within the Council and the City as a whole and a Portfolio Holder has specific responsibility for customer services and consultation.

Portfolio Holders and the Executive Board make decisions based upon colleague recommendations and in response to changing legal or financial obligations. The reports containing recommendations to be considered clearly explain the technical issues and their implications and relate the recommended action to agreed policies and strategies. Where more than one course of action is possible, the alternatives are analysed and justification given for the preferred choice. Professional advice is taken when decisions have legal or financial implications in advance of decision making. Advice on legal and financial matters is taken from both internal, and where necessary, external sources. Portfolio Holders also have a common responsibility to promote and be accountable for their services nationally and internationally as required, representing the Council's views on matters of corporate or strategic policy within their portfolio. The Leader of the Council also has responsibility to promote the City, the Council and its core values and objectives.

The advice given will usually be contained within the board papers although it may also be presented to the meeting, to facilitate discussion. Reports are usually circulated with the agenda where possible, to allow consideration in advance of the meeting at which a decision

is to be taken. Where appropriate the recommendation will be supported by appropriate external evidence or advice.

Minutes of Council, Board and Committee meetings are available to the public. Associated reports clearly explain technical issues and their implications and where more than one course of action is possible, the alternatives are analysed and justification given for the preferred choice.

**Arrangements for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources**

It is important that the Council uses the resources it has available to provide the highest quality services for its citizens in accordance with its objectives and priorities. The Council Plan contains targets to be met in achieving these priorities which are translated into actions through strategic service plans.

The Performance Management Framework and revised Strategic Service Plan formats establish a clear relationship between corporate priorities and decisions taken, from the top down to individual level via service planning. Quarterly performance reports are used to monitor the achievement of targets and include meetings with Portfolio Holders and reports to Scrutiny. Benchmarking against the performance of a similar group of councils is undertaken as part of performance improvement activity. Quality of services is also monitored by seeking the views and experiences of citizens, service users, and colleagues through residents' surveys, using BVPIs, consultation and focus groups, analysis of complaints and comments received, and staff surveys. The introduction of the Performance Management Framework has established a clear relationship between corporate objectives and strategic service plans. The Framework and departmental planning establish a clearer relationship between corporate priorities and decisions taken.

The concept of value for money (vfm) has been around for many years in public services. Nottingham has recognised the requirement and has tried to address the need to provide vfm in a cohesive and consistent way across all service areas. The introduction of a Value for Money Framework in June 2006 was intended to assist in the delivery of the Council Plan, particularly in relation to the 'Serving Nottingham Better' improvement programme.

The Council's budget process establishes the resources required to deliver its services and objectives and involves a review of the overall use of resources. Appropriate limits have been approved in line with the Prudential Code for Capital Accounting. Budgets are monitored regularly and councillors receive financial information which is relevant, understandable and consistent with underlying financial records. Financial reserves are kept under review and the Council maintains an adequate Internal Audit function. Financial procedures are identified in approved Financial Regulations. The Council also publishes its Statement of Accounts in accordance with statutory and professional guidance and which have been subjected to a rigorous external audit.

The results of the Audit Commission's organisational assessment 2009 were favourable. In its summary the Commission reported that:

*"....Over the past year the Council has achieved most of the things it had agreed were of the highest importance to the people of Nottingham. Children's services are now performing well, with educational attainment continuing to rise. Adult social care services are also*

*performing well, with more people being helped to live independently. The Council is also working effectively with the Police to improve community safety and reduce crime. The Council has responded well to the impact of the recession, targeting support where it is needed most and keeping longer-term plans on track. It has worked effectively with other organisations to put in place arrangements that will help the city through the recession, and prepare for recovery.....*

*.....The Council scores 3 out of 4 for managing performance and been successful in helping make Nottingham an even better place to travel around, to visit and enjoy. The Council's work with the Police continues to result in big falls in overall crime as well as lower levels of public concern about anti-social behaviour, although crime levels are still high compared to other similar areas.*

*Investment in housing, schools, parks and leisure centres is making steady improvements to people's quality of life in Nottingham's neighbourhoods. This is reflected in improving satisfaction levels with the area and with some services.*

*Ofsted has rated the Council's children's services as performing well. The overall effectiveness of all inspected services, settings and institutions is good, and there is a clear and sustained trend in improvement in the proportion of young people achieving the higher grades at GCSE at age 16. However attainment at some levels is still lower than national and similar areas. An increasingly high number of young people stay in education, training or employment when they leave school.*

*The Care Quality Commission has rated the Council's adult social care services as performing well. Leadership is good meaning ambitions are clear, commitment to transforming these services is strong and improvement is taking place. This is leading to more people living independently, people having more choice and a greater say, for example in care plans. Significant improvements have been made to arrangements to ensure adults are safeguarded.*

*In the face of difficult conditions and increasing demand for some services the Council has worked well to adjust its short-term plans yet keep moving with some of its longer term plans, such as regenerating the most needy neighbourhoods. The Council has established a comprehensive range of actions to help the city through the economic downturn and into recovery.....”*

## **Arrangements for defining and documenting the roles and responsibilities of the executive, non- executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

In local government the governing body is the City Council. The City Council has overall responsibility for directing and controlling all the work undertaken in its name. The Constitution, approved by City Council, sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Responsibility for decision making, the role of the City Council, Executive Board, Committees and the process for determining Key Decisions are defined in the Constitution.

The Constitution includes a scheme of delegations which is detailed so that the functions of City Council, Executive Board, Portfolio Holders, Committees and officers are specified. The scheme is currently being updated and a mechanism is under consideration to keep the details recorded up to date.

The City Council comprises of 55 councillors with the Labour Party having overall control. The councillors meet as a Full Council around every six weeks. A limited number of items of business, such as approving the level of council tax, must be considered by the full council. For other decisions, the Leader and nine Executive Councillors hold decision-making powers through the Executive Board which has a place for a councillor from a minority political group. Each Executive councillor, including the Leader, has a portfolio which supports the priorities of the Council.

The role of each Portfolio Holder is defined in terms of both general and specific responsibilities. Councillors who are not on the Executive may be members of one of the regulatory committees or undertake overview and scrutiny activities. Detailed terms of reference are in place for committees. The role of Overview and Scrutiny is set out in the detailed terms of reference for the committee itself and for the panels which report to it. There is a clear distinction between the Executive and Scrutiny functions within the Council and clearly defined roles for both Executive and Scrutiny which are understood by both bodies. An annual report on the scrutiny function activity is produced, which is both detailed and informative.

The Council has protocols in place to ensure communication between councillors and colleagues in their respective roles and which govern their relationship. These arrangements have been reviewed by the Corporate Leadership Team (CLT) and external expertise provided by the Leadership Centre for Local Government to develop councillor/colleague relationships.

