AUDIT COMMITTEE – 19 SEPTEMBER 2014

Title of paper:	**STATEMENT OF ACCOUNTS 2013/14**	
Director(s)/ Corporate Director(s):	Glen O'Connell Acting Corporate Director for Resources	**Wards affected:** All
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Other colleagues who have provided input:	None	

Recommendation(s):	
1	The external auditors' report to those charged with governance (Appendix B) is considered
2	The Statement of Accounts (Appendix C), as attached, is considered and is approved for signature by the Chair of Audit Committee.
3	The Draft Management Representation Letter (Appendix D) is approved for signature by the Chair of Audit Committee.

1 REASONS FOR RECOMMENDATIONS

1.1 Our external auditors (KPMG) have completed the audit of the draft 2013/14 Statement of Accounts (the Statements) and provided their findings in their "report to those charged with governance" (ISA260). In order to conclude the audit, KPMG are required to present the ISA260 to Audit Committee by 30 September 2014.

1.2 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 Chief Finance Officer are then required to sign a Statement of Responsibilities, including approval of the accounts.

1.3 As part of the audit KPMG require the authority to make certain statements in a management representation letter, including confirmation that the statements have been constructed accurately and on an appropriate basis, and relevant and complete disclosures have been made.

2 BACKGROUND

2.1 On 30 June 2014, in her role as Chief Finance Officer, the Deputy Chief Executive and Corporate Director for Resources approved the draft Statements for 2013/14 as giving a true and fair view of the financial position, income and expenditure, in accordance with the Accounts and Audit Regulations 2011.

2.2 At this point, the Statements were also subject to external audit, with the audit having to be concluded by 30 September 2014. The remainder of this report, along with the ISA260 are intended to help the Committee consider any relevant issues before approving the Statements for signature by the Chair of Audit Committee.

3 KEY ISSUES

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

4 CHANGES TO THE FORMAT AND CONTENT OF THE ACCOUNTS.

4.1 Colleagues continue to review the format and content of the Statements, in order to introduce improvements and make the accounts more understandable. The changes for 2013/14 include:

- To provide greater focus on the statements themselves, the sections on forward plans, detailed accounting policies and details of pension schemes have been moved to appendices. However, the Introductory Statements still identify the critical Accounting Policies.
- The Appendix on Accounting Policies has been simplified.
- The Explanatory Foreward has been removed and integrated into the Executive Summary and other sections as appropriate.

5 KEY RISKS IDENTIFIED FOR 2013/14.

5.1 Colleagues identified key risks and improvements that needed to be planned for in 2013/14, which were then supplemented by additional risks identified by KPMG in their planning document:

- New ledger system (Oracle) – Transfer of data
- New ledger system – Capability to produce Statements
- New ledger system - Controls
- Periodic revaluation of Pension Scheme (LGPS)
- Earlier deadline for producing Whole of Government Accounts return
- Earlier receipt of signed accounts for the group statements

5.2 During 2013/14 colleagues had put actions in place to manage each of these risks. As a result of these actions KPMG did not identify significant issues in these areas, although they have recommended that some controls for accounts payable and receivable within the Oracle system should be improved. Work to develop the Oracle system is ongoing and has already delivered further improvements in control and reporting during 2014/15.

6 AMENDMENTS TO THE STATEMENTS FOLLOWING AUDIT REVIEW.

6.1 KPMG have reviewed information provided in the Statements for 2013/14. 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. No material changes have been made to the Statements.

6.2 KPMG identified that, although one of the school academies had become operational, the defects period for the new buildings had been extended and the buildings had not yet transferred into the academy’s ownership. As a result, changes were required to the Comprehensive Income and Expenditure Statement (CIES) for £7.586m and consequently the Balance Sheet, Movement in Reserves and Cash Flow statements. The change was offset by transfers from Unusable Reserves, resulting in no impact on the General Fund.

6.3 A further change was made to the classification of outstanding Compulsory Purchase Orders for NET line 2 within the Balance Sheet. These liabilities, amounting to £1.750m, were initially classified as creditors but have now been moved to current provisions in line with previous years.

6.4 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.

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

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

Statement of Accounts working papers
KPMG External Audit Plan 2013/14

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

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

The Statement of Accounts provides a summary of the Council's financial performance for 2013/14 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.

1.1 CIES – Financial Reporting (IFRS) Basis

	2012/13 £m	2013/14 £m
Continuing services	305.281	243.670
Total Comprehensive Income and Expenditure(Surplus)/Deficit	(28.368)	(74.106)

The CIES is produced using International Financial Reporting Standards (IFRS) and shows a surplus for the year of £74.106m. This figure includes:

- A charge of £23.324m for properties removed from the balance as a result of 7 schools gaining Academy Status.
- A credit of £28.541m resulting from net gains on property revaluations.
- A credit of £25.056m relating to an improvement in the actuary's assessment of pension assets and liabilities.

