Public Document Pack

NOTTINGHAM CITY COUNCIL
AUDIT COMMITTEE

Date: Friday, 19 September 2014

Time: 10.30 am

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

Councillors are requested to attend the above meeting to transact the following business

Acting Corporate Director for Resources

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

Agenda revised from the original publication to include the revised Statement of Accounts which the Committee considered. (Item 6 was included as a supplement).

AGENDA **Pages**

IF YOU NEED ANY ADVICE ON DECLARING AN INTEREST IN ANY ITEM ON THE AGENDA, PLEASE CONTACT THE GOVERNANCE OFFICER SHOWN ABOVE, IF POSSIBLE BEFORE THE DAY OF THE MEETING

CITIZENS ATTENDING MEETINGS ARE ASKED TO ARRIVE AT LEAST 15 MINUTES BEFORE THE START OF THE MEETING TO BE ISSUED WITH VISITOR BADGES

CITIZENS ARE ADVISED THAT THIS MEETING MAY BE RECORDED BY MEMBERS OF THE PUBLIC. ANY RECORDING OR REPORTING ON THIS MEETING SHOULD TAKE PLACE IN ACCORDANCE WITH THE COUNCIL'S POLICY ON RECORDING AND REPORTING ON PUBLIC MEETINGS, WHICH IS AVAILABLE AT WWW.NOTTINGHAMCITY.GOV.UK. INDIVIDUALS INTENDING TO RECORD THE MEETING ARE ASKED TO NOTIFY THE GOVERNANCE OFFICER SHOWN ABOVE IN ADVANCE.

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at LB31 - Loxley House, Station Street, Nottingham, NG2 3NG on 25 July 2014 from 10.30 - 11.48

Membership

Present	Absent
Councillor Sarah Piper (Chair)	Councillor Georgina Culley
Councillor Thulani Molife (Vice Chair)	Councillor Michael Edwards
Councillor Mohammad Aslam	Councillor Toby Neal
Councillor John Hartshorne	Councillor Roger Steel
Councillor Malcolm Wood	

Colleagues, partners and others in attendance:

Paul Hutchings	- Audit Manager	-	KPMG
Shail Shah	- Head of Internal Audit	)	
John Slater	- Principal Auditor	)	Resources
Simon Burton	- Corporate Risk Specialist	)	
Barry Dryden	- Senior Finance Manager	)	
Catherine Pryor	- Constitutional Services	)	

6 APOLOGIES FOR ABSENCE

Councillor Michael Edwards,
Councillor Georgina Culley
Councillor Roger Steel
Glenn O'Connell

The Chair informed the committee that Simon Burton and Paul Hutchings were leaving the City Council and KPMG respectively and wished them well in their new ventures.

7 DECLARATIONS OF INTERESTS

None.

8 MINUTES

The minutes of the meeting held on 27 June 2014 were confirmed and signed by the Chair.

9 INTERIM ANNUAL GOVERNANCE STATEMENT 2013/14

Shail Shah, Head of Internal Audit, presented the report which identified no new significant items of concern.

Councillors questions were responded to as follows:

(a) financial investment with Icelandic banks is a significant item but the funds are being returned. It would be impossible to gauge the losses or gains of the authority if the money had been placed or used elsewhere, but it is unlikely that the funds would achieve the current rate of 6% interest;
(b) Councillors and officers are more risk averse regarding the City's funds with money is being invested in regeneration of the City, some borrowing to finance the tram, and paying off debt instead of holding large cash reserves;
(c) it should be noted that the money borrowed to finance the tram, was done so while the market was at its lowest, therefore providing good terms;
(d) it is vital that all elected members, recently appointed and long-standing, receive code of conduct training. It would be helpful for those already familiar with the code, to be informed of any specific changes made to the City Council's code of conduct.

RESOLVED

(1) to note the Interim Annual Governance Statement 2013/14 as set out at appendix 1 to the report;

(2) for the Head of Internal Audit to forward the Committee's comments to the Monitoring Officer regarding any updates made to the Code of Conduct.

10 STRATEGIC RISK REGISTER QUARTER 12014/15 UPDATE AND 2013/14 ANNUAL REVIEW

Simon Burton, Corporate Risk Specialist, presented the report to the Committee of the red and amber rated risks identified in Quarter 1 of 2014/15.

The strategic risk threat level and direction of travel (DoT) are as follows:

SR No.	Strategic Risk Description	Threat	DoT (Q4-1)
Red rated strategic risks (6)			
6	Failure to safeguard vulnerable children	**15**	↔
11a	Failure to accurately predict and respond to financial pressures to ensure delivery of the Council Plan priorities	**12**	↑
28	Failure to ensure a financially sustainable adult social care system that protect vulnerable adults and manage the impact of the Care Act	**9 to 12**	↑
12a	Failure to provide the best educational outcome for children and opportunities for young people to access further education and skills training to contribute to the economic wellbeing of the City **(under review)**	**12**	↔
26	Failure to support Nottingham citizens and communities in minimising the negative impact of welfare changes	**12**	↔

31	Failure to secure affordable and fit for purpose ICT arrangements aligned to current and future business productivity and effectiveness	**12**	**N/A**
Amber rated strategic risks (9)			
3	Failure to mitigate the impact of the economic climate on the Nottingham City and its citizens	**9 At target**	↔
30	Failure to create an organisational environment that supports delivery of Council priorities **(new risk added Q1 2013/14)**	**9**	↔
8b	Failure to implement and embed effective information management structures, polices, procedures, processes and controls to support the council's immediate and future regulatory, legal, and business requirements	**12 to 9 At target**	↓
7a/b	Failure to reduce levels of crime and anti-social behaviour (ASB)	**8 At target**	↔
25a	Failure to embed a corporate approach to commissioning, informed by citizen need, which drives delivery of improved services at significantly lower cost	**9 to 8 At target**	↓
2a	Of the reputation of the City	**6 At target**	↔
5a	Failure to safeguard vulnerable adults	**6 At target**	↔
10	Failure to maintain good standards of governance	**6 At target**	↔
24	Failure to ensure effective systems are in place to manage health and safety risks	**6 At target**	↔
Green rated strategic risks - There are no green rated risks at Q1.			

DoT key: ↓ Reducing Threat Level

↔ Stable Threat Level

↑ Increasing Threat Level

It is noted that Glenn O'Connell, Director of Legal and Democratic Services, is unable to attend today's meeting to discuss strategic risk number 10, 'Failure to maintain good standards of governance'. The Committee are keen for this strategic risk to be considered in more depth at the November meeting.

The Committee's question and comments were responded to as follows:

(a) with regard to Council attitudes towards outsourcing and progress in identifying new partnerships to reduce overheads, the commercialisation work stream encourages consideration of bidding for new work from various authorities and partners. However willing and compatible partners have to be found. Such arrangements between some authorities in London work well and save a lot of money as their demographics and operational requirements and the methods are very similar. East Midlands Shared Services was established to save money by sharing Financial and Human Resources functions with the expectation that other authorities would join the arrangement. There have been some challenges, specifically around IT systems but these are being addressed and the East Midlands Shared Services Project Board regularly receive updates on the operation and progress of shared services.

RESOLVED

(1) for strategic risk number 10, 'Failure to maintain good standards of governance', to be considered at the November meeting of the Committee;

(2) to note the progress made in reducing the seriousness of the Council's strategic risks as reflected by their threat levels and direction of travel for Quarter 1/14/15 (table 1 and appendix 5) and for the year 2013/14;

(3) to note the results of the review of the Strategic Risk Register (SRR) by the Corporate Leadership Team (CLT);

(4) to consider strategic risk 31, failure to secure affordable and fit for purpose ICT arrangements aligned to current and future business productivity and effectiveness', or specific scrutiny as part of the Quarter 1 2014/15 Update, at the November meeting of the committee;

(5) for the Head of Internal Audit to provide members of the Committee with access to the minutes of East Midlands Shared Services Project Board, specifically in relation to the concern of the Committee regarding the operation and potential risk posed by the Oracle IT system.

11 DRAFT STATEMENT OF ACCOUNTS 2013-14

Barry Dryden, Senior Finance Manager, presented the report which detailed the draft Statement of Accounts for 2013/14, and informed the Committee of the public inspection and challenge process.

Paul Hutchings, KPMG Audit Manager, highlighted that as the External Auditors, KPMG also wished to gain more assurance regarding the Oracle system which was currently considered as a general risk.

The Committee's comments and questions were responded to as follows;

(a) When schools become academies, it is believed that the funds held by them transferred to the Academy;

(b) general reserves are monitored against the parameters of the medium term financial plan;

(c) the Local Authority is responsible for collecting non-domestic rates, it also is responsible for the loss of rates following appeals and now retains a proportion of non-domestic rates and pays the rest in to Central Government for redistribution. Therefore the figure for non-payment provisions now includes a provision of £4.419 million for the potential impact on the retained proportion of future non-domestic rate appeals which may be backdated by up to 5 years.

