

AUDIT COMMITTEE – 25 JULY 2014

Title of paper:	DRAFT 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	Note that the Statement of Accounts was submitted to the Audit Commission for audit review on 30 June 2014.	
2	Note that the contents of the Statement of Accounts will be placed on deposit for public inspection for 20 working days from 7 July 2014	
3	Note that there have been no significant changes to the accounting policies presented to Audit Committee on 25 April 2014	
4	Review the Council’s position and confirm that it is appropriate for the Statement of Accounts to be produced on a going concern basis.	
5	Note that the Audit Committee will be required to review the final audited Statement when it is presented on 19 September 2014.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 The Accounts and Audit Regulations 2011 (the Regulations) require the City Council to produce an annual Statement of Accounts and outline the process for their approval and publication. The Regulations require the Council to make the un-audited Statement available for public inspection.
- 1.2 The Review of Accounting Policies report to Audit Committee on 25 April 2014 stated that any major changes in Accounting Policies would be brought to this meeting. There are no changes at this time.

2 BACKGROUND

- 2.1 Under regulation 8 of the Regulations, the responsible financial officer has to certify that the Council’s pre-audit Statement presents a true and fair view of the income, expenditure and financial position of the Council. In accordance with the Regulations, the Chief Finance Officer (CFO) certified the 2013/14 Statement on 30 June 2014 and the Statement was passed to the external auditors (KPMG) to begin their audit on the same date.
- 2.2 The certification will allow the Statement to be placed on deposit for public inspection for a period of 20 working days from 7 July 2014 to 1 August 2014. A public notice to this effect was placed in the local press on 11 June 2014 and on the Council’s website. Following this period, KPMG will be available on or after 4 August 2014 for

any local government elector or their representative to question them about the accounts or make any objections.

- 2.3 The accounting policies presented to Audit Committee on 25 April have been passed to KPMG for review. KPMG have not identified any major changes that are required
- 2.4 International Accounting Standard 1 requires the Council to undertake an annual review to assure itself that it is appropriate for the Statement to be produced on a going concern basis. In line with best practice, it is recommended that Audit Committee formally confirm that the Council is a going concern. The inherent nature of local authorities is considered to be sufficient to satisfy this requirement; although the work undertaken by the CFO in assessing the Medium Term Financial Plan for the robustness of the budget and adequacy of reserves further supports this.
- 2.5 The Regulations require that the audited Statement is submitted for consideration and approval by the Council or a committee of the Council prior to the end of September in the following financial year. To meet this requirement a further report, supported by the audited Statement, will be brought to the Audit Committee on 19 September.
- 2.6 The Audit Committee's terms of reference include dealing with matters relating to the Statement, and will be required to review the final Statement and consider any findings made by KPMG at the September meeting. As the Statement is a long and complex document, the draft executive summary and main statements are set out in Appendix A. The full Statement is also available at Appendix B.

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

Draft Statement of Accounts
Closedown working papers

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Code of Practice on Local Authority Accounting
CIPFA Supplementary Guidance
LAAP bulletins
Accounts and Audit Regulations 2011

Executive Summary

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)	(66.520)

The CIES is produced using International Financial Reporting Standards (IFRS) and shows a surplus for the year of £66.520m. This figure includes:

- A charge of £30.910m for properties removed from the balance as a result of 8 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 £22.35m, 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	2,135.481
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	886.768

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

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equipment (PPE). The value of these assets has increased by £34.890m. 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.
- 8 schools have switched to Academy status which together with the de-recognition of other assets resulted in £42.873m 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 £886.768m.

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	22.357	648.582
TOTAL AUTHORITY RESERVES	820.248	66.520	886.768

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.

Appendix A

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 this 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	2013/14
Council Tax (Band D)	£1,377.58	£1,404.42
Council Tax Income	105.192	80.818
Cost of services(portfolios)	270.501	284.227
(Surplus)/Deficit before transfers to reserves	(15.523)	(28.534)
(Surplus)/Deficit after transfers to reserves	(2.116)	1.573
Movement in capital financing requirement	9.188	14.757

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.

Additionally, under the Funding basis revenue provisions replace the depreciation charges required by IFRS and are determined by the amount of capital expenditure that needs to be financed by borrowing. Therefore, the Council is required to monitor its need to borrow arising from capital expenditure (Capital Financing Requirement) which currently stands at £916.935m, an increase of £14.758m.