## **Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.**

A hallmark of good governance is the development of shared values, which become part of the organisation's culture, underpinning policy and behaviour throughout the organisation, from the governing body to all staff. These are in addition to compliance with legal requirements on, for example, equal opportunities and anti-discrimination. The Council recognises that, to be effective in fulfilling their role, councillors will need to work closely with and talk to colleagues at all levels, and that this principle should be safeguarded in the current governance and neighbourhood arrangements. The Council has put arrangements in place to ensure that procedures and operations are designed in conformity with appropriate

ethical standards, and their continuing compliance in practice is monitored. Breaches of the Code of Conduct for Members are considered by the Standards Committee. Staff can report non conformity with appropriate ethical standards via the Confidential Reporting Code. Councillors can raise issues of non compliance directly with the Standards Committee. Members of the public are encouraged to report concerns through any of the routes included in the Confidential Reporting Code, or via the Council's complaints procedure.

At an individual level, the Council has developed and adopted formal codes of conduct defining the standards of personal behaviour, to which individual councillors and colleagues are required to adhere. Under the Local Government Act 2000, all councillors have to sign a declaration to abide by and uphold the City Council's Code of Conduct for Members. Under the Code all councillors are also required to register various interests. In addition to their specific portfolio responsibilities all Portfolio Holders also have a common responsibility to ensure that the executive functions within the portfolio are performed in accordance with approved Council policies and strategies, and to the highest ethical standards. These values are also enshrined in the respective codes of conduct for employees, councillors and the councillor/colleague protocol. The Council's Monitoring Officer maintains the Register of Members' Interests that have been brought to his attention. Councillors are obliged, by law, to keep their registration up-to-date and to inform the Monitoring Officer of any changes within 28 days of the relevant event. A councillor's failure to register interests can be the subject of a complaint. Most councillors have received training relating to the new Code of Conduct.

The need for disclosure of conflicts of interest is a standard agenda item at all meetings, and a review of the minutes of the Executive Board indicates that potential conflicts of interest are regularly disclosed. The Council has put arrangements in place to ensure that procedures and operations are designed in conformity with appropriate ethical standards, and their continuing compliance in practice is monitored. Breaches of the Code of Conduct for Members are considered by the Standards Committee. Members of the public are encouraged to report concerns through any of the routes included in the Confidential Reporting Code or via the Council's complaints procedure. This is less so in the case of the Confidential Reporting Code, particularly from an external perspective. Staff can report non conformity with appropriate ethical standards via the Confidential Reporting Code.

The Council has a Standards Committee in place, which meets roughly quarterly and reports to City Council. The Committee remains primarily focused on issues of councillors' conduct and its remit includes the requirement to:

- consider any matters referred to it by the Monitoring Officer, including annual report of the Monitoring Officer;
- to promote and maintain high standards of conduct by councillors and co-opted members;
- to hear cases under the Council's procedure for dealing with complaints about councillors' conduct; and
- to consider matters referred to it under relevant legislation.

It has had involvement in Government consultation regarding a new code of conduct. Councillors can raise issues of non compliance directly with the Standards Committee.

**Arrangements for reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which**

## **clearly define how decisions are taken and the processes and controls required to manage risks**

Decision making within a good governance framework is complex and challenging. It must further the organisation's purpose and strategic direction and be robust in the medium and longer terms. To make such decisions, councillors must be well informed. The Constitution and its appendices clearly define those matters specifically reserved for collective decision of the Authority and those matters that may be delegated. The responsibility for updating the constitution is set with the Chief Legal Officer. Reports making changes to the Constitution including those to Financial Regulations are made to the full Council for approval.

Councillors making decisions require support of appropriate systems, to help ensure that decisions are implemented and that resources are used legally and efficiently. Risk management is important to the successful delivery of public services. An effective risk management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective. The Risk Management Framework sets out the way in which the Council identifies monitors and manages its strategic, operational and project/partnership risks. It consists of three elements, a strategy which sets out why risk management is important, a policy which specifies the Risk Management system and a priority action plan which identifies the priorities for risk management activities in a financial year. Risks are managed through a hierarchy of risk registers that are reviewed, updated and reported on according to the policy requirements of the Risk Management Framework. The highest level is the Strategic Risk Register which is owned by CLT and the Executive Board. Further registers are managed at the departmental and service level. The Framework has the full support of Council members and Chief Executive, and the Audit Committee oversees the risk management process for the Council. Embedding risk management, to make it a natural part of the decision-making process, is an on-going process.

## **Arrangements for ensuring that the Authority's financial management arrangements conform with the governance requirements of the CIPFA statement on the role of the Chief Finance Officer**

An essential element of good governance is the existence of sound arrangements for the management of financial resources. The Deputy Chief Executive and Director for Resources is the Chief Finance Officer (CFO) and is a professionally qualified accountant. The CFO sits on the Corporate Leadership Team and is able to contribute positively to decision making affecting the delivery of the City Council's objectives. The CFO is able to promote good financial management and in so doing make sure effective use is made of City Council resources. The CFO is currently leading a Finance Change process which is designed to ensure that the finance function is fit for purpose.

## **Arrangements for undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities**

The operation of an effective Audit Committee is an essential part of good governance. An Audit Committee was established in 2008/09 and a first annual report of its achievements was sent to Full Council. The role of the Committee is developing and a recent exercise undertaken with other Core Cities shows it compares favourably against the best practice identified by CIPFA.

## **Arrangements for ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

In order to demonstrate the highest level of stewardship of public resources it is important that all work undertaken on behalf of the City Council is transparent, falls within legal powers and is accordance with professionally recognised best practice. However, governance cannot be reduced to a set of rules, or achieved fully by compliance with a set of requirements. This ethos of good governance can be expressed as values and demonstrated in behaviour. It builds on the seven principles for the conduct of people in public life that were established by the Committee on Standards in Public Life (the Nolan principles). In England, the Local Government Act 2000 outlined ten principles of conduct for use in local government bodies.

The Council's establishment incorporates all posts required by statute. The roles of the Leader and Chief Executive are laid down in the City Council's Constitution and in the relevant job description. The Chief Executive as Head of Paid Service is ultimately responsible and accountable to the Council for all aspects of operational management.

The responsibilities of the Section 151 Officer include responsibility to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.

The responsibilities of the Monitoring Officer include responsibility to the Council for ensuring that agreed procedures are followed and that all applicable statutes, regulations and other relevant statements of good practice are complied with. The Monitoring Officer is responsible for arrangements for whistle blowing to which staff and those contracting with the Council have access. Arrangements have been put in place for whistle blowing to which staff and those contracting with the Council have access. A step by step guide to making a complaint is published on the internet and the right of complaint is well publicised. Complaints can be initiated by contacting the office or section responsible, writing to the Director of the section concerned, or by contacting local councillors. Guidance draws attention to the right of referral to the Ombudsman.

Professional advice is taken when decisions have legal or financial implications in advance of decision making. Advice on legal and financial matters is taken from both internal and, where necessary, external sources. The advice given will usually be contained within the board papers and minutes. The Council has in place Budget and Policy Framework Procedure rules which set out how budget and policy decisions are made. Key roles are performed by statutory officers, including the Council's Monitoring Officer and Section 151 Officer. A regular programme of work is carried out by Internal Audit reviewing compliance with established procedures. In addition, scrutiny committees, external audit and external inspection agencies contribute to the review of the Council's compliance with its policies, procedures, laws and regulations.