RESOLVED

(1) to note;

(i) that the Statement of Accounts was submitted to the Audit Commission for audit review on 30 June 2014;

(ii) that the contents of the Statement of Accounts were placed on deposit for public inspection of 20 working days from 7 July 2014;

(iii) that there have been no significant changes to the accounting policies presented the Audit Committee on 25 April 2014;

(2) to confirm that it is appropriate for the Statement of Accounts to be produced on a 'going concern' basis;

(3) to note that the Audit Committee will be required to review the final audited statement when it is presented at the meeting on 19 September 2014;

(4) for the Senior Finance Manager to arrange a training/briefing session on the Statement of Accounts for Audit Committee Councillors.

12 INTERNAL AUDIT CHARTER 2014

Shail Shah, Head of Internal Audit, presented the report which, in accordance with Public Sector Internal Audit Standards, included minor amendments to the Charter endorsed on 27 September 2013, by explaining reporting lines to senior management.

RESOLVED to endorse the internal audit Charter as provided at Appendix 1 to the report.

13 INTERNAL AUDIT REPORT SELECTED FOR EXAMINATION

Shail Shah, Head of Internal Audit, introduced the report presenting the internal audit reports selected for detailed examination at the meeting of the Committee on 29 November 2013.

Bulwell St Mary's Church of England School
Most of the arrangements in place within the school are considered satisfactory, providing adequate system of control but providing only limited assurance.

The following 3 high priority areas were recommended for improvement;

- the standard of committee meeting minutes;
- demonstrating best value in the procurement of goods and services;
- authorisation for payment of invoices.

5 medium priority, and 3 low priority recommendations were also made.

It is noted that all recommendations have now been met.

Housing Rents 2013-14
Rent increases approved in 2014-15 make a useful step towards providing an income base that supports future expenditure. However concerns included:

- the current level of rent convergence;
- future rent setting;
- the accuracy of the Housing Revenue Account 30 year business plan;
- access control to the Northgate housing system.

4 high priority and 4 medium recommendations were made.

Although responses have been received from managers for all the recommendations made, few recommendations are yet to be fully met but confidence was expressed that colleagues would be able to resolve these issues.

John Slater, Principal Auditor, was also present to respond to the Committee's questions:

(a) Nottingham City Homes is able to borrow independently and build their own housing stock;
(b) it is unlikely that the newly launched tenant incentive scheme will not cost as much as earlier reported;
(c) arrangements are being developed that where homes become vacant, new tenancies should attract the target rent;
(d) Council housing currently charges rents which are approximately 60% of the value of the current open market rent. The newly built houses offer affordable rents which are 80% of that on the open market;

Councillors comments included:

(e) it is a concern that an £80 increase in rent is proposed over the next 5 years for council houses as this will encourage tenants to take advantage of the right to buy option;
(f) the rent incentive scheme introduced this year has been fraught with difficulties;
(g) it is a concern that the average private rented property in Nottingham is £25 per week more expensive than rented social housing when wages have effectively been reduced. This impacts most on the working poor;
(h) it is a concern that the Housing Revenue Account is providing funds for new social housing when these properties are still eligible for tenants to purchase under the right to buy scheme;
(i) with 500 council homes sold already this year through the right to buy scheme, it is vital that properties are selling for the highest possible price and that funds are recovered where any fraudulent activity is found;
(j) 50% of all right to buy applications proceed, the majority of properties being family homes as these are a sound investment;
(k) analysis of the areas/wards where council homes are selling has shown that values appear to vary significantly in different wards for the same build.

RESOLVED

(1) to note the internal audit investigations and reports for Bulwell St Mary's Church England Primary School and Housing Rents, agreeing that the audit work is of a high quality and scope;

(2) that prior to any further audit reports being selected for detailed consideration by Audit Committee, member training is arranged, by the Head of Internal Audit, potentially including:

(i) further information on the Council Housing 'Right to Buy' scheme and the valuation process;
(ii) the workplace levy;
(iii) the tram.

14 CHAIR'S ANNUAL REPORT

The Chair introduced the report which summarises the work of the Audit Committee undertaken during 2013/14, explaining how this relates to the Committee's core responsibilities.

The Chair commended the Audit Team for the quality of training provided to members between meetings of the committee, in addition to the scheduled work.

RESOLVED to note the work undertaken and approve the report at Appendix 1 for submission to the City Council meeting in October 2014.

15 INTERNAL AUDIT QUARTERLY REPORT 2014/15 (1ST QUARTER)

Shail Shah, Head of Internal Audit, presented the report which outlines the work of Internal Audit Service during the 1st Quarter of 2014/15.

It is noted that there is a backlog of audit reports which the Committee is yet to review.

RESOLVED

(1) to note and applaud the performance of internal audit during the 1st Quarter of the year;

(2) for the Head of Internal audit to submit to the November meeting of the Committee, the full list of audits which the Committee is yet to review.

This page is intentionally left blank

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
Report author(s) and contact details:	Barry Dryden, Senior Finance Manager, Financial Reporting barry.dryden@nottinghamcity.gov.uk 0115 876 2799	
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.

cutting through complexity™

Report to those charged with governance (ISA 260) 2013/14

Nottingham City Council

September 2014

Contents

The contacts at KPMG in connection with this report are:

Sue Sunderland
Director
KPMG LLP (UK)

Tel: 0115 945 4490
sue.sunderland@kpmg.co.uk

Richard Walton
Manager
KPMG LLP (UK)

Tel: 0115 945 4471
richard.walton@kpmg.co.uk

Kay Meats
Assistant Manager
KPMG LLP (UK)

Tel: 0115 945 4485
kay.meats@kpmg.co.uk

Page 20

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Sue Sunderland, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Page 21

Scope of this report

This report summarises the key findings arising from:

- our audit work at Nottingham City Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2013/14*, presented to you in February 2014, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during March 2014 (interim audit) and July 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section two summarises the headline messages.
- Section three sets out our key findings from our audit work in relation to the 2013/14 financial statements.
- Section four outlines our key findings from our work on the VFM conclusion.

Our one recommendation is included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Headlines

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Page 22

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has not identified any material audit adjustments within the financial statements. We identified two audit differences above our reporting threshold which have been amended by management. Of these one was considered significant and is detailed in Appendix 2.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed most of the issues appropriately. However, Internal Audit have given 'limited assurance' on three aspects of the Oracle financial system provided through EMSS. As a consequence we have had to undertake additional work in order to obtain sufficient assurance that there has been no material impact on the financial statements as a consequence of the control weaknesses identified. We will need to charge an additional fee for this work (subject to approval by the Audit Commission) and will update the Audit Committee on this once we have completed the work. It is important that action is taken to address Internal Audit's recommendations as soon as possible.
Accounts production and audit process	We have noted an improvement in the presentation of the accounts which are supported by good quality working papers. Officers dealt efficiently with audit queries allowing the audit process to be completed before the statutory deadline. The Authority has implemented the recommendations in our *ISA 260 Report 2012/13* relating to the financial statements.
Control environment	The Authority's organisational and IT control environment is effective overall. We have, however, identified some weaknesses in controls linked to the introduction of the new Oracle financial system which are detailed in section three of this report.
Completion	At the date of this report our audit of the financial statements is substantially complete all that remains outstanding is completion of the mitigating assurance work in regard to the controls issues linked to the new Oracle systems provided by EMSS. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Proposed opinion and audit differences

Our audit has identified two audit adjustments which are above our reporting threshold.

The impact of these adjustments is to increase the net worth of the Authority as at 31 March 2014 by £7 million.

Page 23

Proposed audit opinion

Subject to a final review of the audit file and completion of the mitigating assurance work around the Oracle system, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 19 September 2014.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements. We identified a number of issues that have been adjusted by management.

Our audit identified one significant audit difference, which is set out in Appendix 2. It is our understanding that this will be adjusted in the final version of the financial statements.

The table on the right illustrates the impact of audit differences on the Authority's movements on the balance sheet and General Fund as at 31 March 2014.

This is mainly the result of the an amendment to reinstate a school asset which was incorrectly derecognised prior to formal transfer of the building to the academy.

Balance Sheet as at 31 March 2014

£m	**Pre-audit**	**Post-audit**	***Ref (App.3)***
Property, plant and equipment	1,967	1,974	*1*
Other long term assets	169	169	
Current assets	331	331	
Current liabilities	(227)	(227)	
Long term liabilities	(1,353)	(1,353)	
Net worth	**887**	**894**	
General Fund	12	12	
Other usable reserves	77	77	
Unusable reserves	798	805	*1*
Total reserves	**887**	**894**	

Movements on the General Fund 2013/14

£m	**Pre-audit**	**Post-audit**	***Ref (App.3)***
Surplus on the provision of services	1.7	9.3	
Adjustments between accounting basis & funding basis under Regulations	26.8	19.2	
Transfers to earmarked reserves	(30.1)	(30.1)	
Decrease in General Fund	**(1.6)**	**(1.6)**	

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Proposed opinion and audit differences (continued)

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.

