AUDIT COMMITTEE – 27 SEPTEMBER 2013

Title of paper:	**Statement of Accounts 2012/13**	
Director(s)/ Corporate Director(s):	Carole Mills Deputy Chief Executive/Corporate Director for Resources	**Wards affected:** **All**
Report author(s) and contact details:	Barry Dryden Senior Finance Manager – Reporting Telephone: 0115 8762799 Email: barry.dryden@nottinghamcity.gov.uk	
Other colleagues who have provided input:		

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

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

Our external auditors (KPMG) have completed the audit of the draft 2012/13 Statement of Accounts (the Statements). This report presents the key issues considered when constructing the Statements and the amendments since the draft version.

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

Recommendation(s):

1	The Statement of Accounts, as attached, is considered and approved.
2	The Annual Governance Report (Item 3(c)) is considered and the Draft Management Representation Letter included at Appendix 5 is approved for signature by the Chair of Audit Committee

1. BACKGROUND

On 28 June 2013, in her role as Chief Finance Officer, the Deputy Chief Executive and Corporate Director for Resources approved the Statements for 2012/13 as giving a true and fair view of the financial position, income and expenditure, in accordance with the Accounts and Audit Regulations 2011.

At this point, the Statements were also subject to external audit, with the audit having to be concluded by 30 September 2013. In order to conclude the audit, KPMG are required to present an Annual Governance Report (AGR) to "those charged with Governance" by 30 September 2013, which attached to this report as item 3(c) on the agenda.

2. KEY ISSUES

The Executive Summary is reproduced at Appendix A for ease of reference and explains the key figures included in the Statements.

2.1 Changes to the format and content of the accounts

Colleagues continue to review the format and content of the Statements, in order to introduce improvements and make the accounts more understandable. However, in contrast to recent years, changes to the Statements have been minimal. The changes include:

- A number of simplifications to the Accounting Policies.
- Introduction of a new section (2.4), identifying future significant developments and the related challenges, in the light of Central Government's agenda for local government.
- A list of abbreviations used (included within the Glossary)

2.2 Key Risks Identified for 2012/13

For 2012/13 both colleagues and KPMG identified the following key risks and improvements that needed to be planned for in 2012/13:

a) Local Enterprise Partnership (LEP)

In its role as accountable body, the Council received grant funding of £24.349m from the Government late in 2011/12. This grant was treated as a "capital grant receipt in advance" in the 2011/12 Statements. Subsequent consultations with other similar authorities identified a number of different LEP arrangements and accounting treatments. In the light of this and the lack of any specific guidance, colleagues undertook a fundamental review of the accounting treatment of the grant, in consultation with KPMG.

The review concluded that under the arrangements made for the Nottingham, Nottinghamshire, Derby and Derbyshire LEP, the grant should be treated as a "long term liability" due to be paid to the LEP, rather than as a "capital grant receipt in advance". This change resulted in a restatement of the 2011/12 balance sheet. Although the impact on the balance sheet for 2011/12 merely results in a reclassification, this change in treatment means that expenditure in 2012/13 and thereafter is not treated as capital expenditure by Nottingham City Council (NCC).

b) East Midlands Shared Services Partnership (EMSS)

EMSS represents a new type of partnership arrangement for NCC. Therefore, colleagues needed to carefully consider the accounting treatment of the financial transactions relating to EMSS. Colleagues concluded that EMSS did not have a separate legal identity and therefore the related transactions should be shown within NCC's Statements. Close liaison was maintained with KPMG to ensure that they agreed with the methodology used.

c) Valuation of Theatre Royal Complex

During the valuation process the Council's Property Services determined that the Theatre Royal Complex should be valued on a different basis than previous years.

This change resulted in an increase in valuation of £52.435m. Due to the scale of the movement, colleagues ensured that KPMG were fully consulted when deciding how this revaluation should be reflected in the statements.

d) Net Line 2

KPMG identified the accounting for NET Line 2 as an area of risk, however, colleagues confirmed with KPMG that the risk was minimal until the scheme became operational, as any capital spending would be treated as work in progress.

3. AMENDMENTS TO THE ACCOUNTS FOLLOWING AUDIT REVIEW

KPMG have reviewed information provided in the Statements for 2012/13. Inevitably, certain changes arise from the work undertaken by both colleagues and KPMG as they examine the accuracy and completeness of the Council's Statements. However, no material changes have been made to the Statements and the overall number of changes has reduced considerably as a result of:

- Colleagues' improved understanding of the International Financial Reporting Standards introduced for the 2010/11 Statements.
- More robust processes used in producing the Statements.
- Reduced complexity of NET transactions.
- No significant new reporting requirements.