## **Arrangements for identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.**

Effective local government relies on public confidence in councillors and colleagues. Good governance strengthens credibility and confidence in public services. The Council needs the right skills to direct and control them effectively. Governance roles and responsibilities are challenging and demanding, and councillors need the right skills for their roles. In addition, governance is strengthened by the participation of people with many different types of knowledge and experience.

Good governance means drawing on the largest possible pool of potential councillors to recruit people with the necessary skills. Encouraging a wide range of people to stand for election or apply for appointed positions develop a greater range of experience and knowledge. It will also help to increase the diversity of councillors in terms of age, ethnic background, social class, life experiences, gender and disability. For colleagues the Council has a policy of recruitment and promotion on merit, and recruits outside the Council where appropriate. Arrangements designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority are in development. It is difficult for any local authority to encourage new talent for membership of the Council as the electoral framework renders any succession process uncertain and there is no control over councillor selection. Increasingly though, the Council engages with the community it serves, via partnership working and other methods, and gains expertise as a result of this engagement.

At present Executive councillor performance is reviewed at individual but not group level. The Executive is subject to scrutiny by Overview and Scrutiny at decision and policy development level. Councillors receive training and development necessary to effectively discharge their governance roles. This is achieved in a number of ways including induction training and training relevant to panels and boards. Both the Executive Board and Overview and Scrutiny Committee take outside external advice when considered appropriate.

The Executive is subject to scrutiny by Overview and Scrutiny at decision and policy development level. The role of colleagues is to support councillors and this includes offering training courses to councillors via Councillor Services which advertises courses and training available on a monthly basis. Any uptake is logged. All councillors receive induction training upon taking up office, and are encouraged to identify their personal training requirements. The Member Development Steering Group together with Councillors' Services and the Overview and Scrutiny Team identify suitable learning opportunities for councillors, there are also councillor development briefings scheduled and policy briefings on current topics. Serving Nottingham Better has a specific work stream to enhance councillor development.

Corporate Directors are experienced in their respective fields and are assessed as part of their Personal Development Reviews (PDR). Most hold relevant professional qualifications which impose the requirement for continuing professional development. Corporate Directors organise their own training within the context of PDR and any development obligations imposed by professional bodies of which they are members. Similarly the skills of other staff are developed on an ongoing basis as part of the PDR process.

## **Arrangements for establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation**

Local Government is accountable in a number of ways. Elected local authority councillors are democratically accountable to their local area and this gives a clear leadership role in building sustainable communities. All councillors must account to their communities for the decisions they have taken and the rationale behind those decisions. All authorities are subject to external review through the external audit of their financial statements. They are required to publish their financial statements and are encouraged to prepare an annual report. Many are subject to national standards and targets. Their budgets are effectively subject to significant influence and overview by government, which has powers to intervene. Both councillors and colleagues are subject to codes of conduct. Additionally, where maladministration may have occurred, an aggrieved person may appeal either through their local councillor or directly to the Ombudsman.

The Council is accountable to the community it serves, and publishes, on an annual basis, information on its vision, strategy, plans, financial performance and outcomes, achievements and the satisfaction of service users in the previous period. The Council is dedicated to providing the easiest possible access to information while protecting individuals' privacy. Some information will not be available to the public as there are several grounds for exemption under the Freedom of Information Act. Most of these exemptions are subject to the application of a Public Interest Test. This is a test of whether the reasons for disclosing the information are outweighed by the exemption. Most Council meetings are open to the public and all minutes of meetings are available for examination and reports clearly explain technical issues and their implications. A few simple rules have been introduced to help the public question session run smoothly and to be of maximum benefit to the public and the Executive Board meets in public (except for exempt items).

The Council has committed itself to wide consultation on matters of local concern. The Council expects that any consultation carried out is used to engage and gain the views of relevant communities, plan what needs to be achieved, establish how far the services meet their objectives from the customer's perspective, enable changes to services in line with customer feedback, determine how visible changes can be tracked as a result of consultation and provide feedback on the results and actions arising from consultation. The consultation framework is intended to enable the Council to achieve co-ordinated consultation and use findings in its decision-making processes and feedback the outcomes to consultees. The framework is intended to strengthen the Council's customer focus by promoting a structured approach to engaging customers / stakeholders and using their views in decision-making processes to improve services on a continuous basis.

A range of media is used to let local people and employees know about progress on the Council's plans. For example the "Contact Us" section of the internet site allows citizens to find out about initiatives, register interest in future consultations and make observations. The Council officially welcomes and positively encourages public involvement in the way in which business is conducted. Minutes of meetings and supporting documents are generally accessible to the public with only in a small proportion of the Council's business conducted in confidential arenas. Any decision to exclude the public is considered carefully and must meet the public interest test.

Councillors and the most senior managers are clearly identified on the Council's internet site and periodically in the Arrow. This Council has committed to the creation of sustainable and democratic communities, encouraging active citizenship and democratic engagement by developing of the role of area committees; wide consultation on matters of local concern; events such as those that take place in Local Democracy Week and the promotion of

councillors and their key roles within their communities. Other methods used to engage with the community include the Customer Suggestion Scheme, “Your Choice Your Voice” events and the Council’s Infopoint.

**Arrangements for incorporating good governance arrangements in respect of partnerships and other group working and reflecting these in the authority’s overall governance arrangements.**

In order that shared goals are achieved it is important that the principles of good governance are put in place across the full range of Council work. When working in group or partnership arrangements the existence of sound governance helps ensure shared goals are achieved and resources controlled and used effectively.

Council colleagues and councillors are nominated as Council representatives within or when dealing with significant partner organisations and group companies and an annual review of the associated governance arrangements is conducted

**Group companies, charities and trusts are required, where appropriate, to align their objectives the City Council’s policies and deliver high quality, efficient and effective services which are in accordance their agreements with the City Council. Organisations are set up with appropriate governance arrangements and expected to comply with all relevant laws and regulations. Financial statements and other published information where required are expected to be accurate and reliable.**

For significant partnership arrangements reports reflecting the establishment, vision, governance arrangements and methods of delivery are directed to the appropriate board or committee for scrutiny. The Council has a Director of Strategic Partnerships who is in a position to advise and direct colleagues on these issues. A Partnership Governance Framework has been approved by the Executive Board (May 2009) which has been used to monitor and develop the governance arrangements in the Council’s partnership arrangements.

A revised list of significant partnerships has been recently drawn up comprising those which have strategic, reputational or financial significance to the City Council.

All the listed significant partnerships have been reviewed in terms of:

- Their relevance to delivering corporate priorities
- Appropriate Council membership and representation
- The benefits and risks associated with membership
- Their performance management
- Their forward planning
- Their reporting arrangements
- Council and partners’ resources

While partnerships have had to show considerable flexibility due to changing circumstances (e.g. new One Nottingham governance arrangements; public sector financial restraint) they have recognised the need to respond and adapt. Several partnerships have been newly established or substantially re-configured to lead delivery of key themes within the Nottingham Plan (the City’s Sustainable Community Strategy).