The wording of your Annual Governance Statement accords with our understanding.

Page 24

We identified one other, non significant audit adjustment, the misclassification of a £1.7m provision in respect of NET 2 as a short term creditor.

There was no overall impact on the general fund or reserves as a result of this adjustment.

In addition, we identified small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Key financial statements audit risks

We have worked with officers throughout the year to discuss specific risk areas.

The Authority has addressed most of the issues appropriately. However, Internal Audit have given 'limited assurance' on three aspects of the Oracle financial system provided through EMSS.

It is important that action is taken to address Internal Audit's recommendations as soon as possible.

In our *External Audit Plan 2013/14*, presented to you in February, we identified the key risks affecting the Authority's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Key audit risk	Issue	Findings
LGPS Triennial Review	During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The pension numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided by Nottinghamshire County Council who administer the Pension Fund.	We have reviewed the data provided to the actuary to ensure: ■ The process was undertaken in a suitable control environment; ■ the accuracy of the information provided by agreeing a sample of data to source documentation; ■ the reasonableness of the completeness of the data by conducting an analysis of movements during the period, and reviewing the overall amount of records provided. Our work did not identify any significant issues relating to the accounting or reporting requirements.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Section three

Key financial statements audit risks (continued)

Key audit risk	Issue	Findings
New ledger system (Oracle)	Implementation of a new accounting system by a new shared service provider (East Midlands Shared Services – EMSS) on 1 April 2013 increases the risk of data being lost or migrated incorrectly during the transition from the Council's existing One World system. There is a risk that changes to controls may lead to weaknesses that had not previously been present.	Our IT specialists reviewed the data transfer to the new Oracle ledger system and we have no issues to report to you as a result of this work.
Weakness in controls	Weakness previously identified in controls over accounts payable and the existence of staff and related payroll expenditure should have been addressed by the move to the new accounting system from 1 April 2013 (Oracle). There is a risk that these control weaknesses have not been fully addressed.	The weaknesses previously identified have been addressed by the move to Oracle, however, for the 2013/14 year Internal Audit have only given "Limited Assurance" ratings for the following systems operated by EMSS: • Payroll • Accounts Payable • Accounts Receivable Therefore we have had to carry out additional work in these areas to gain the required assurance for our opinion. This work is almost complete and we will provide an update to the Audit Committee on this. Internal Audit have flagged areas for improvement in the controls in place and whilst we have confirmed that the impact of these issues are not material to the financial statements this represents a significant weakness in internal control. We recommend that Internal Audit's recommendations are implemented in full.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Accounts production and audit process

We have noted an improvement in the presentation of the accounts which are supporting by good quality working papers.

Officers dealt efficiently with audit queries and the audit process could be completed before the statutory deadline.

The Authority has implemented the recommendations in our *ISA 260 Report 2012/13.*

Page 27

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	During the year the Authority has undertaken an extensive exercise to streamline the presentation of its financial statements in line with updated guidance from CIPFA. This exercise has significantly improved the readability of complex information to the public. Despite significant changes to the ledger system resulting from the migration to Oracle and the introduction of EMSS, the Authority has been able adopt a robust financial reporting process which is demonstrated by the small number of non material adjustments required to the accounts. There is scope to improve this further by carrying out a full review of the control environment and further improving the links between the Authority and EMSS. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2014.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 6 March 2014 and discussed with the Senior Finance Manager, set out our working paper requirements for the audit. The quality of working papers provided was variable but met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries in a reasonable time.
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by component auditors on the financial statements of Enviroenergy Limited, Nottingham City Transport Limited, Nottingham Ice Centre Limited, Bridge Estate and Futures Advice, Skills and Employment Limited. There are no specific matters to report pertaining to the group audit, however, we have not yet received the final signed accounts for Bridge Estate and Futures Advice, Skills and Employment Limited.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented the recommendations in our *ISA 260 Report 2012/13*.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Control environment

The controls over the key financial systems are sound.

However, there are some weaknesses in respect of the overall control environment which need to be addressed.

Recommendations are included in Appendix 1.

Page 28

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

We also work with your internal auditors to update our understanding of some of the Authority's key financial processes where these are relevant to our final accounts audit.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on the work of your internal auditors and our own testing, the controls over the key financial systems are generally sound.

We have, however, noted some weaknesses in respect of individual financial systems which has required us to undertake some additional testing to obtain sufficient assurance that there has been no material impact on the financial statements. This work is currently being finalised.

Internal audit included recommendations in their reports as appropriate and it is important that these are implemented as soon as possible. Our recommendation included at Appendix 1 seeks to reinforce the need for action on Internal Audit's findings. The weaknesses identified meant that we needed to complete substantial additional work at year-end and an additional audit fee will be necessary.

Financial system	Controls Assessment
Property, Plant & Equipment	3
Accounts Payable	2
Accounts Receivable	2
Cash	3
Pensions Liabilities	3

Key:
1 Significant gaps in the control environment.
2 Deficiencies in respect of individual controls.
3 Generally sound control environment.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Page 29

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Nottingham City Council for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Nottingham City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Senior Finance Manager for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Page 30

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

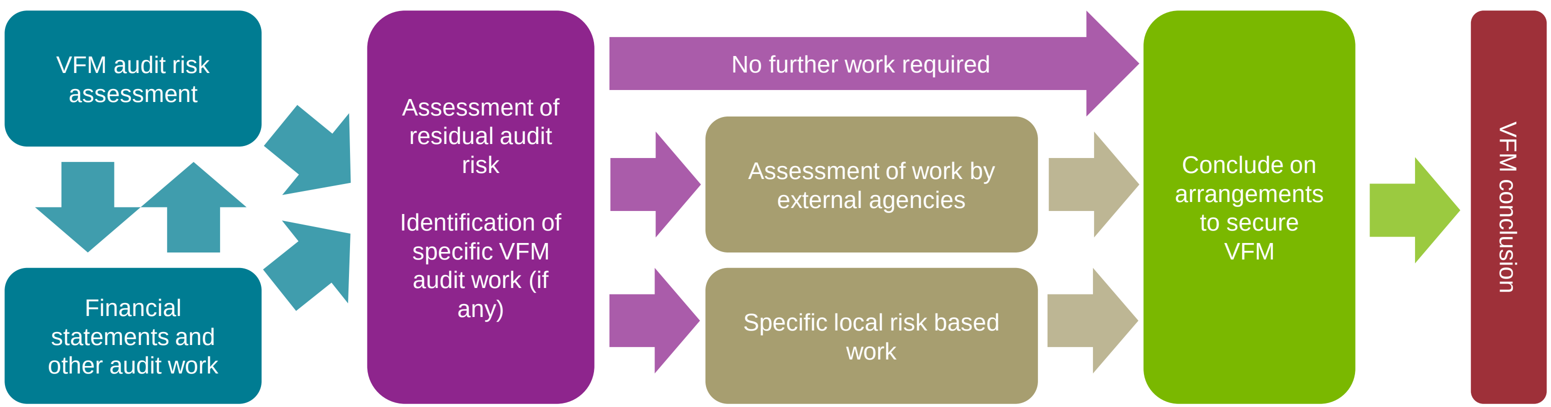
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Specific VFM risks

We have identified one specific VFM risks.

In this case we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Page 31

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	As at January 2014, the Authority is forecasting that it will deliver its 2013/14 budget in overall terms. Looking ahead, the Authority's draft medium term financial plan (MTFP) as at December 2013 includes a provisional balanced budget for 2014/15. There are projected budget shortfalls in both the following two financial years, rising from £36m in 2015/16 to £55m in 2016/17. Significant savings will be required to address these shortfalls as reductions to local authority funding continue. Against a backdrop of continued demand pressures in Adult Social Care and Children in Care services it will become increasingly difficult to deliver savings in a way that secures longer term financial and operational sustainability. This is relevant to the financial resilience criterion of the VFM conclusion.	The Council delivered its budget with an overall underspend of £0.5m for 2013/14 despite slight overspends within some portfolios. The Council has set a balanced budget for 2014/15, incorporating £22.6m of agreed savings. The Council has a good track record in delivering against its overall savings targets, which demonstrates that its arrangements for maintaining financial resilience are sound. The saving targets for 2015/16 and 2016/17 remain although work has already started to identify how these targets can be met. However continuing to deliver such demanding targets year on year is clearly demanding, and will require difficult decisions to be implemented, and close monitoring of the results and the impact on key services. **Specific risk based work required: No**

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❶	**Control Weaknesses at EMSS** As reported to you by Internal Audit there are weaknesses in the operation of controls by EMSS in the following systems: • Payroll • Accounts Payable • Accounts Receivable Whilst we have confirmed through our additional testing that these have not had a material impact on the financial statements the weaknesses remain and need to be addressed. **Recommendation** Implement the recommendations of Internal Audit in full as soon as possible.	

