



ADDITIONAL / TO FOLLOW AGENDA ITEMS

This is a supplement to the original agenda and includes reports that are additional to the original agenda or which were marked 'to follow'.

NOTTINGHAM CITY COUNCIL AUDIT COMMITTEE

Date: Friday, 18 September 2015

Time: 10.30 am

Place: LB31 Loxley House, Station Street, Nottingham, NG2 3NG

Governance Officer: Catherine Ziane-Pryor **Direct Dial:** 0115 8764298

AGENDA

Pages

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| a | STATEMENT OF ACCOUNTS (WITH MINOR CORRECTIONS) | 3 - 10 |
| | For the sake of completeness and clarity, minor corrections were made to the following document subsequent to its approval by Audit Committee. | |

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Section 1

Executive Summary

The Statement of Accounts provides a summary of the Council's financial performance for 2014/15 and this is primarily reflected in the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet. The Movement in Reserves and Cash Flow statements provide further analysis of specific figures. However, when setting its Budget and Council Tax, the Council is required to follow legislative requirements to arrive at the Funding Basis. As a consequence the Housing Revenue Account (HRA) is shown separately within the Supplementary Statements. The Collection Fund is also included here and this presents how the Council collects all Council Tax and distributes it to tax setting authorities in the area. A separate set of Group Accounts is also published which shows a consolidated position for the Council and organisations where it has significant control.

Together with Section 2 (Introductory Statements), this section constitutes the Explanatory Foreword found in other authorities' Statement of Accounts.

1.1 CIES – Financial Reporting (IFRS) Basis

	2013/14 £m	2014/15 £m
Cost of Services	239.257	203.381
Total Comprehensive Income and Expenditure(Surplus)/Deficit	(74.106)	173.854

The CIES is produced using International Financial Reporting Standards (IFRS) and shows a deficit for the year of £173.854m. This figure includes:

- A charge of £113.949m for properties removed from the balance as a result of 10 schools gaining Academy Status.
- A credit of £42.537m resulting from net gains on property revaluations.
- A charge of £153.168m relating to the actuary's assessment of pension assets and liabilities.

The deficit is offset by a reduction of **£186.552m** in Unusable Reserves. Further reductions in Capital Financing Reserves of £5.420m and HRA Reserves of £0.547m allow Earmarked Reserves to increase by £11.342m, leaving an increase in the General Fund of **£7.324m**.

Further details appear in Section 3.1 and section 6.1.

1.2 Balance Sheet

	31 March 2014 £m	31 March 2015 £m
Long Term Assets	2,143.067	2,162.155
Current Assets	331.358	324.932
Current Liabilities	(226.700)	(246.670)
Long Term Liabilities	(1,353.371)	(1,519.917)
NET ASSETS	894.354	720.500

Section 1 – Executive Summary

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 increased by £0.235m. 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 £166.053m.
- PPE assets have been depreciated to reflect use over their lifetime. This charge has reduced the value of these assets by £86.277m.
- 10 schools have switched to Academy status which together with the de-recognition of other assets resulted in £147.609m of assets being removed.
- The Council's rolling programme of revaluations on property has given rise to net revaluation gains of £73.652m.
- Other items have reduced the value of assets by £5.585m.

Further details appear in note 6.2.1.

The Balance Sheet also includes a liability of £720.588m 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. The Pension Fund is reviewed every 3 years and employer's contributions are adjusted with the intention of meeting the net liabilities over a period of time.

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 2015, this totals £720.500m.

1.3 Movement in Reserves Statement

	31 March 2014 £m	Movement 2014/15 £m	31 March 2015 £m
General Fund	12.229	7.324	19.553
Earmarked General Fund Reserves	148.763	11.342	160.105
Other Usable Reserves	77.194	(5.968)	71.226
Unusable Reserves	656.168	(186.552)	469.616
TOTAL AUTHORITY RESERVES	894.354	(173.854)	720.500

Previous years' surpluses and deficits on the CIES are reflected in the reserves figures. The Movement in Reserves Statement (MIRS) in section 3.3 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 and are made up of the Un-earmarked General Fund Reserve (£19.553m), Earmarked Reserves (£160.105m) the HRA (£4.307m) and Capital Financing Reserves (£66.919m). The movement in the General Fund reflects the surplus after transfers to reserves on the Funding Basis (Paragraph 1.4). The balance on the General Fund is monitored closely to ensure it is kept at a prudent level to cover any unforeseen circumstances.

Unusable reserves are created as a consequence of the timing differences between the Funding Basis and IFRS basis of accounting as referred to in paragraph 1.4. This category also includes a revaluation reserve which holds changes in the valuation of assets. In 2014/15 a net increase in these valuations of £42.537m has been credited to this reserve, however, revaluation gains on schools that have become academies and

other items resulted in an overall reduction in this reserve of £11.770m. 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 MIRS and in notes 6.2.11 and 6.2.12.