In future health checks will be undertaken of partnerships as part of their performance management. The health checks will cover:

- Aims and objectives
- Membership and structure
- Decision making and accountability (including communications)
- Performance management
- Evaluation and review
- Equalities
- Finance
- The business case for the Council's continued participation

The methodology for reviewing significant partnerships was based on an approach developed by Birmingham City Council, but tailored to the Nottingham context. It was developed in consultation with the Council's Internal Audit Team, Partnerships Policy Team, Risk Manager and Legal and Democratic Services and approved by the Council's Executive Board Commissioning Sub Committee in May 2009.

The Council lead officer for each significant partnership completed a template in face to face discussions with a member of the Partnerships Policy Team. Lead officers were asked to confirm any subsequent changes and additional information. This resulted in a relatively consistent approach and provided the Partnerships Policy Team with an overview of the aims, activity, resources, opportunities and risks related to the Council's membership and participation in significant partnerships.

The information gained will enable the Council to consider opportunities to streamline partnerships and improve accountability and communications arrangements. Council lead officers found that the process was useful in helping them to clarify issues and identify areas for improvement or development. No areas of concern that are likely to have a significant negative impact on the Council were identified.

### **Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

## **Process that has been applied in maintaining and reviewing the effectiveness of the governance framework.**

### **City Council**

City Council, comprising all 55 councillors, is the foremost public decision making forum of the Council that sets the policy framework and budget. The policy framework consists of the most important plans and strategies adopted by the Council. The Council meeting is chaired by the Lord Mayor and normally meets ten times per annum.

### **City Council considered reports on the following issues relevant to keeping the internal controls of the organisation under review:**

- To consider a report of the leader on appointments and first meeting of boards, committees, panels, joint bodies etc 2009/10
- Decisions by Executive Board under special urgency procedure
- Nottingham's Sustainable Community Strategy
- Constitution amendments
- Changes to Committee membership
- NET funding arrangements
- Reports of Portfolio Holders
- To consider a report of the Chair of the Audit Committee on the work of the Committee in 2008/09
- To consider a report of the Chair of the Appointments and Conditions of Service Committee on the appointment of a Corporate Director of Children's Services
- Changes to committee memberships
- Proposed changes to the treasury management 200/10 prudential indicators
- Overview and scrutiny annual report 2008/09
- Nottingham City Council's treasury management 2010/11 strategy
- Nottingham City Council budget 2010/11

### **Executive Board**

The role of the Executive Board is to take key decisions as defined by City Council. The work also encompasses receiving performance and financial information which determines the strategic direction of the Council.

### **The Executive Board considered reports on the following issues relevant to keeping the internal controls of the organisation under review**

- Key decisions – local area agreement (LAA) 2008-2011 with ministerial approval 2009
- Key decisions – Nottingham Vision and sustainable community strategy
- East Midlands regional plan – March 2009
- Public interest report on allocations of Council properties and related matters – update
- Key decision – housing revenue account : reduction to approved rent increase 2009/10
- Key decision – Nottingham express transit phase two
- Confirmation of support arrangements for net line one
- Key decision – One Nottingham governance
- Performance to the fourth quarter 2008/09 (April to March)
- Key decision – Pre-Audit corporate financial outturn 2008/09

- Treasury management annual report 2008/09
- Forward plan
- Risk management: refresh and update of the strategic element of the council's risk register
- Medium term financial strategy 2009 +  
Review of revenue budget
- Review of capital programme 2009-2013
- Review of 2009/10 revenue budget
- Risk management: Q2 refresh and update of the strategic element of the Council risk register
- Council plan and LAA performance as at Quarter 2 – 2009/2010
- Key decision – Governance arrangements for the 16-19 funding transfer
- Comprehensive area assessment 2009 results
- Draft medium term financial plan (MTFP) 2010/11 – 2012/13
- Corporate voice over the internet protocol telephony system
- Review of 2009/10 revenue budget
- Key decisions – Council tax – Determination of the 2010/11 tax base
- The annual performance assessment of adult social care, 2008-09
- Appointments to outside bodies – annual review
- Key decision – local area agreement: 2010-11 refresh update
- Treasury management 2010/11 strategy
- Medium term financial plan (MTFP)2010/11 – 2012/13
- Portfolio holder decisions
- Nottingham City Homes/Nottingham City Council Management Agreement
- Pay and grading review – Proposed options for implementation of the single status agreement

#### Executive Board Commissioning Sub-Committee

- Corporate commissioning framework
- Nottingham City Council Partnership Governance Framework
- Corporate Commissioning Framework – How To Guide Presentation

#### Overview and Scrutiny Committee

The scrutiny of Executive decisions is an essential element in the effective governance of the Council and the scrutiny function has wide-ranging powers under the Local Government Act 2000 to examine policy development, executive decisions and matters of wider local concern.

Councillors who are not on the Executive are charged with keeping an overview of Council business and City concerns and scrutinising areas of particular interest or concern. Their role is to hold the Executive to account, when deemed necessary, in the business they undertake and also to assist in the development and review of Council policy. Tasks involve looking in detail at areas of service delivery or issues of general concern in the Council, external partnerships and organisations. The Committee makes recommendations to the Executive or to the whole Council and, on occasion, to outside organisations, on issues which might include suggestions for improvements or different ways of doing things. The Council also has a statutory responsibility to scrutinise substantial developments or variations in NHS services and this is undertaken by the Health Scrutiny Panel or by the Joint City / County Health Scrutiny Committee.

**The Overview and Scrutiny Committee considered reports on the following issues relevant to keeping the internal controls of the organisation under review.**

- Nottingham Vision And Sustainable Community Strategy And Refresh Of The Council Plan
- Local Area Agreement (LAA) 2008/2011 With Ministerial Approval 2009
- Performance To Third Quarter 2008/09 (April – December) – Council Plan And Local Area Agreement
- Progress Report On Information Rights
- End Of Year Evaluation And Assessment
- Executive Forward Plan
- Minutes Of Select Committee Meetings
- To Note Terms Of Reference And Membership
- Icelandic Banks – Update
- Serving Nottingham Better
- Portfolio Holder For Community Safety, Partnerships And The Voluntary Sector And Leader Of The Council – Priorities 2009/10
- Asset Management Plan 2009
- Economic Resilience (3<sup>rd</sup> Report)
- Implementation of Nottingham's Sustainable Community Strategy And New One Nottingham Governance
- Corporate Commissioning Framework 2009
- Strengthening Local Democracy – Draft Response To Government Consultation
- Meeting With One Nottingham – Outcomes
- Overview And Scrutiny Annual Report 2008-09
- Scrutiny Of Commissioning
- Comprehensive Area Assessment (CAA)
- The Nottingham Plan To 2020 Scrutiny Workshop

**Overview and Scrutiny (Call-in) Sub-Committee**

- Disposal Of Radford Unity Complex, 203 Ilkeston Road – Call-in Of Portfolio Holder Decision 643

**Audit Committee**

The Audit Committee has responsibility for the development of risk within the Council and has been the designated body for the overview of the Council's Internal Audit function. An annual report is produced by the chair of the committee reflecting the work undertaken and the associated linkages it has to improving governance. This report is received at full council.