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 2: Audit differences

We have no uncorrected misstatements to report and there were no material misstatements.

Although not material this appendix sets out the one significant audit difference identified by our audit.

It is our understanding that the accounts will be adjusted.

Page 33

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). There are no uncorrected misstatements.

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities. There are no material misstatements.

Corrected audit differences

Although not material the following table sets out the one significant audit difference identified by our audit of Nottingham City Council's financial statements for the year ended 31 March 2014. It is our understanding that the accounts will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1	Cr Other operating expenditure £7.586m	Dr Adjustment between accounting basis and funding basis £7.586m	Dr PPE £7.586m		Cr Revaluation reserve £1.291m Cr Capital adjustment account £6.295m	A school asset was derecognised as it was expected to transfer to an academy during the year. However, as the formal transfer of the building has not taken place the asset should remain on balance sheet as at 31/3/14.
	Cr £7.586m	**Dr £7.586m**	**Dr £7.586m**	**-**	**Cr £7.586m**	**Total impact of adjustments**

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 3: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Page 34

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Appendix 3: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Nottingham City Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Nottingham City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. This document is confidential and its circulation and use are restricted. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

cutting through complexity™

© 2014 KPMG LLP, a UK public limited partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and ‘cutting through complexity’ are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).

My Ref:
Your Ref:
Contact: Barry Dryden
Email: Barry.Dryden@nottinghamcity.gov.uk

Nottingham City Council

Financial Accounting
Resources Department
Nottingham City Council
Resources Department
Loxley House
Station Street
Nottingham
NG2 3NG

Tel: 0115 876 2799
Fax: 0115 876 3132
www.nottinghamcity.gov.uk

Sue Sunderland
KPMG LLP (UK)
St Nicholas House
31 Park Row
Nottingham
NG1 6FQ

Dear Sue

This representation letter is provided in connection with your audit of the financial statements of Nottingham City Council ("the Authority") for the year ended 31 March 2014, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 and of the Authority's and the Group's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

    i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 and of the Authority's and the Group's expenditure and income for the year then ended; and

    ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

    The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable [ISA (UK&I) 540.22]

3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed. [ISA (UK&I) 560.9]

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.[ISA (UK&I) 450.14]

Information provided

5. The Authority has provided you with:

    - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;

    - additional information that you have requested from the Authority for the purpose of the audit; and

    - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

    i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

    ii) The Authority has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
   - management;
   - employees who have significant roles in internal control; or
   - others where the fraud could have a material effect on the financial statements; and
b) allegations of fraud, or suspected fraud, affecting the Authority's and the Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

    The financial statements disclose all of the uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.

    Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:

       - statutory, contractual or implicit in the employer's actions;
       - arise in the UK and the Republic of Ireland or overseas;

- funded or unfunded; and
- approved or unapproved,

have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 19 September 2014.

Yours faithfully,

Councillor Sarah Piper
Chair of the Audit Committee

Geoff Walker
Acting Chief Financial Officer

Appendix A to the Board Representation Letter of Nottingham City Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Movement in Reserves Statement for the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund

For pension funds participating in the following pension schemes, pension fund accounts must be prepared by the local authority that administers the Pension Fund:

a) the Local Government Pension Scheme (in England and Wales)

b) the Local Government Pension Scheme (in Scotland).

For pension funds participating in the following pension schemes, pension fund accounts must be prepared:

a) the Firefighters' Pension Scheme for England

b) the Firefighters' Pension Scheme for Wales

c) the Police Pension Scheme in England and Wales.

The financial statements of a defined benefit pension fund and of police authorities and fire and rescue service authorities in England and Wales must contain:

a) A fund account disclosing changes in net assets available for benefits.

b) A net assets statement showing the assets available for benefits at the year end.

c) Notes to the accounts.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state the following:

Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue, and

b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (ie subsidiaries);

b) associates;

c) joint ventures in which the authority is a venture;

d) an entity that has an interest in the authority that gives it significant influence over the authority;

e) key management personnel, and close members of the family of key management personnel; and

f) post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13:

a) providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with an authority by virtue only of those dealings; and

b) an entity with which the relationship is solely that of an agency.

Related party transaction

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

This page is intentionally left blank

Nottingham City Council

Nottingham City Council

A safer, cleaner, ambitious Nottingham
A city we're all proud of

Statement of Accounts 2013/14

Contents

Contents - Notes to the Financial Statements

Section 1
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 £83.299m.
- 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 £914.9 that the Council set for its overall long term debt in 2013/14 of £914.9m. 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)	(62.496)
Net Assets	808.071	871.646
Council's Share of other Group Reserves/Minority Interests	(12.177)	(22.708)

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 £11.610m 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 £871.646m. This is £22.708m 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.

Section 2
Introductory Statements

2.1 Accounting Policies

2.1.1 Basis of Accounting

The Statement of Accounts is a legal requirement under the Accounts and Audit Regulations 2011 and must comply with proper accounting practices. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) which is based on approved accounting standards. In addition, the Council's accounts also comply with the Service Reporting Code of Practice 2013/14, which ensures consistency and comparability in financial reporting across Councils. The accounts are supported by IFRS and statutory guidance issued under section 7 of the 2011 Act.

2.1.2 Accounting Developments and Changes

Developments and other changes during 2013/14

The Council has not chosen to change any of its Accounting Policies since the last financial year, however, the accounting standard IAS19 has been revised. The main impact of the revision changes the rate used to calculate the return on pension fund assets. Although prior year's figures have not been altered, if this change had been applied to the 2012/13 Statements then there would have been an additional charge to the CIES of £8.107m. Further details can be found in section 6.1.4.

Prior Year Reclassifications

Separate disclosures are given here where it has been necessary to make material changes to prior year figures. There were no such changes made in the 2013/14 accounting statements for prior years

Accounting Standards Issued but not adopted

The Code of Practice on Local Authority Accounting requires the Council to disclose the expected impact of new standards that have been issued but not yet adopted by the Code. Although a number of new and revised standards fall into this category, none are expected to have a material effect on the Council's statements. Details of these standards are provided below:

- **IFRS10 Consolidated Financial Statements** – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. The Council does not expect this change to affect the outcome of entities considered for inclusion in the Council's Group Accounts.
- **IFRS11 Joint Arrangements –** This standard addresses the accounting for arrangements where two or more parties have joint control. These are classified as either a joint venture or joint operation under revised definitions. The Council has a joint operation (East Midlands Shared Services) in place with Leicestershire County Council which is not expected to be affected by the revised definition.
- **IFRS12 Disclosures of Involvement with Other Entities –** This standard requires a range of disclosures about the Council's interests in subsidiaries, joint

arrangements, associates and unconsolidated "structured entities". The Council will need to make further disclosures for these entities.

- **IAS27 Separate Financial Statements and IAS28 Investments in Associates and Joint Ventures –** There will be no additional impact for these standards as they have been amended to conform with the changes in IFRS 10-12.
- **IAS32 Financial Instruments Presentation –** This standard refers to amended guidance when offsetting a financial asset and a financial liability. The gains and loses are separately identified on the CIES and therefore no further disclosure is required.
- **IAS1 Presentation of Financial Statements –** This standard has been changed to clarify the disclosure requirements in respect of comparative information of the preceding period. The Council already fully discloses comparative information so the change will have no impact.

2.1.3 Choices permitted under IFRS

For some policies IFRS provides different options that can be used and the Council has, for a number of years, chosen to apply the following:

De Minimus Capital Expenditure

All assets acquired can be included in the Balance Sheet, regardless of their cost. However where the current value is less than the following amounts the Council may choose to exclude the asset from the Balance Sheet:

	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

Componentisation

Where an asset consists of significant components that have different useful lives and / or depreciation methods to the remainder of asset, these components are separately identified and depreciated accordingly. The Council has chosen to only apply componentisation where the value of the asset is in excess of £3m.

Depreciation (including amortisation of intangible assets)

Certain PPE components and Intangible Assets are written down over time and charged to revenue. IFRS allows the Council to choose the period over which this write down occurs as well as the depreciation method. The following assets are depreciated on a straight line basis over their individually assessed useful life, unless otherwise stated:

- Dwellings, buildings, vehicles, plant, furniture and equipment
- Infrastructure and Community are depreciated over 25 years
- Intangible assets are depreciated over 5 years

2.1.4 Critical Accounting Policies

Only the critical Accounting Policies used in preparing these statements are provided below. A full list of Accounting Policies can be found at Appendix B.

Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor is recorded in the Balance Sheet

Government Grants and Contributions

Government Grants and contributions are credited to income in the CIES only when there is reasonable assurance that any attached conditions will be met. Specific grants are credited to the relevant service line, while non-ring fenced and capital grants are credited to Taxation and Non-specific grant income.

Any grants received where conditions have not been met are carried in the Balance Sheet as creditors..