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

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 Appendix A.

Core Financial Statements

1.7 Comprehensive Income and Expenditure Statement (CIES)

This statement shows the net cost in the year of providing services in accordance with IFRS, rather than the amount to be funded from taxation (funding basis). Costs covered on the funding basis are calculated differently, in accordance with legislative requirements. The funding basis position is shown in the Movement in Reserves Statement and section 5

	2012/13			2013/14		
	Gross Expenditure £m	Gross Income £m	Net Expenditure £m	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Central services to the public	5.383	(3.183)	2.200	5.397	(3.492)	1.905
Cultural and related services	62.933	(11.047)	51.886	40.331	(10.641)	29.690
Environmental and Regulatory services	46.208	(16.156)	30.052	48.571	(14.767)	33.804
Planning Services	26.451	(19.800)	6.651	25.467	(14.646)	10.821
Education and children's services	280.198	(189.497)	90.701	257.562	(172.532)	85.030
Highways and transport services	64.160	(46.198)	17.962	68.258	(68.470)	(0.212)
Local authority housing (HRA)	78.591	(100.574)	(21.983)	65.586	(96.189)	(30.603)
Other housing services	203.545	(184.765)	18.780	166.861	(150.364)	16.497
Adult social care	118.714	(34.281)	84.433	119.726	(32.753)	86.973
Corporate and democratic core	49.408	(28.944)	20.464	32.299	(20.169)	12.130
Non distributed costs	4.444	(0.309)	4.135	(1.370)	-	(1.370)
Continuing Operations	940.035	(634.754)	305.281	828.688	(584.023)	244.665
Services Transferred to NCC						
Public Health				24.770	(25.765)	(0.995)
Total Continuing Services				853.458	(609.788)	243.670
Other operating expenditure (Note 6.1.1)	43.710	(10.197)	33.513	46.355	(0.890)	45.465
Financing and investment income and expenditure (Note 6.1.2)	93.902	(55.091)	38.811	96.781	(48.804)	47.977
Taxation and non-specific grant income (Note 6.1.3 & 6.1.5)	-	(341.713)	(341.713)	-	(350.035)	(350.035)
(Surplus)/Deficit on Provision of Services	1,077.647	(1,041.755)	35.892	996.594	(1,009.517)	(12.923)
Surplus or deficit on revaluation of PPE/Heritage assets (Note 6.1.6)			(56.259)			(28.587)
Re-measurement of pension assets/liabilities (Note 6.1.4)			(7.957)			(25.056)
Other gains/losses recognised required			(0.044)			0.046
Other Comprehensive Income and Expenditure			(64.260)			(53.597)
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE (SURPLUS)/DEFICIT			(28.368)			(66.520)

1.8 Balance Sheet

Shows the value, as at 31 March each year, of the assets and liabilities recognised by the Council. The net assets (i.e. assets less liabilities) are matched by the reserves held. Reserves are reported in two categories:

- Usable reserves - i.e. those reserves that may be used to help provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).
- Those reserves that the Council is not able to use to help provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to help provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Notes	31 March 2013 £m	31 March 2014 £m
Property, Plant & Equipment	6.2.1	1,931.674	1,966.564
Heritage Assets	6.2.2	46.344	47.185
Investment Property	6.2.4	36.962	38.388
Intangible Assets	6.2.5	1.781	2.329
Long Term Investments		10.885	20.319
Long Term Debtors	6.2.16	58.652	60.696
Long Term assets		2,086.298	2,135.481
Assets Held for Sale	6.2.6	5.918	4.621
Intangible Assets (current assets)	6.2.11	0.034	-
Short Term Investments	6.2.16	147.455	160.350
Inventories	6.2.7	1.209	2.537
Short Term Debtors	6.2.8	93.366	104.809
Cash and Cash Equivalents	6.2.9	76.916	59.041
Current Assets		324.898	331.358
Short Term Borrowing	6.2.16	(85.898)	(32.195)
Short Term Creditors	6.2.10	(151.718)	(191.458)
Provisions (current provisions)	6.2.11	(9.399)	(3.047)
Current Liabilities		(247.015)	(226.700)
Long Term Borrowing	6.2.16	(701.322)	(685.889)
Other Long Term Liabilities	6.2.16	(81.344)	(98.843)
Provisions (non-current)	6.2.11	(10.442)	(14.831)
Capital Grants Receipts in Advance	6.2.14	(4.590)	(3.310)
Defined Benefit Pension Scheme	6.2.15	(546.235)	(550.498)
Long Term Liabilities		(1,343.933)	(1,353.371)
NET ASSETS		820.248	886.768
Usable Reserves	6.2.12*	194.023	238.186
Unusable Reserves	6.2.13	626.225	648.582
TOTAL RESERVES		820.248	886.768