**The Audit Committee Considered reports on the following issues.**

- The Council's Risk Management Framework – Revision
- Local Government Ombudsman Annual Review
- Icelandic investments – latest position
- Information, communication and technology controls – summary of progress

- People management – Nottingham City Council Audit 2008-2009
- Annual governance statement 2008/09
- Statement of accounts 2008/09
- Treasury management arrangements
- Audit Committee annual report 2008/09
- Corporate integrated planning and performance framework – update
- Strategic risk register: Quarterly Reports
- Audit Commission progress report and audit opinion plan for bridge estate
- Internal Audit quarterly report 2009/10
- Audit Commission progress report (Nottingham City Council) and annual audit letter
- Audit Committee work programme 2009/10 – update
- The roles of statutory and proper officers
- Treasury management strategy 2010/11
- Review of Internal Audit
- Annual Audit and inspection letter
- Comprehensive area assessment and organisation development
- Internal Audit report selected for examination
- Role of Audit Committee and work programme 2009/10
- Governance position in respect of ICT security issues
- Interim annual governance statement 2009/09
- Statement of accounts
- Internal Audit Charter
- Internal Audit annual report 2008/09
- Counter Fraud Strategy 2009/10
- Appointment of Chair
- Appointment of Vice-Chair
- Internal Audit annual plan 2009/10 and Internal Audit strategic plan 2009-2012
- Statement of Audit progress – Audit 2008/09 and 2009/10
- Risk management: Refresh and update of the strategic element of the Councils risk register
- Risk management: Refresh and update of the strategic element of the Councils risk register – Risk maps

## **Standards Committee**

The Council has a Standards Committee that oversees this Code of Conduct and other governance matters. The Standards Board for England is responsible for promoting high ethical standards and receiving allegations that councillors' behaviour may have fallen short of the required standards.

### **The Standards Committee has received reports including:**

- Review Of Human Resources And Housing Allocations And Housing Allocations Procedures In Nottingham City Homes – Progress
- Report Of Monitoring Officer For 2008/09
- Digest Of Recent Standards For England Updates And Annual Review 2008/09
- Standards for England DVD assessment made clear.

## **Head of Internal Audit**

Corporate Directors are responsible for ensuring that proper standards of internal control operate within their directorates. Internal Audit reviews these controls and gives an opinion in respect of the systems and processes put in place. The service operates within professional standards as laid down by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The 2009/10 Audit Plan as agreed by the Audit Committee and Corporate Directors has been completed in accordance with the professional standards set for the service. The Internal Audit service has undertaken reviews of the internal control procedures in respect of the key systems and processes of the Council and where appropriate, its partners. The work was planned using a risk based model of the Council's activities. It has been supplemented by ad hoc reviews in respect of irregularities and other work commissioned by Corporate Directors or the partners of the Council and the work undertaken by external review agencies. Reports in respect of all reviews have been issued to the responsible officers, together with recommendations and agreed action plans. Further, each quarter, a list of reports has been sent to the Audit Committee for consideration.

2009/10 saw many changes in the risks faced by the City Council at the same time resources available to Internal Audit were reduced. The Head of Internal Audit has continuously reviewed these risks and allocated resources where necessary in order to deliver the assurance embodied in the audit plan. Consequently the Head of Internal Audit has been able to conduct a review of all Internal Audit reports issued in 2009/10, external sources of assurance given by independent review bodies and internal assurances from Corporate Directors and key colleagues in respect of measures in place to identify and control key risks to the Council's objectives. In conclusion, although no systems of control can provide absolute assurance, nor can Internal Audit give that assurance, on the basis of the audit work undertaken during the 2009/10 financial year, there have been no significant issues (as defined in the CIPFA Code of Practice) reported by Internal Audit. Furthermore, on the basis of the audit work undertaken during the 2009/10 financial year, covering financial systems, risk and governance, the Head of Internal Audit is able to conclude that a reasonable level of assurance can be given that the internal control system is operating effectively within the Council and within its associated partners.

## **Other assurance mechanisms**

All Corporate Directors and statutory officers have provided a signed assurance statement supporting this AGS for 2009/10. The Chief Finance Officer (Section 151 Officer) and Monitoring Officer have provided signed assurance statements in respect of their personal responsibilities. These statements have been supplemented by assurance gathered from key officers responsible for Internal Audit, Risk, Human Resources and partnerships, and have also been informed by independent external reviews conducted, including the Audit Commission. The assurance is based around a questionnaire developed from the CIPFA/SOLACE Framework for Corporate Governance. The Statement has also drawn on information included in the Council's Corporate Risk Register.

In summary, the Council has reviewed its systems of internal control and has taken a comprehensive approach to considering and obtaining assurance from many different sources. The Council has been advised on the implications of the result of the review of the effectiveness of the governance framework by Performance and Resources Standing Panel

and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## **ISSUES PREVIOUSLY REPORTED**

Issues previously reported regarding management development, colleague councillor relations, children's services and the comprehensive improvement programme were resolved at the time of the last AGS. New or outstanding issues are as follows:

## **ISSUES WORTHY OF NOTING**

### **Single Status**

As part of Central Government's Single Status initiative to deal with equal pay issues, a major change in the remuneration structure for staff is in progress. There is a prospect of potential disruption and legal challenge to the decisions made to implement the new pay structure (grading appeals and backdating of awards).

### **Updated Position**

The Council sought collective agreement for set of proposals regarding Single Status with the Council's three recognised trade unions (UNISON, UNITE and GMB). UNISON however did not feel able to ballot its members on the proposals and as a result collective agreement could not be achieved. In order to resolve the issue the City Council has now sought individual agreement from staff colleagues to a revised set of proposals. In the meantime the Council is also continuing to collectively consult with the trade unions about the proposed process to implement Single Status and the proposed new arrangements. The process is on target for a planned implementation date of 1 November 2010.

### **Resources – Information and Communication Technologies**

In 2008 a report was commissioned from Deloitte which identified a list of IT Security weaknesses.

A programme of work for improving IT Security has been initiated, initially reported to Audit Committee in December 2008, with periodic progress reports to Audit Committee meetings in July 2009 and February 2010.

### **Updated Position**

As highlighted in the Annual Governance Statement, a number of security weaknesses were identified as the result of a report commissioned from Deloitte. The ICT department has been working with Internal Audit to address these. To confirm progress a high level review was undertaken by Deloitte in October 2009. The report identified that although progress has been made in a number of areas there is still further work to do, especially in the area of security awareness and culture. The move to Loxley House will enable the Council to address a number of the cultural issues and the appointment to the role of Head of Strategy and IT Security will ensure that IT Security has the right focus moving forward.

In April 2010 Internal Audit undertook a further review of progress against the original Deloitte report. They concluded that significant steps had been made over the last 12 months and that action had been taken to implement a lasting security regime. They also concluded that visible progress had been made particularly against the high priority recommendations. The IT team will continue to focus on improving security and in particular raising the awareness of its importance across the organisation.

No significant instances of financial loss from misuse have been reported either through management controls or from the extensive audit coverage of the key systems involved.