Charges to CIES for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and 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 the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

Valuation of Non-Current Assets

Generally non-current assets are valued initially at cost and subsequently revalued at fair value, which is the amount that would be paid for the asset in its existing use. The main exceptions are infrastructure, which is generally valued at depreciated historical cost, council dwellings, which are valued at Existing Use Value for Social Housing and heritage assets, which are valued at market value by an external valuer.

Interests in Companies and Other Entities

Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council's interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses

2.1.5 Critical Judgments in applying Accounting Policies

In applying the accounting policies set out in Section 10 (Appendix B), the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There are number of different types of schools in Nottingham. The Council recognises Schools in line with the provisions of the Code and, consequently, schools are recognised on the balance sheet only if the future economic benefits or service potential associated with the school will flow to the Council. As a result, each type of school has been separately assessed for inclusion on the Council's Balance Sheet. The table below summarises the treatment for each type of school:

School Type	Balance Sheet Treatment
Community	On
Voluntary Controlled	On
Voluntary Aided	Off
Foundation	Off
Academy	Off

- When a school that is held on the Council's balance sheet transfers to Academy status this is recorded as a de-recognition for nil consideration with the assets transferring to the Academy under a finance lease arrangement.

  Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction, whilst the Academy is constructed. Once the construction is complete the Asset is transferred to Other Land and Buildings and, on the date of transfer to Academy the Council records this as a de-recognition for nil consideration.

- The Council has entered into a partnership arrangement with Leicestershire County Council to provide financial and human resources services. The structure of the partnership has been judged to be a "joint operation" with the Council's share of revenue, expenditure, assets and liabilities shown in the single entity financial statements in section 3.
- The Council has produced a set of Group Accounts after reviewing related organisations, evaluating whether the Council has the necessary material financial interest and/or level of control required for inclusion the Group.
- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets might be impaired as a result of a need to close facilities and reduce levels of service provision.

2.2 Supplementary Comments

This Statement of Accounts is prepared according to International Financial Reporting Standards which specifically require some further information to be provided. This information is provided below.

2.2.1 Key Changes affecting 2013/14 Statements

For 2013/14 Central Government's agenda for local government resulted in a number of changes in both funding and the services that the Council provides. From 1 April 2013 the Council assumed responsibility for Public Health services, retained 50% of business rates alongside related liabilities and became directly responsible for the new Council Tax Support Scheme. The Council will now have to continue to manage the financial implications of these changes.

The transfer of local Public Health functions to the Council from the NHS has brought a number of commissioning responsibilities for the Council, together with overall responsibility for improving health within the City boundaries. The national Public Health outcomes framework has been developed and sets out the following mandatory services:

- National Child Measurement Programme.
- NHS health check assessments.
- Comprehensive sexual health services.
- Local authority role in dealing with health protection incidents, outbreaks and emergencies.
- Providing public health support to health care commissioners.

In 2013/14 the Council received a specific grant of £25.765m towards the costs of the service, resulting in a net surplus of £0.995m.

2.2.2 Provisions and Write offs

Reduction in Current Provisions (£4.602m)

The reduction in current provisions is primarily a result of settling the compulsory purchase orders relating to the NET2 project, for which a provision was established in 2012/13.

2.2.3 Impact of Economic Climate

The change in economic circumstances has had a significant effect on all local authorities. Although there has been an improvement in some economic indicators for the UK, the Government is still looking to reduce the level of UK public sector debt. The restrictions in public spending seem set to continue, further reducing the level of funding available to the Council and this situation is being managed through the Medium Term Financial Planning process. Security concerns regarding financial institutions remain and have seen the introduction of “bail in” arrangements removing some of the security previously afforded to the Council’s deposits with banks.

Additionally within this context, the collapse of the Icelandic banks created specific but manageable issues for the Council (further details can be found in the separate notes to the accounts).

The economic climate has also resulted in more volatile asset values. The most commonly reported falls in property value relate to the housing market. An impairment review of all Council property and land assets in 2008/09 correspondingly identified the requirement for material adjustments in values. Subsequent impairment reviews have not deemed any further adjustments to be necessary as a result of significant changes in the property market. The Nottingham area has experienced increased interest from property developers for small to medium sized serviced development sites resulting in an increase in land prices. In addition a shortage of good residential sites should see land prices maintained for the foreseeable future.

The initial 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 fewer 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 such as homelessness support, benefits, social care and local authority school places.

2.2.4 Assumptions about the Future and other Major Sources of Estimation Uncertainty

The preparation of the financial statements requires the Council to make estimates and assumptions that affect the application of policies and reported amounts. Although these are continually evaluated and are based on historical experience and other factors, including the expectation of future events that are believed to be reasonable under the circumstances, actual results may differ from these estimates. The estimates and assumptions which have a significant effect on amounts recognised in the financial statements are as follows:

- Business Rates - Since the introduction of Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against rates charged to businesses in 2012-13 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2014, calculated using the Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date.
- PPE – Assets are depreciated over their useful lives, with this period dependant on assumptions about the level of repairs and maintenance applied to individual assets. The current economic climate makes creates uncertainty about the levels of repairs and maintenance that will be maintained, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings excluding Council dwellings would increase by £1.735m for every year that useful lives had to be reduced. Further details can be found in Note 6.2.1.
- Post Retirement Benefits – Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. See Note 6.2.15 for further details
- PFI and similar arrangements have been considered to have an implied finance lease within the agreement. In reassessing the leases the Council has estimated the implied interest rate within the leases in order to calculate interest and principal payments. In addition, the future RPI increase within the contracts has been estimated as remaining constant throughout the remaining period of the contract.

2.2.5 Events after the Reporting Date

After the reporting date of 30 June 2014, when the un-audited accounts were authorised for issue by the Chief Financial Officer, there were no subsequent material events that need to be reported.

2.2.6 Material assets acquired and liabilities incurred.

No material assets have been acquired or liabilities incurred in 2013/14 other than those identified elsewhere in the statement.

2.2.7 Pension Fund

The Council is a member of the Nottinghamshire County Council pension fund and assets and liabilities of that fund that may be attributed to the Council are evaluated on an annual basis by an independent actuary. The actuary has estimated that, at 31 March 2014, the Council's fund was in deficit by £550.498m (£546.235m as at 31 March 2013). The strategy adopted by the actuary is for the deficit to be recovered over the next 18 years with tri-annual valuations of the fund

2.2.8 Prior Year Restatements

The 2012/13 Comprehensive Income and Expenditure Statement contained two entries which were incorrectly shown gross as income and expenditure. The comparative figures for 2012/13 for both the Council and Group Accounts have therefore been amended to show the correct income and expenditure figures, however, there was no impact on net expenditure. The gross effect of £23.009m for Education and children's services and £14.041m for Corporate and democratic core are shown in the tables below:

Comprehensive Income and Expenditure Statement

	As previously Stated 2012/13			As Restated 2012/13		
	Gross Expenditure £m	Gross Income £m	Net Expenditure £m	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Education and children's services	280.198	(189.497)	90.701	257.189	(166.488)	90.701
Corporate and democratic core	49.408	(28.944)	20.464	35.367	(14.903)	20.464
Continuing Operations	**940.035**	**(634.754)**	**305.281**	**902.985**	**(597.704)**	**305.281**
(Surplus)/Deficit on Provision of Services	**1,077.647**	**(1,041.755)**	**35.892**	**1,040.597**	**(1,004.705)**	**35.892**

Group Comprehensive Income and Expenditure Statement

	As Previously Stated 2012/13			As Restated 2012/13		
	Gross Expenditure £m	Gross Income £m	Net Expenditure £m	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Education and children's services	280.198	(189.497)	90.701	257.189	(166.488)	90.701
Corporate and democratic core	49.408	(28.944)	20.464	35.367	(14.903)	20.464
Cost of Services	**988.613**	**(685.372)**	**303.241**	**951.563**	**(648.322)**	**303.241**
(Surplus) or Deficit on Provision of Services	**1,139.848**	**(1,099.949)**	**39.899**	**1,102.798**	**(1,062.899)**	**39.899**

Section 3

Core Financial Statements

3.1 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	257.189	(166.488)	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	35.367	(14.903)	20.464	32.299	(20.169)	12.130
Non distributed costs	4.444	(0.309)	4.135	(1.370)	-	(1.370)
Continuing Operations	**902.985**	**(597.704)**	**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	38.769	(0.890)	37.879
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	**1,040.597**	**(1,004.705)**	**35.892**	**989.008**	**(1,009.517)**	**(20.509)**
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)**			**(74.106)**

3.2 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	1,974.150
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(a)	58.652	60.696
Long Term assets		**2,086.298**	**2,143.067**
Assets Held for Sale	6.2.6	5.918	4.621
Intangible Assets (current assets)	6.2.11(a)	0.034	-
Short Term Investments	6.2.16(a)	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(b)	(85.898)	(32.195)
Short Term Creditors	6.2.10	(151.718)	(189.708)
Provisions (current provisions)	6.2.11(a)	(9.399)	(4.797)
Current Liabilities		**(247.015)**	**(226.700)**
Long Term Borrowing	6.2.16(b)	(701.322)	(685.889)
Other Long Term Liabilities	6.2.16(b)	(81.344)	(98.843)
Provisions (non-current)	6.2.11(b)	(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**	**894.354**
Usable Reserves	6.2.12*	194.023	238.186
Unusable Reserves	6.2.13	626.225	656.168
TOTAL RESERVES		**820.248**	**894.354**