Two changes were required to the Comprehensive Income and Expenditure Statement (CIES) and consequently the Balance Sheet, Movement in Reserves and Cash Flow statements. Both changes were offset by transfers from reserves, resulting in no impact on the General Fund. The two changes were for:

- Correction to an inflation factor used in calculating the impact of the Street Lighting PFI arrangement (£0.182m)
- Creation of a provision for part repayment of insurance claims relating to the settlement of Municipal Mutual Insurance's liabilities (£0.328m).

Two further changes were made to the classification of items in the CIES and Balance Sheet. The changes have no net impact and were for:

- A movement within the CIES of £2.908m to correctly separate out the Transfer of school buildings to academies from Other expenditure within Other operating expenditure.
- A new line in the Balance Sheet for current provisions was created in 2012/13 for two specific items. Other provisions included within long term liabilities have now also been reviewed to assess the extent to which they could now be deemed as current provisions, resulting in a movement of £4.319m relating to schools' equal pay.

A number of changes have also been made to Group Accounts to reflect the changes above and the receipt of final audited accounts for other members of the Group.

The notes to the accounts have been amended where appropriate to reflect these changes together with two other corrections identified by KPMG.

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

As detailed in the report

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

Not Applicable

6. EQUALITY IMPACT ASSESSMENT

Has the equality impact been assessed?

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

No ☐

Yes – Equality Impact Assessment attached ☐

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

Final Accounts working papers

8. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Code of Practice on Local Authority Accounting in the United Kingdom 2013
Guidance Notes for Practitioners 2012/13 Accounts
The Accounts and Audit (England) Regulations 2011

Executive Summary

The Statement of Accounts provides a summary of the Council's financial performance for 2012/13. This is primarily reflected in the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet, while the Movement in Reserves and Cash Flow statements provide further analysis of specific movements on the Balance Sheet.

Income and Expenditure – Funding Basis

TABLE 1.1 KEY FIGURES - FUNDING BASIS		
DESCRIPTION	**2011/12 £m**	**2012/13 £m**
Cost of services (portfolios)	278.445	270.501
(Surplus)/Deficit before transfers to reserves	(5.305)	(15.523)
(Surplus)/Deficit after transfers to reserves	(3.082)	(2.116)

When setting its Budget and Council Tax the Council is required to follow legislative requirements to fund its expenditure (Funding Basis). On the Funding Basis the Council generated a surplus of income over expenditure of £2.116m after contributions of £13.735m had been made to earmarked reserves. This surplus increases the General Fund by £2.116m, and was generated by services underspending by £6.446m, offset by additional uses of the General Fund totalling £4.330m.

Further analysis of the spending in 2012/13 is set out within section 2.2 of the Explanatory Foreword.

Income and Expenditure – Financial Reporting Basis

TABLE 1.2 KEY FIGURES - FINANCIAL REPORTING BASIS		
DESCRIPTION	**2011/12 £m**	**2012/13 £m**
Cost of Services	432.536	305.281
Total Comprehensive Income and Expenditure (Surplus)/Deficit	353.571	(28.368)

The CIES is produced using International Financial Reporting Standards (IFRS) and shows a surplus for the year of £28.696m. The difference from the Funding Basis is due to the inclusion of the Housing Revenue Account (HRA), the treatment of capital financing and timing differences in the recognition of income and expenditure. The surplus, together with a reduction in unusable reserves (£12.169) is used to increase the General Fund (£2.116m), Earmarked Reserves (£13.735m), HRA Reserves (£0.436m) and Capital Financing Reserves (£24.578m).

Further explanation of these differences is set out in section 5 of the accounts and also in note 6.3.1.

Balance Sheet

TABLE 1.3 KEY FIGURES - BALANCE SHEET		
DESCRIPTION	**31 March 2012 £m**	**31 March 2013 £m**
Long Term Assets	2,083.640	2,086.298
Current Assets	256.618	324.898
Current Liabilities	(273.594)	(247.015)
Long Term Liabilities	(1,274.781)	(1,343.933)
NET ASSETS	**791.883**	**820.248**

The Balance Sheet shows the value of the Council's assets and liabilities at the end of the financial year. The most significant assets relate to the value of property, plant and equipment (PPE). The value of these assets has fallen by £2.862m. This movement is as a result of a number of factors:

- Expenditure on new PPE assets or improving existing assets has increased their value by £120.653m.
- PPE assets have been depreciated to reflect use over their lifetime. This charge has reduced the value of these assets by £81.387m
- Each year the Council's PPE assets are reviewed to assess whether their depreciated value reflects an objective assessment of their current value. This assessment has resulted in an increase in the value of these assets by £0.910m.
- A number of schools have switched to Academy status which together with the de-recognition of other assets resulted in £35.725m of assets being removed.
- The disposal, sale or removal of other PPE assets has reduced their value by £3.066m
- Assets transferred to Held for Sale amounted to £4.247m

Further details appear in note 6.2.1

Within long term liabilities, expenditure on assets that have been financed by borrowing has helped to produce a net increase in the long term borrowing figure of £63.609m. However, this increase has been offset by the repayments on existing loans. The Council is required to monitor its need to borrow arising from capital expenditure (Capital Financing Requirement) which currently stands at £902.178m, an increase of £9.106m. Note 6.5.9 provides further details of capital expenditure and its financing.