1.4 Funding Basis

	2013/14 £m	2014/15 £m
(Under)/Over spending by Portfolios against budgets	(1.175)	(9.773)
Cost of services(portfolios)	284.227	267.955
Council Tax Income	(80.818)	(87.192)
(Surplus)/Deficit after transfers to reserves	1.573	(7.324)
Movement in capital financing requirement	14.757	43.798
Council Tax (Band D)	£1,404.42	£1,431.80

The Funding Basis is the basis on which the Council manages its expenditure. Using this basis, in 2014/15 spending by services (portfolios) was £9.773m less than planned.

The Funding Basis is based on legislative requirements and differs from the IFRS Basis due to the exclusion of the Housing Revenue Account (HRA – shown separately within the Supplementary Statements), the treatment of capital financing and timing differences in the recognition of income and expenditure.

In 2014/15 the Council Tax raised £85.835m and, together with funding from government grants and other income, this was used to meet the cost of services. Overall the Council generated a surplus of £7.324m after contributions of £11.342m had been made to earmarked reserves. This surplus increased the General Fund by **£7.324m**.

The IFRS basis of accounting reflects the net change in the actuarial valuation of the pension fund. For 2014/15 the resulting debit to the CIES was £153.168m. This method of assessing the impact of pensions can be very volatile, resulting in significant charges or credits to the CIES. However, the Funding Basis approach maintains an element of stability by only accounting for the annual employer's contributions and payments to the fund, which are set at a level which will meet liabilities over a longer period. Therefore, the difference in approach generates timing differences when recognising the net charge to the CIES.

The Council is required to calculate a Capital Financing Requirement (CFR) which measures the Council's need to borrow as a result of capital expenditure, less provisions for repayment of debt. The movement in the CFR of £43.798m shows the net increase in the need to borrow in 2014/15. The CFR is used to inform the ceiling of £1,041.6m that the Council set for its overall long term debt in 2014/15. The actual external debt at 31 March 2015 was £791.2m

Further explanation and analysis of these differences in section 5 and note 6.3.1.

1.5 Group Accounts

	2013/14 £m	2014/15 £m
Total Comprehensive Income and Expenditure (Surplus)/Deficit	(62.496)	202.119
Net Assets	871.646	669.880
Council's Share of other Group Reserves/Minority Interests	(22.708)	(50.620)

Group Accounts consolidate the Council's financial statements with those organisations where the Council has material financial interests and a significant level of control. The 2014/15 Group Accounts consolidate the accounts for Bridge Estate, Nottingham City Homes, Nottingham City Transport, Nottingham Ice Centre, Enviroenergy, Nottingham Revenues and Benefits Ltd, Blueprint Limited Partnership, and Futures Advice, Skills and Employment Ltd.

On an IFRS basis the group's deficit is £28.265m higher than 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 £669.880m. This is £50.620m less than the Council's Net Assets which is again 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.

1.6 Forward Plans

	2015/16 £m	2016/17 £m	2017/18 £m
Medium Term Financial Outlook - Indicative			
Cumulative Revenue Gap	-	22.048	34.089
Capital Programme - Planned Expenditure	381.738	224.852	127.552
Capital Programme - Funding:			
Borrowing	212.325	118.374	58.554
Grants and Contributions	61.534	48.530	23.462
HRA	30.069	30.069	30.069
Other	77.810	27.879	15.467

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.

Although the council has set a balanced budget for 2015/16, 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 funding gap of £34.089m by 2017/18.

The Council is planning to invest £882.390m of capital expenditure over the next 5 years, enabling substantial regeneration in and around the City and allowing the Council to deliver the capital requirements that have arisen from business service needs.

Further details appear in Section 9 (Appendix A) – Forward Plans.

Section 4

Certifications

4.1 Independent Auditor's Report to the members of Nottingham City Council

4.1.1 Auditors Report

We have audited the financial statements of Nottingham City Council for the year ended 31 March 2015 on pages 16 to 19 and 25 to 140. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's and the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

Section 4 – Certifications

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2015 and of the Authority's and the Group's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement which accompanies the financial statements does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters

4.1.2 Conclusion on Nottingham City Council's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Nottingham City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

4.1.3 Delay in Certification of Completion of the Audit**Due to work on the WGA return not being completed by the 30 September.**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Sue Sunderland**for and on behalf of KPMG LLP, Appointed Auditor***Chartered Accountants*

St Nicholas House

31 Park Row

Nottingham

NG1 6FQ

30 September 2015

4.2 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.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

The statement of accounts was approved at a meeting of the Audit Committee on 18 September 2015.

Signed..... Date: 18 September 2015

Councillor Sarah Piper
Chair of the Audit Committee

The Chief Finance Officer's Responsibilities

I am responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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 local authority code.

I have also:

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

These financial statements give a true and fair view of the financial position of the authority at the reporting date and of its income and expenditure for the year ended 31 March 2015.

Signed..... Date: 18 September 2015

Geoff Walker
Chief Finance Officer
Loxley House
Station Road
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