### **Balancing the Council's Budget**

The combination of the impact of the global recession and the need for a significant investment in some services placed severe pressure on the Council's financial resources. The 2009 budget process, through the in depth analysis of spending requirements and the opportunities to generate income, highlighted the need to reduce net expenditure across the City Council.

#### **Updated Position**

Opportunities for savings and the redistribution of financial resources to priority areas were identified through the 2009 budget process and have been monitored closely through the Council's financial reporting procedures. The overall level of the Council's spending is being managed through the Corporate Leadership Team and the Executive Board.

### **International Financial Reporting Standards (IFRS)**

The introduction of IFRS within local government for accounting periods from 1 April 2010 will require the redesign of certain accounting statements and the adoption of new accounting and management processes in certain areas. This will most significantly affect record keeping within Property Services and Human Resources, as well as the accountancy functions.

#### **Updated Position**

The Corporate Accounting team has developed detailed plans that will allow the delivery of IFRS within the required timescale. These plans, supported by training and advice from CIPFA, have been tested through comparison with other local authorities and Audit Commission expectations. The associated timetable is being monitored closely and progress is in line with that schedule.

### **NEW ISSUES WORTHY OF NOTING**

#### **Children in Care**

##### **Summary of the position**

Children in Care arrangements and associated budget pressures are key issues facing the service. There is a need to recruit and retain social workers to maintain stable safeguarding arrangements. Nottingham has seen, as in other areas across the country, a significant increase in the number of children in care over the past year.

## **Action taken to address the issues**

A plan is in place to reduce these numbers over the forthcoming year. Part of this work involves systematic use of tools to help return young people to their families and the formulation of a family support strategy that will ensure better early intervention work takes place to reduce the number of children entering/re-entering care. Additionally work is underway to achieve better value for money for the placements procured for children in care.

## **Housing and Council Tax Benefit Subsidy Claim 2008/09**

### **Summary of the position**

The housing benefit and council tax benefit subsidy claim 2008/09 was qualified by the Audit Commission. Their qualification letter extrapolated financial errors found in the claim to calculate that there was potential for the subsidy claim to be overstated by £2.1m. The Department for Works and Pensions (DWP) wrote to the City Council requiring a response to the qualification letter.

### **Action taken to address the issues**

Additional work has been undertaken to challenge the calculation of the potential impact of the errors that could reduce the adjustment of subsidy to £0.43m, subject to agreement by the DWP. In summary the City Council challenged some of the statistical extrapolation calculations used to derive the final figure. The DWP responded in July 2010 requiring the Audit Commission to review the work undertaken by the City Council and, where appropriate, re-state original audit findings accordingly. The original deadline for the response to the Audit Commission was 31 August 2010. At the request of the Audit Commission an extension of this deadline to the 30 September 2010 by the DWP has been obtained. The Audit Commission is currently undertaking this work.

The service has gone through significant changes structurally in the last 12 months and this has provided the opportunity to deliver comprehensive benefit training to colleagues responsible for delivering service and embed a depth of knowledge to ensure that the risk of error is reduced.

Along side this, the service continues to develop steps to manage risk and financial error including:

- One to one mentoring and supporting to colleagues undertaking new elements of benefit administration
- Colleagues have direct on-line access to policy and procedure manuals
- A database has been developed to capture results of quality checking to identify trends and inform individual and group training plans
- Developing a risk management approach to subsidy claim management on a quarterly basis – checking cells and identifying areas of financial error risk to inform direct action and instigate corrective action where necessary
- Developing a Quality Assurance responsibility within the Housing and Council Tax benefit administration teams, to embed and introduce subsidy impact in teams responsible for delivering the work.
- Maintaining remote quality assurance checks through the subsidy team and training and support team to provide challenge to the benefit administration teams.

## **Accounts Payable**

### **Summary of the position**

The centralisation of the Accounts Payable function took place in August 2009. This was undertaken to release savings of £0.3m, to introduce more modern working practices and to ensure greater financial control. However, there were significant problems in the first three months of implementation, involving processes and resources, which created a significant backlog in the payment of invoices.

### **Action taken to address the issues**

A new Accounts Payable structure was implemented in mid-December 2009 which improved the flow of work across the team. A post of team leader for accounts payable was recruited May 2010 to focus on process improvements. The operational issues within accounts payable function have been resolved and there has been a gradual, but significant reduction in the backlog of invoices. The team leader is working closely with the principal accountants and the purchase order processing team to clear the back log by mid September 2010. Revised processes are now in place for improvements to help further increase the percentages of invoices paid on time and flow of work across the team. The City Council will continue to improve the whole procure to pay process which will improve still further the efficiency and effectiveness of the process and ensure strong financial control.

## **Workplace Strategy**

### **Summary of the position**

The City's Workplace Strategy has in scope the rationalisation of the Authority's operational estate and the consolidation of its headquarters into a single site. The acquisition of Loxley House was completed in December 2009 and the first departments began relocating to the new building in May 2010. The move management programme is planned to accommodate an average of some 100 colleagues every week until October 2010, by which date a total of 2,000 colleagues from all departments will be working from the single site in the Southside district of the City.

The Workplace Strategy's business case is predicated on capital receipts being realised following the sale of the seven principal city centre buildings that will become surplus to requirements, as they are emptied and the revenue savings that will be achieved through economies of scale and further rationalisation of the operating base.

### **Action taken to address the issues**

The risks to the business plan are both market driven and operational. The comparative volatility of the property market and the current downturn in values was factored into the business plan. The risk of the revenue savings is that any delay in the relocation programme will extend the planned period of dual running. The Workplace Strategy's governance arrangements and performance management mitigate the risk.

The governance of the programme falls within the remit of the Transformation Board which is chaired by the Deputy Chief Executive. The reporting frequency and detailed reporting required by the Board, continue to confirm that the plans have remained on track and are successfully meeting the business case objectives.

### **Central Government Review of Local Government Funding**

#### **Summary of the position**

As the new coalition Government begins its work, it is clear that a fundamental review of public spending is intended and that this will reduce the level of funding available to the City Council from 2010/11 onwards. Although certain details of cuts in specific grants have been received, the main cuts in funding will be announced at the end of the spending review in October 2010.

#### **Action taken to address the issues**

Colleagues within corporate finance and policy teams are working to obtain as much detail of these potential cuts as is available and the intelligence obtained is being applied in refining the forecasts used within the medium term financial planning process for capital and revenue activities. The resulting funding forecasts have also been compared with those being applied by colleagues in the core cities, other local councils and appropriate advisory agencies in order to test their accuracy. A robust and prudent approach is the objective, in order to ensure that the Council's spending plans are in line with available funding and that unplanned reductions in service are not necessary.

This approach and the intelligence it provides will be kept under constant review during the financial planning process in order to ensure that the financial forecasts applied are accurate, both in terms of value and timing.

#### **SIGNIFICANT ISSUES**

##### **Icelandic Banks**

In October 2008, as a consequence of the global financial crisis, the Icelandic banking system collapsed, with four of its banks going into administration. This impacted directly on the Council, which had a total of £41.6m invested with three of the banks involved, at the time of the collapse.