* See section 3.3 and 6.2.3 for details

3.3 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 £m	Earmarked General Fund Reserves £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £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	9.332	-	11.177	-	-	-	20.509	-	20.509
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	53.597	53.597
Total Comprehensive Income and Expenditure (Table 3.1)	**9.332**	**-**	**11.177**	**-**	**-**	**-**	**20.509**	**53.597**	**74.106**
Adjustments between accounting basis and funding basis under regulations **(Note 6.3.1)**	19.202	-	(11.353)	5.113	10.651	0.041	23.654	(23.654)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**28.534**	**-**	**(0.176)**	**5.113**	**10.651**	**0.041**	**44.163**	**29.943**	**74.106**
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**	**29.943**	**74.106**
BALANCE AT 31 MARCH 2014	**12.229**	**148.763**	**4.854**	**14.416**	**38.658**	**19.266**	**238.186**	**656.168**	**894.354**

2012/13	General Fund Balance £m	Earmarked General Fund Reserves £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £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**

.

3.4 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)**	**20.509**
Adjustments to net surplus or deficit on the provision of services for non-cash movements		203.124	192.556
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 2014		**76.916**	**59.041**

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 2014 on pages 16 to 20 and 25 to 146. 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 2013/14.

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 Finance Officer Responsibilities, the Chief Finance 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 Finance 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:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 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 2013/14.

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 2013, 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 2014.

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 2013, 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 2014.

4.1.3 Delay in Certification of Completion of the Audit

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

26 September 2014

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 19 September 2014.

Signed…………………………………………………   Date: 19 September 2014

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 2014.

Signed………………………………………………… Date: 19 September 2014

Geoff Walker
Acting Chief Finance Officer
Loxley House
Station Road
Nottingham
NG2 3NG

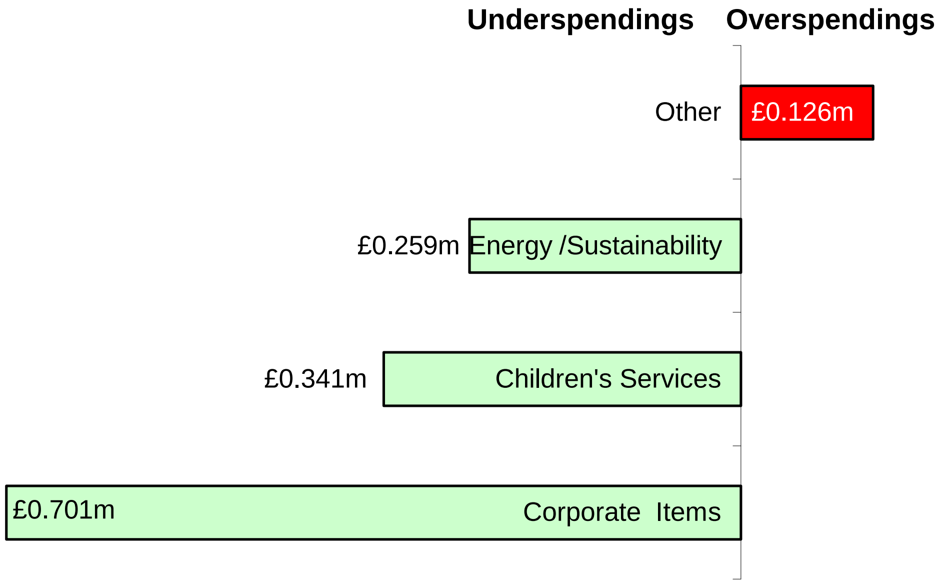
Section 5
Funding Basis and Budget Monitoring

Local Authorities are required by statute to make their funding decisions on a different basis from the Statement of Accounts, which is required to follow International Financial Reporting Standards (IFRS). The accounts used for resource allocation and budget management are shown on a funding basis and a number of adjustments are, therefore, required to produce the Statement of Accounts on an IFRS basis. The adjustments required to the CIES are generally offset by adjustments to unusable reserves. The impact on the CIES is shown in section 5.3 and the movements in reserves are shown in section 6.3.

5.1 Performance against Budget 2013/14

For budget management purposes, specific grant income, charges to users and expenditure items such as employees, premises, supplies and services are organised by groups of services known as portfolios (table 5.2). Using this basis the pre-audit outturn was reported to Executive Board on 17 June 2014 and showed the net outturn as being £1.175m lower than that planned for the year, after net contributions to reserves by portfolios of £22.718m and carry forwards of £1.454m.

2013/14 Net Underspending by Portfolios £1.175m



Corporate Items -£0.701 m
This underspending is due to lower interest rates as a result of pro-active short term borrowing.

Children's Services -£0.341m
This underspending is a result of the management of vacancies and control of non essential spend on supplies and services

Energy and Sustainability -£0.259m
This underspending mostly results from savings on Carbon Reduction Commitment tax liability and from securing additional external funding.

5.2 Net Portfolio Spend on Funding Basis (management accounts)

The analysis of income and expenditure by service in the CIES is presented using the analysis required by the Service Reporting Code of Practice for Local Authorities. However, the table below provides a more detailed analysis of Net Portfolio Spend on a funding basis.

2013/14	Adults & Health £m	Children's Services £m	Commissioning and Voluntary Sector £m	Community Services £m	Energy & Sustainability £m	Jobs & Growth £m	Leisure & Culture £m	Planning & Transportation £m	Resources & Neighbourhood Regeneration £m	Strategic Regeneration and Community Safety £m	Corporate Items £m	Total £m
Fees, Charges & other Service income	(55.356)	(11.960)	(2.518)	(7.009)	(2.562)	(0.722)	(26.802)	(27.772)	(42.670)	(9.943)	(85.169)	**(272.483)**
Government Grants	(0.266)	(151.897)	(0.474)	-	(0.195)	(3.238)	(0.604)	(8.364)	(7.066)	(0.129)	(109.984)	**(282.217)**
Total Income	**(55.622)**	**(163.857)**	**(2.992)**	**(7.009)**	**(2.757)**	**(3.960)**	**(27.406)**	**(36.136)**	**(49.736)**	**(10.072)**	**(195.153)**	**(554.700)**
Employee Expenses	25.657	132.296	4.927	11.251	0.772	2.030	18.390	13.141	48.145	12.822	1.050	**270.481**
Other Service Expenses	106.767	80.611	16.980	3.577	7.777	6.275	20.563	31.422	38.901	6.796	248.777	**568.446**
Support Service Recharges	0.762	0.206	(0.057)	0.336	-	0.007	(0.224)	0.814	(1.918)	(0.007)	0.081	**-**
Total Expenditure	**133.186**	**213.113**	**21.850**	**15.164**	**8.549**	**8.312**	**38.729**	**45.377**	**85.128**	**19.611**	**249.908**	**838.927**
NET EXPENDITURE	**77.564**	**49.256**	**18.858**	**8.155**	**5.792**	**4.352**	**11.323**	**9.241**	**35.392**	**9.539**	**54.755**	**284.227**

2012/13	Area Working, Cleansing & Community Safety £m	Children's Services £m	Economic Development, Resources & Regeneration £m	Energy & Sustainability £m	Health, Commissioning & Human Resources £m	Housing, Adults & Community Sector £m	Jobs, Skills & Business £m	Leisure, Culture & Tourism £m	Planning & Transportation £m	Corporate Items £m	Total £m
Fees, Charges & other Service income	(13.968)	(15.591)	(40.595)	(3.020)	(26.265)	(1.094)	(0.629)	(26.590)	(31.743)	(32.468)	**(191.963)**
Government Grants	(3.424)	(174.337)	(5.552)	(0.379)	(8.230)	(0.850)	(0.389)	(0.775)	(10.254)	(209.150)	**(413.340)**
Total Income	**(17.392)**	**(189.928)**	**(46.147)**	**(3.399)**	**(34.495)**	**(1.944)**	**(1.018)**	**(27.365)**	**(41.997)**	**(241.618)**	**(605.303)**
Employee Expenses	24.036	146.337	44.038	0.973	18.423	16.978	1.504	18.668	10.571	5.609	**287.137**
Other Service Expenses	14.690	85.331	30.522	9.288	82.279	17.408	1.857	20.849	37.441	289.002	**588.667**
Support Service Recharges	0.282	0.304	(1.571)	0.046	16.042	(15.653)	-	(0.136)	0.709	(0.023)	**-**
Total Expenditure	**39.008**	**231.972**	**72.989**	**10.307**	**116.744**	**18.733**	**3.361**	**39.381**	**48.721**	**294.588**	**875.804**
NET EXPENDITURE	**21.616**	**42.044**	**26.842**	**6.908**	**82.249**	**16.789**	**2.343**	**12.016**	**6.724**	**52.970**	**270.501**

5.3 Reconciliation of CIES between Funding Basis and IFRS basis

5.3.1 Adjustments Required

Contributions from the National Non-Domestic Rate (NNDR), income from Council Tax payers and Revenue Support Grant from the Government are managed outside portfolios. Council Tax income was generated by the Council setting a Band D Council Tax of £1,404.42 (2012/13 £1,377.58).