The surplus, together with a reduction in HRA Reserves of £0.176m is used to increase the Earmarked Reserves by £30.107m, Capital Financing Reserves by £15.805m and Unusable Reserves by £29.943m, leaving a reduction in the General Fund of £1.573m.

Further details appear in Section 3.1 and section 6.1.

1.2 Balance Sheet

	31 March 2013 £m	31 March 2014 £m
Long Term Assets	2,086.298	2,143.067
Current Assets	324.898	331.358
Current Liabilities	(247.015)	(226.700)
Long Term Liabilities	(1,343.933)	(1,353.371)
NET ASSETS	**820.248**	**894.354**

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 £42.476m. 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 £138.766m.
- PPE assets have been depreciated to reflect use over their lifetime. This charge has reduced the value of these assets by £83.298m.
- 7 schools have switched to Academy status which together with the de-recognition of other assets resulted in £35.287m of assets being removed.
- The Council's rolling programme of revaluations on property has given rise to net revaluation gains of £27.900m.
- Other items have reduced the value of assets by £5.601m.

Further details appear in note 6.2.1

Following changes implemented by Central Government for the administration of the collection of Non-Domestic Rates, the Council now accounts for its share of expected future losses on collection. The figure for non-current provisions, therefore, now includes a provision of £4.419m for the impact of future potential Non-Domestic Rate appeals.

The Balance Sheet also includes a liability of £550.498m 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 within the next 18 years.

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 £894.354m.

1.3 Movement in Reserves Statement

	31 March 2013 £m	Movement 2013/14 £m	31 March 2014 £m
General Fund	13.802	(1.573)	12.229
Earmarked General Fund Reserves	118.656	30.107	148.763
Other Usable Reserves	61.565	15.629	77.194
Unusable Reserves	626.225	29.943	656.168
TOTAL AUTHORITY RESERVES	**820.248**	**74.106**	**894.354**

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 unearmarked General Fund Reserve (£12.229m), Earmarked Reserves (£148.763m) the HRA (£4.854m) and Capital Financing Reserve (£72.340m). 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 2013/14 a net reduction in these valuations of £16.080m has been charged to this reserve. 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 6.2.3, 6.2.12 and 6.2.13.

1.4 Funding Basis

	2012/13 £m	2013/14 £m
(Under)/Over spending by Portfolios against budgets	(2.105)	(1.175)
Cost of services(portfolios)	270.501	284.227
Council Tax Income	(105.192)	(80.818)
(Surplus)/Deficit after transfers to reserves	(2.116)	1.573
Movement in capital financing requirement	9.188	14.757
Council Tax (Band D)	£1,377.58	£1,404.42

The Funding Basis is the basis on which the Council manages its expenditure. Using this basis, in 2013/14 spending by services (portfolios) was £1.175m 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 2013/14 the Council Tax raised £80.818m and, together with funding from government grants and other income, this was used to meet the cost of services. The fall in Council Tax raised (£24.374m) reflects the introduction of the Council Tax Support Scheme by Central Government. Overall the Council generated a deficit of £1.573m after contributions of £30.107m had been made to earmarked reserves. This deficit reduced the General Fund by £1.573m.

The IFRS basis of accounting reflects the net change in the actuarial valuation of the pension fund. For 2013/14 the resulting credit to the CIES was £25.056m. 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 £14.757m shows the net increase in the need to borrow in 2013/14. The CFR is used to inform the ceiling of £914.9m that the

Council set for its overall long term debt in 2013/14 of £914.9m? sentence seems odd?. The actual external debt at 31 March 2014 was £802.0m

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

1.5 Group Accounts

	2012/13 £m	2013/14 £m
Total Comprehensive Income and Expenditure (Surplus)/Deficit	(31.997)	(54.969)
Net Assets	808.071	864.119
Council's Share of other Group Reserves/Minority Interests	(12.177)	(22.649)

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 2013/14 Group Accounts consolidate the accounts for Arrow Light Rail Ltd, Bridge Estate, Nottingham City Homes, Nottingham City Transport, Nottingham Ice Centre, Enviroenergy and Futures Advice, Skills and Employment Ltd.

On an IFRS basis the group's surplus is £11.551m lower 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 £864.119m. This is £22.649m 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

	2014/15 £m	2015/16 £m	2016/17 £m
Medium Term Financial Outlook - Indicative Cumulative Revenue Gap	-	33.654	51.584
Capital Programme - Planned Expenditure	325.035	100.907	67.744
Capital Programme - Funding:			
Borrowing	162.758	20.768	15.768
Grants and Contributions	55.484	25.037	17.321
HRA	29.001	29.001	29.001
Other	77.792	26.101	5.654

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. Although the council has set a balanced budget for 2013/14, 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 £51.684m by 2016/17.

A similar challenge is faced by the Capital Programme although this is boosted by expenditure on NET lines 2 and 3 for 2014/15. 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 9 (Appendix A) – Forward Plans.