A review of the Treasury Management Strategy was immediately undertaken. As a consequence of this review, the strategy was amended in respect of future investments to: reduce the number of eligible investment counterparties: reduce the maximum period of investments: and reduce the maximum sum placed with individual counterparties. The new strategies were implemented with immediate effect, and were subsequently approved by Executive Board in November 2008 and January 2009.

## **Updated Position**

The treasury management process has been further strengthened during 2009, in line with reported intentions, and a further amendment to the strategy has allowed an increase in investment returns within closely managed parameters. The Council continues to work closely with the Local Government Association in seeking the repayment of the sums invested in the failed Icelandic Banks. Although differing legal approaches are required for each of the three banks involved, latest information continues to indicate that the majority of the investment will be returned in due course. A total of £6.4m had been returned by the end of August 2010.

## **Public Interest Report**

In 2005 the City Council established NCH to manage and maintain its housing stock through a Management Agreement. A Housing Inspection was carried out in November 2005 by the Audit Commission Housing Inspectorate and reported in March 2006. At the time of the inspection, allegations were made to the Audit Commission and the Council relating to inappropriate allocations of properties that were not made in accordance with established policies and procedures. As a result of these allegations, the Audit Commission determined that it was appropriate to undertake further work as part of its statutory audit at the Council.

The District Auditor produced a Public Interest report which detailed a sample of case studies which had been subject to detailed investigation by the Audit Commission. These case studies originated in the period 2003 to late 2005 and related to the latter days of the direct control of council housing by the Council and the early days of NCH. The studies related to the allocation of properties, employment and governance arrangements at that time.

On 29 January 2009, the Audit Commission published a report on its recent inspection of NCH. This report judged the housing service as a “good service that has excellent prospects for improvement.” These judgements confirm the significant progress made since the last inspection. Specifically the inspection judged “Scrutiny of the allocations process is comprehensive and effective. Lettings of properties are closely and systematically monitored with a clear audit trail to demonstrate that they have been made in accordance with the agreed policy. Senior managers, and board members on the Performance and Regulatory Committee, receive regular performance reports on the allocations system. This is ensuring that allocations are made fairly and appropriately.”

On 9 February 2009 the Council received a report recommending that the Audit Commission’s Public Interest Report on Allocations be agreed. The Council agreed to fully accept the specific findings and recommendations of the District Auditor’s report; the adoption of an action plan as the Council’s official response to the Public Interest report and the regular reporting of progress to the Executive Board by the Portfolio Holder for Neighbourhood Regeneration.

**Updated Position**

Investigations with appropriate disciplinary action are underway, and decisions regarding police action are awaited. Some right to buy discounts have been recovered by court order. The District Auditor has been kept informed of progress with investigations and recovery work

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:** .....  
Leader of the Council

**Signed:** .....  
Chief Executive

**Signed:** .....  
Deputy Chief Executive / Corporate Director for Resources / Section 151 Officer

# **Auditors' Report to Nottingham City Council**

## **Independent auditor's report to the Members of Nottingham City Council**

### **Opinion on the accounting statements**

I have audited the Authority and Group accounting statements and related notes of Nottingham City Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Nottingham City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### **Respective responsibilities of the Corporate Director of Resources and auditor**

The Corporate Director of Resources' responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material

inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information. I am not required to consider, nor have I considered, information regarding future projections included within the accounting statements.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

### **Opinion**

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

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

#### **Authority's Responsibilities**

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 regularly to review the adequacy and effectiveness of these arrangements.

#### **Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements

have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Nottingham City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

## **Delay in certification of completion of the audit**

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Sue Sunderland

Officer of the Audit Commission  
Littlemoor House  
Eckington  
Sheffield  
S21 4EF  
28 September 2010

# **Glossary of Financial Terms**

## 7. GLOSSARY OF FINANCIAL TERMS

Items in **red** are described further within the glossary.

### **Accounting Period**

The period of time covered by an authority's accounts. Normally twelve months, beginning on 1 April. Also known as the Financial Year.

### **Accounting Policies**

The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, measuring and presenting **assets**, **liabilities**, gains, losses and changes to **reserves**.

### **Accrual**

Income and expenditure are recognised as they are earned or incurred, not as money is received or paid. Accruals are made for **revenue** and **capital expenditure** and income (see **debtors** and **creditors**).

### **Amortisation**

The writing down of an **intangible asset** reflecting its diminution in value as its useful life expires over time.

### **Assets**

Items having measurable value in monetary terms. Assets can be defined as fixed or current. A fixed asset has use and value for more than one year e.g. land, buildings, plant, vehicles and equipment. Current assets can be readily converted into cash.

### **Audit Commission**

Independent body with the responsibility of appointing **external auditors** to local authorities. The Audit Commission has a duty to ensure that local authorities make sufficient arrangements to secure economy, efficiency, and effectiveness in their use of resources and is able to subject a local authority to Value for Money studies.

### **Best Value Accounting Code of Practice (BVACOP)**

Published by **CIPFA** the BVACOP establishes "proper practice" with regard to consistent financial reporting to enhance the comparability of local authority financial information and is given statutory force in England by regulations under the Local Government Act 2003.

**Business Rates** – see **Non-Domestic Rates**

### **Capital Expenditure**

Expenditure incurred in the relation to fixed **assets**. Expenditure may be classified as capital where it enhances the related property, where enhancement is defined as an action which either:

- Lengthens the asset's useful life, or
- Increases the asset's open market value, or
- Increases the extent to which the asset may be used for the purposes of the local authority.

### **Capital Adjustment Account**

This is money set aside in the Council's accounts for capital spending and to repay loans.

## **Capital Financing Requirement**

The capital financing requirement measures an authority's underlying need to borrow or finance by other long-term liabilities for a capital purpose.

## **Capital Receipt**

The proceeds from the disposal of land or other assets. Proportions of capital receipts can be used to finance new **capital expenditure**, within rules laid down by the Government, but they cannot be used to support **revenue expenditure**. The remaining proportions must be set aside to repay loans.

## **Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is the leading professional accountancy body for public services. It draws up the Accounting Code of Practices and issues professional guidance that is used to compile these accounts. CIPFA advises central government and other bodies on local government and public sector finance matters.

## **Collection Fund**

A separate fund recording the expenditure and income relating to **Council Tax, National Non-Domestic Rates** (collected on behalf of the Central Government) and residual community charge.

## **Community Assets**

**Assets** that a local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions in their disposal. Examples are parks and historical buildings.

## **Contingency**

A sum included in the revenue budget to cover unexpected expenditure during the **accounting period**. An example of such an event would be an exceptional price increase not anticipated at the time the budget was constructed.

## **Contingent Liabilities**

A contingent liability is defined as either a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control or a present obligation that arises from past events but is not recognised because either it is not probable that a transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

## **Council Tax**

A local tax set by local authorities in order to meet their budget requirements. There are eight Council Tax bands (Band A to Band H); the amount of Council Tax each household pays depends on the value of the home.

## **Council Tax Benefit**

Assistance provided by billing authorities to adults on low income, with the objective of helping them to pay their Council Tax bills.

## **Council Tax Discounts and Exemptions**

Discounts are available to people who live alone and for homes that are not anyone's main home. **Council Tax** is not charged for certain properties, known as exempt properties, like those only lived in by students.