The table below shows the net surplus for the accounts on a funding basis together with the adjustments required to arrive at the equivalent IFRS figure for the Statement of Accounts:

	2012/13 £m	2013/14 £m
Funding Basis		
Net Portfolio Spend	270.501	284.227
(Use)/Contributions to Reserves included above	(9.077)	(25.902)
Expenditure financed from Council Tax and Non-specific Grants	261.424	258.325
Council Tax and NNDR	(273.656)	(157.512)
Non-Specific Grants	(3.291)	(129.347)
(SURPLUS)/DEFICIT ON FUNDING BASIS BEFORE TRANSFERS TO RESERVES	**(15.523)**	**(28.534)**
Adjustments to move to Accounting Basis		
Items removed from CIES:		
a) Net pension contributions/payments by employees	(27.838)	(27.114)
b) Provision for Debt Redemption	(29.976)	(33.874)
c) Capital expenditure charged to revenue	(5.834)	(11.072)
Replaced by:		
a) Assessment of retirement benefits due	45.211	56.433
b) Change in valuation of Pension assets	(7.957)	(25.056)
c) Depreciation, impairment etc	94.799	83.033
d) Change in valuation of other assets	(11.006)	(20.285)
e) Revenue expenditure funded from Capital under Statute	1.960	1.639
Additional items required by Accounting Basis:		
Housing Revenue Account	(9.832)	(11.177)
Grants and Contributions used to finance Capital	(61.770)	(55.739)
Collection Fund adjustment	(1.307)	(3.588)
Financial Instruments	(0.344)	(0.330)
Other smaller items	1.049	1.558
(SURPLUS)/DEFICIT ON ACCOUNTING BASIS	**(28.368)**	**(74.106)**

5.3.2 Reconciliation on a Subjective Analysis

The tables below show how the figures in the Net Portfolio Spend on a Funding Basis in Section 5.2 relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the CIES on an IFRS basis:

2013/14	Portfolio Spend on Funding Basis £m	Add Amounts not included in Funding Basis £m	Remove Amounts not in Cost of Services £m	Cost of Services per CIES (IFRS) £m	Items below Cost of Services in CIES (IFRS) £m	Totals per CIES (IFRS) £m
Fees, charges and other service income	(272.483)	(84.977)	29.813	(327.647)	(0.890)	**(328.537)**
Interest and investment income	-	(0.260)	(0.330)	(0.590)	(48.804)	**(49.394)**
Income from council tax and NNDR	-	-	-	-	(161.096)	**(161.096)**
Government grants and contributions	(282.217)	0.666	-	(281.551)	(188.939)	**(470.490)**
Total Income	**(554.700)**	**(84.571)**	**29.483**	**(609.788)**	**(399.729)**	**(1,009.517)**
Employee expenses	270.481	55.876	(27.114)	299.243	-	**299.243**
Other service expenses	568.446	53.092	(102.806)	518.732	-	**518.732**
Depreciation, amortisation and impairment	-	80.429	(44.946)	35.483	-	**35.483**
Interest payments	-	-	-	-	96.781	**96.781**
Payments to Housing Capital Receipts Pool	-	-	-	-	1.730	**1.730**
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	37.039	**37.039**
Total Expenditure	**838.927**	**189.397**	**(174.866)**	**853.458**	**135.550**	**989.008**
SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	**284.227**	**104.826**	**(145.383)**	**243.670**	**(264.179)**	**(20.509)**

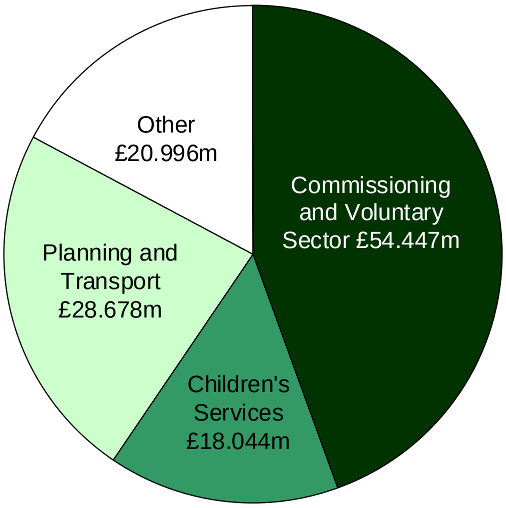
2012/13	Portfolio Spend on Funding Basis £m	Add Amounts not included in Funding Basis £m	Remove Amounts not in Cost of Services £m	Cost of Services per CIES (IFRS) £m	Items below Cost of Services in CIES (IFRS) £m	Totals per CIES (IFRS) £m
Fees, charges and other service income	(191.963)	(86.501)	57.613	(220.851)	(10.197)	**(231.048)**
Interest and investment income	-	(0.219)	(0.344)	(0.563)	(55.091)	**(55.654)**
Income from council tax	-	-	-	-	(105.192)	**(105.192)**
Government grants and contributions	(413.340)	-	-	(413.340)	(236.521)	**(649.861)**
Total Income	**(605.303)**	**(86.720)**	**57.269**	**(634.754)**	**(407.001)**	**(1,041.755)**
Employee expenses	287.137	44.763	(27.838)	304.062	-	**304.062**
Other service expenses	588.667	54.579	(102.928)	540.318	-	**540.318**
Depreciation, amortisation and impairment	-	131.465	(35.810)	95.655	0.195	**95.850**
Interest payments	-	-	-	-	93.707	**93.707**
Payments to Housing Capital Receipts Pool	-	-	-	-	1.541	**1.541**
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	42.169	**42.169**
Total Expenditure	**875.804**	**230.807**	**(166.576)**	**940.035**	**137.612**	**1,077.647**
SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	**270.501**	**144.087**	**(109.307)**	**305.281**	**(269.389)**	**35.892**

5.4 Capital

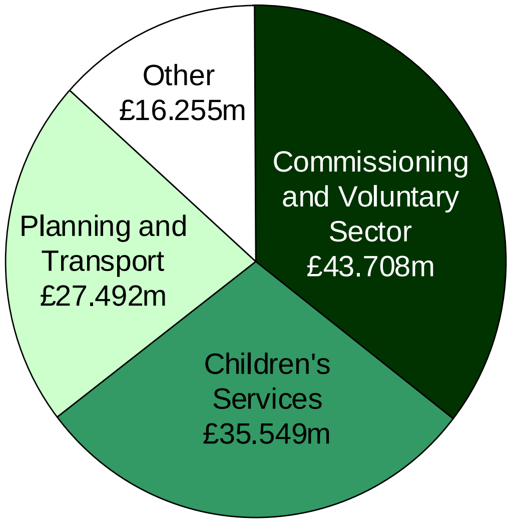
5.4.1 Capital Expenditure and Capital Financing

Capital expenditure relates to the acquisition of new assets and the development of existing assets, which will be of benefit to the Council for more than one year. Expenditure by service over the last two years has been as follows:

Capital Expenditure 2013/14
£122.165m



Capital Expenditure 2012/13
£123.004m



The capital programme is actively managed throughout the year and varied in line with agreed approvals and changes in funding. At the 2013/14 year end, available resources were £197.811m. Resources of £75.646m are therefore available to carry forward into 2014/15 to cover expenditure that has slipped between years.

The treatment of capital expenditure and financing generates some of the main differences between the funding basis and IFRS basis. The capital focus of the funding basis is ensuring that sufficient cash is raised to finance capital expenditure. The major differences are:

- Certain items of revenue expenditure which can be treated as capital under statute under the funding basis.
- Items of capital expenditure which are financed by a charge to revenue.
- Capital grants which are used to finance capital expenditure rather than being credited to revenue
- Making a revenue provision for repayment of borrowing (replacing depreciation) based on a calculation of the net capital financing requirement.

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and Public Finance Initiative (PFI) contracts), together with the resources that have been used to finance it:

	2012/13 £m	2013/14 £m
Capital Investment on IFRS Basis		
Property, Plant and Equipment	105.792	107.925
Investment Properties	0.227	6.573
Intangible Assets	0.219	1.061
Long Term Debtors	4.168	0.034
Short Term Investments	0.188	-
Total Additions to Assets on IFRS Basis	**110.594**	**115.593**
Revenue Expenditure Funded from Capital under Statute	12.696	6.572
Other Items	(0.286)	-
Total Expenditure to be Financed from Capital Sources	**123.004**	**122.165**
Financing		
Capital receipts	(0.242)	(4.815)
Government grants and other contributions	(68.120)	(60.631)
Sums set aside from revenue	(26.000)	(34.908)
UNDERLYING BORROWING REQUIREMENT IN YEAR	**28.642**	**21.811**

5.4.2 Capital Financing Requirement (CFR)

The CFR is a measure of the capital expenditure incurred historically by the Council that has yet to be repaid. The CFR is also used to calculate the statutory minimum charge for debt repayment known as the Minimum Revenue Provision.