The Balance Sheet also includes a liability of £546.235m relating to pension schemes. This liability represents the likely pension entitlements payable to all current staff and pensioners offset by the current value of the pension fund. This method of assessing the impact of pensions can be very volatile, resulting in significant charges or credits to the CIES. For 2012/13 the credit to the CIES was £7.957m. However, the Funding Basis approach, maintains an element of stability by only accounting for the annual employer's contributions and payments to the fund. The Pension Fund is then periodically reviewed and employer's contributions are adjusted to meet liabilities over the longer term. Therefore, the difference in approach relates to timing differences in recognising the net charge to the CIES.

The figure for Net Assets represents an overall view of the net value of the Council after netting off all assets and liabilities. At 31 March 2013, this totals £820.248m.

Movement in Reserves Statement

TABLE 1.4 KEY FIGURES - MOVEMENT IN RESERVES STATEMENT			
DESCRIPTION	**31 March 2012 £m**	**Movement 2012/13 £m**	**31 March 2013 £m**
General Fund	11.686	2.116	13.802
Earmarked General Fund Reserves	105.249	13.407	118.656
Other Usable Reserves	36.551	25.014	61.565
Unusable Reserves	638.394	(12.169)	626.225
TOTAL AUTHORITY RESERVES	**791.880**	**28.368**	**820.248**

Previous years' surpluses and deficits on the CIES are reflected in the reserves figures. The Movement in Reserves Statement shows how the reserves have changed during the year.

The reserves are split between usable and unusable. Usable reserves are available to support the Council's revenue budget, otherwise known as the General Fund (£13.802m), Earmarked Reserves (£118.656m) the HRA (£5.030m) and Capital Financing (£56.535m). The movement in the General Fund reflects the surplus after transfers to reserves on the funding basis (Table 1.1). Unusable reserves are created to account for the timing differences between the Funding Basis and IFRS basis of accounting as already referred to in paragraph 1.2. These reserves are therefore not available for distribution as they are required as and when the timing differences fall out.

Further details of the reserves and movements are set out in the Movement in Reserves Statement and in notes 6.2.3, 6.2.12 and 6.2.13.

Group Accounts

TABLE 1.5 KEY FIGURES - GROUP ACCOUNTS		
DESCRIPTION	**2011/12 £m**	**2012/13 £m**
Total Comprehensive Income and Expenditure (Surplus)/Deficit	375.994	(31.997)
Net Assets	775.361	808.071
Council's Share of other Group Reserves/Minority Interests	(16.522)	(12.177)

Group Accounts consolidate statements for the Council with organisations where the Council has material financial interests and a significant level of control. The 2012/13 Group Accounts consolidate the accounts for Arrow Light Rail Ltd, Bridge Estate, Nottingham City Homes, Nottingham City Transport, Nottingham Ice Centre, Enviroenergy and Nottinghamshire Futures Ltd.

On an IFRS basis the group's surplus is £3.629m higher then the Council's primarily due to gains and losses on the pension scheme valuations for Nottingham City Transport and Nottingham City Homes. The value of the Group as represented by Net Assets is £808.071m. This is £12.177m less than the Council's Net Assets which is due in part to the additional pension scheme liabilities. This reduction is also reflected in the Group's reserves as a result of the consequential accumulated net losses. Further details appear in section 8 of the accounts.

Forward Plans

TABLE 1.6 KEY FIGURES - FORWARD PLANS			
DESCRIPTION	2013/14 £m	2014/15 £m	2015/16 £m
Medium Term Financial Outlook - Indicative Cumulative Revenue Gap	-	22.462	43.256
Capital Programme - Planned Expenditure	209.763	205.066	69.157

Details of the Council's Plans for the future are held in a number of documents including the Nottingham Plan to 2020, the Medium Term Financial Plan and the Asset Management Plan.

The Council will continue to face a period of uncertainty due to the current economic conditions and a number of Government initiatives. The council has set a balanced budget for 2013/14. However, it is clear that there will be further funding reductions in the future, within which inflationary and demographic pressures will have to be managed. As a result the current Medium Term Financial Outlook shows an estimated gap of £43.256m by 2015/16.

A similar challenge is faced by the Capital Programme. However, the programme is boosted by expenditure on NET lines 2 and 3 for the next two years. Thereafter the programme is dominated by expenditure on public sector housing which will be predominantly financed by the Housing Revenue Account.

Further details appear in section 2 of the accounts.