### **Creditors**

Amounts owed by an authority for works done, goods received or services rendered before the end of an **accounting period**, but for which actual payments had not been made by the end of that accounting period.

### **Debtors**

Amounts due to an authority for works done, goods supplied or service rendered before the end of an **accounting period**, but for which actual payments had not been received by the end of that accounting period.

### **Dedicated Schools Grant**

A **specific grant** paid to Local Authorities to fund the cost of running its schools.

### **Revenue Expenditure Funded From Capital Under Statute**

**Capital Expenditure** which may properly be incurred, but which does not result in an asset owned by the City Council. An example of a deferred charge would be expenditure on items such as improvement grants.

### **Depreciation**

The theoretical loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

### **Exceptional Items**

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts

### **External Audit**

The auditor is appointed by the **Audit Commission** and is required to verify that all statutory and regulatory requirements have been met during the production of the authority's accounts. There is also a requirement to review the arrangements in place to ensure the economic and effective use of resources.

### **Extraordinary Items**

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include **exceptional items**, nor do they include prior period items, merely because they relate to a prior period.

### **Financial Instrument**

Any contract giving rise to a financial **asset** in one entity and a financial **liability** or equity instrument in another. Examples include the treasury management activity of the Authority, including the borrowing and lending of money and the making of investments.

### **Finance Lease**

A lease, which transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Finance leases result in a charge against the local authority's capital resources.

### **Financial Reporting Standard (FRS)**

Financial Reporting Standards are accounting standards developed by the Accounting Standards Board which set out the framework and requirements that need to be adopted for certain transactions in the published accounts. Any departure from these FRS's must be disclosed in the published accounts.

### **General Fund**

The common name for the account which accumulates balances for all services except the **Housing Revenue Account** and the **Collection Fund**.

### **Government Grants Deferred Account**

Grants and other external contributions towards **capital expenditure** are written off to the Income and Expenditure Account as the assets to which they relate are depreciated.

### **Group Financial Statements**

Where a Council has an interest in another organisation (e.g. a **subsidiary** organisation) group accounts have to be produced. These accounts report the financial position of the Council and all organisations in which it has an interest.

### **Historical Cost**

This represents the original cost of acquisition, construction or purchase of a fixed **asset**.

### **Housing Benefit**

Assistance provided by billing authorities to adults on low income, with the objective of helping them to pay their rent. Parts of the cost, including those associated with the running expenses of the scheme, are refunded directly by the Government.

### **Housing Revenue Account (HRA)**

Sets out the expenditure and income arising from the provision of social housing by the local authority as landlord.

### **Housing Revenue Account Subsidy**

Government grant paid to housing authorities towards the cost of providing, managing and maintaining dwellings and paying housing benefits to tenants.

### **Impairment**

A reduction in the value of a fixed **asset** resulting from damage or obsolescence. In order to comply with accounting standards, the City Council undertakes annual reviews of its assets to identify any that are impaired.

### **Infrastructure Assets**

**Assets** held by local authorities which do not normally have a resale value and for which a useful life span cannot easily be assessed. Examples include highways, bridges and drainage facilities.

### **Intangible Assets**

**Assets** that do not have physical substance but are identifiable and controlled by the Council through custom or legal rights.

### **Investment Properties**

An interest in land and/or buildings which is held for its investment potential.

### **Joint Ventures**

An organisation in which the Council is involved where decisions require the consent of all participants.

### **Liability**

Amounts due to individuals or organisations that will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

### **Medium Term Financial Plan (MTFP)**

A plan detailing projected expenditure and available resources over a period of more than one year. The Council's MTFP currently covers three years.

### **Minimum Revenue Provision (MRP)**

The statutory minimum amount that authorities must set aside each year as provision for debt repayment.

### **National Non-Domestic Rates**

The means by which local businesses contribute to the cost of providing local authority services. All Non-Domestic Rates are paid into a central pool and then divided between all authorities depending on the number of residents each authority has.

### **Net Revenue Expenditure**

This represents the authority's budget requirement and use of **reserves**.

### **Non-operational Assets**

**Assets** held by an authority but not actually used in the direct delivery of services, including surplus assets, industrial units and assets used by other organisations in order to provide services on the authority's behalf. See **Operational Assets**.

### **Operating Leases**

A lease where substantially all of the risks and rewards of ownership of a fixed asset are retained by the lessor. Operating leases do not result in a charge against the local authority's capital resources.

### **Operational Assets**

**Assets** held by an authority for the purpose of the direct delivery of services for which that authority has either a statutory or discretionary responsibility. See **Non-operational Assets**.

### **Outturn**

Actual income and expenditure in an **accounting period**.

### **PFI Credits**

The financial support provided to Local Authorities to part fund **Private Finance Initiative** capital projects.

### **Post Balance Sheet Events**

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

**Precept**

The amount of **Council Tax** income County Councils, Police authorities, Parish Councils and Fire authorities (precepting authorities) need to provide their services.

**Prior Year Adjustments**

These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates in prior years.

**Private Finance Initiative (PFI)**

A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to standards of performance.

**Provision**

An amount set aside to cover a **liability** that will almost certainly occur, but where the amounts or dates on which the cost will arise are uncertain.

**Prudential Code**

The Prudential Code ensures, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable.

**Public Works Loans Board (PWLB)**

A Government agency which provides loans, for terms of one year and above, to local authorities. The interest rates applied are only slightly higher than those at which the Government can borrow.

**Reserves**

A reserve is an amount set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years. A distinction is drawn between reserves and **provisions** which are set up to meet known liabilities.

**Revaluation Reserve**

This represents the non-distributable increase/decrease in the valuation of fixed **assets**.

**Revenue Expenditure**

Expenditure on day-to-day running costs such as salaries, heating, printing and stationery and debt charges. Revenue items will either be expended immediately, like salaries, or within one year of purchase.

**Revenue Support Grant (RSG)**

Government financial support to aid local authority services generally. It is based on the Government's assessment of how much an authority needs to spend in order to provide a standard level of service.

**Section 106 contributions**

These are receipts received by the Council from developers for a specific purpose; they arise as a result of a planning agreement between the Council and developer.

**Specific Grant**

Government financial support for a specific purpose or service that can not be spent on anything else.

**Statement of Recommended Practice (SORP)**

Publication produced by **CIPFA** that provides detailed guidance on the proper accounting treatment to be used in the preparation of local authority statement of accounts.

**Stocks**

Comprise the following categories; goods or other **assets** purchased for resale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion; long term contract balances and finished goods.

**Subsidiary and Associated Companies**

An organisation in which the Council has a participating interest and over which it can exercise significant influence e.g. where the Council controls the majority of voting rights.

**Trading Accounts**

Services run in a commercial style and environment, providing services that are mainly funded from fees and charges levied on customers.

**Trust Funds**

Funds administered by a local authority for purposes such as charities, and specific projects and on behalf of minors.

**Work in Progress**

Work in progress is the value of work undertaken on an unfinished project at the end of the financial year, which has not yet been charged to the revenue account.