* See section 4.3 and 6.2.3 for details

1.9 Movement in Reserves Statement

This statement shows the in-year movement of the various reserves held, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'. The surplus or (deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the CIES. However, these are different from the statutory amounts required to be charged to the General Fund Balance and the HRA for council tax setting and dwellings rent setting purposes, which are shown by the Net Increase/Decrease before Transfers to Earmarked Reserves line. Discretionary transfers to or from earmarked reserves are undertaken before arriving at the Increase/Decrease in Year. Details regarding the Major Repairs Reserve are covered in the HRA notes to the accounts.

2013/14	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2013	13.802	118.656	5.030	9.303	28.007	19.225	194.023	626.225	820.248
Movement in reserves during 2013/14:									
Surplus/(deficit) on the provision of services	1.746	-	11.177	-	-	-	12.923	-	12.923
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	53.597	53.597
Total Comprehensive Income and Expenditure (Table 3.1)	1.746	-	11.177	-	-	-	12.923	53.597	66.520
Adjustments between accounting basis and funding basis under regulations (Note 6.3.1)	26.788	-	(11.353)	5.113	10.651	0.041	31.240	(31.240)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	28.534	-	(0.176)	5.113	10.651	0.041	44.163	22.357	66.520
Transfers to/from Earmarked Reserves	(30.107)	30.107	-	-	-	-	-	-	-
Increase/Decrease in Year	(1.573)	30.107	(0.176)	5.113	10.651	0.041	44.163	22.357	66.520
BALANCE AT 31 MARCH 2014	12.229	148.763	4.854	14.416	38.658	19.266	238.186	648.582	886.768

Appendix A

2012/13	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2012	11.686	105.249	4.594	0.440	15.817	15.700	153.486	638.394	791.880
Movement in reserves during 2012/13:									
Surplus/(deficit) on the provision of services	(45.724)	-	9.832	-	-	-	(35.892)	-	(35.892)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	64.260	64.260
Total Comprehensive Income and Expenditure (Table 4.1)	(45.724)	-	9.832	-	-	-	(35.892)	64.260	28.368
Adjustments between accounting basis and funding basis under regulations (Note 6.3.1)	61.247	-	(9.396)	8.863	12.190	3.525	76.429	(76.429)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	15.523	-	0.436	8.863	12.190	3.525	40.537	(12.169)	28.368
Transfers to/from Earmarked Reserves	(13.407)	13.407	-	-	-	-	-	-	-
Increase/Decrease in Year	2.116	13.407	0.436	8.863	12.190	3.525	40.537	(12.169)	28.368
BALANCE AT 31 MARCH 2013	13.802	118.656	5.030	9.303	28.007	19.225	194.023	626.225	820.248

1.10 Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents held by the Council during the reporting period and how these are generated or used by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been used to generate resources intended to contribute to future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing).

	Notes	2012/13 £m	2013/14 £m
Net Surplus/(Deficit) on the provision of Services		(35.892)	12.923
Adjustments to net surplus or deficit on the provision of services for non-cash movements		203.124	200.142
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(82.389)	(74.643)
Net Cash Flows from Operating Activities	6.4.1	84.843	138.422
Investing activities	6.4.2	(140.407)	(81.194)
Financing activities	6.4.3	9.130	(75.103)
Net Increase or Decrease in Cash and Cash Equivalents		(46.434)	(17.875)
Cash and cash equivalents at the beginning of the reporting period		123.350	76.916
CASH AND CASH EQUIVALENTS AT 31 MARCH 2013		76.916	59.041