Where capital expenditure is financed by borrowing the expenditure results in an increase in the CFR. Further adjustments are made to include assets acquired under PFI contracts included in the Balance Sheet and provisions for debt repayment included in the funding basis in the table below:

	2012/13 £m	2013/14 £m
Opening Capital Financing Requirement	**892.990**	**902.178**
Increase in underlying need to borrow:		
Supported by government financial assistance	1.760	1.632
Unsupported by government financial assistance	26.882	20.179
Statutory Minimum Revenue Provision	(8.537)	(8.426)
Voluntary Revenue Provision	(17.224)	(22.410)
Voluntarily Set Aside Capital Receipts	-	(3.192)
Assets acquired under finance leases	(0.021)	(0.002)
Assets acquired under PFI/PPP contracts	8.944	28.994
PFI Liability Discharged	(2.434)	(1.045)
Other Items	(0.182)	(0.973)
CLOSING CAPITAL FINANCING REQUIREMENT	**902.178**	**916.935**

5.5 Long Term Borrowing

The Local Government Act 2003 provides the legislative framework for borrowing undertaken by the Council including an operational boundary or limit on the value of borrowing undertaken. The Council approved an operational boundary on the level of external debt during 2013/14 of £914.9m (including PFI and finance lease related debt of £93.1m). Actual external debt on 1 April 2013 was £842.5m and this decreased to £802.0m at 31 March 2014.

Section 6
Notes to the Financial Statements

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

6.1 Comprehensive Income and Expenditure Notes

6.1.1 Other Operating Expenditure

	2012/13 £m	2013/14 £m
Schools transferring to Academy Status	23.665	23.324
Payments to the Government Housing Capital Receipts Pool	1.541	1.730
Gains/Losses on the disposal of non-current assets	8.307	12.825
TOTAL	**33.513**	**37.879**

6.1.2 Financing and Investment Income and Expenditure

	2012/13			2013/14		
	Expenditure £m	Income	Net	Expenditure £m	Income	Net
Net Interest on Pension Fund	15.905	-	15.905	23.262	-	23.262
Other interest	32.935	(2.785)	30.150	34.672	(3.101)	31.571
Investment Properties	0.491	(2.621)	(2.130)	0.440	(2.650)	(2.210)
Other investments	44.571	(49.685)	(5.114)	38.407	(43.053)	(4.646)
TOTAL	**93.902**	**(55.091)**	**38.811**	**96.781**	**(48.804)**	**47.977**

Also see section 6.2.16 for elements relating to Financial Instruments and section 6.5.1 for Trading Operations.

6.1.3 Taxation and Non-Specific Grant Income

	2012/13 £m	2013/14 £m
Council Tax income	(105.192)	(80.818)
National Non domestic rates (NNDR)	(169.771)	(80.945)
Non-ringfenced government grants	(4.980)	(132.533)
Capital grants and contributions	(61.770)	(55.739)
TOTAL	**(341.713)**	**(350.035)**

See Note 6.1.5 for further details on grant income.

6.1.4 Transactions Relating to Post Employment Benefits (inc. Pensions)

The revised IAS19 standard has brought about the following main changes:

- Removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate.
- Some labelling changes to the CIES charge.
- Administration expenses are now accounted for within the CIES; previously a deduction was made to the actual and expected returns on assets.

The main changes are to the CIES. The table below shows how the 2012/13 reported figures, would have been reported under the new standard, and the 2013/14 figures under the new standard:

	Local Government Pension Scheme			Teachers	
	2012/13 Disclosed £m	2012/13 Per revised IAS19 £m	2013/14 £m	2012/13 £m	2013/14 £m
Cost of Services:					
Service cost	separated below	29.306	33.113	-	-
Current service cost	34.295	included above	included above	-	-
Past service costs	-	included above	included above	-	-
Losses(gains) on curtailments and settlements	(4.989)	included above	included above	-	-
Administration expenses	n/a	0.074	0.058	n/a	-
Financing and Investment Income and Expenditure:					
Net interest on the defined liability (asset)	n/a	22.563	22.362	n/a	0.900
Interest on obligation	55.435	n/a	n/a	1.375	n/a
Expected return on scheme assets	(40.905)	n/a	n/a	-	n/a
Total Charged to (Surplus)/Deficit on Provision of Services	**43.836**	**51.943**	**55.533**	**1.375**	**0.900**
Other Comprehensive Income and Expenditure (OCIE):					
Actuarial losses (gains)	(12.169)	-	-	4.212	-
Re-measurements of the net defined benefit liability (asset):					-
Return on plan assets in excess of interest		(77.924)	(12.792)	-	-
Other actuarial (gains)/losses on assets		-	27.017	-	-
Change in financial assumptions		57.648	24.853	-	(1.508)
Change in demographic assumptions		-	57.517	-	-
Experience (gain)/loss on defined benefit obligation		-	(120.143)	-	-
Changes in effect of asset ceiling		-	-	-	-
Total Charged to OCIE	**(12.169)**	**(20.276)**	**(23.548)**	**4.212**	**(1.508)**
Total Charged to the CIES	**31.667**	**31.667**	**31.985**	**5.587**	**(0.608)**
Actual Return on Scheme Assets	**110.722**	**110.796**	**49.497**	**-**	**-**

These transactions are summarised in the following table:

	2012/13 Disclosed £m	2012/13 Per revised IAS19 £m	2013/14 £m
Comprehensive Income and Expenditure Statement:			
Cost of services	29.306	29.380	33.171
Financing and Investment income and expenditure	15.905	23.938	23.262
Other Comprehensive Income and Expenditure	(7.957)	(16.064)	(25.056)
TOTAL	**37.254**	**37.254**	**31.377**

6.1.5 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

	2012/13 £m	2013/14 £m
Credited to Taxation and Non Specific Grant Income		
Revenue Grants		
Revenue Support Grant	(3.291)	(129.347)
Non-domestic rates distribution	(169.771)	(80.945)
Demand on the Collection Fund	(103.885)	(79.751)
Council Tax Transition Grant	-	(0.663)
Apportionment of Collection Fund Deficit/Surplus	(1.307)	(0.404)
New Homes Bonus	(1.689)	(3.186)
Capital Grants		
Government Departments	(58.873)	(52.431)
Other	(2.897)	(3.308)
TOTAL	**(341.713)**	**(350.035)**
Credited to Services		
Revenue Grants		
Department for Communities and Local Government: PFI Grant	(2.898)	(2.898)
Department for Education: Dedicated School Grant	(148.274)	(137.907)
Department for Education: PFI Grant	(3.419)	(5.416)
Department for Work & Pensions: Housing Benefit Admin	(3.269)	(4.323)
Department for Works and Pensions: Council Tax Benefit	(33.879)	-
Department of Transport: PFI Grants	(26.091)	(46.533)
Drug Action Team	(1.658)	(0.022)
Early Intervention Grant	(17.807)	-
Growth Fund	(4.183)	(1.024)
Learning & Skills Grant	(0.689)	-
Learning Disabilities & Health Reform Grant	(6.830)	-
Mandatory Rent Allowances: Subsidy	(83.696)	(81.020)
Public Health	-	(27.080)
Pupil Premium Grant	(6.387)	(8.770)
Rent Rebates Granted to HRA Tenants	(62.217)	(62.376)
Young People Learning Agency Grant	(1.937)	(0.109)
Other Revenue Grants	(15.359)	(40.188)
Contributions	(29.630)	(16.020)
Donations	(0.639)	(1.546)
TOTAL	**(448.862)**	**(435.232)**

6.1.6 Surplus or Deficit on revaluation of Property, Plant and Equipment (PPE) assets

During 2013/14 revaluation gains and losses charged to Other Comprehensive Income and Expenditure amounted to a net revaluation gain of £27.745 for PPE assets and £0.842m for Heritage Assets. There are no charges relating to physical damage and demolition of assets in 2013/14.

6.2 Balance Sheet Notes

6.2.1 Property Plant and Equipment

2013/14	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Gross Book Value b/f	562.063	934.174	119.894	402.692	27.902	30.454	76.159	**2,153.338**	**76.450**
Accumulated Depreciation b/f	-	(39.890)	(49.577)	(107.736)	(5.438)	(1.212)	-	**(203.853)**	**(4.784)**
Accumulated Impairment b/f	(0.188)	(6.189)	-	-	-	(7.425)	(4.009)	**(17.811)**	-
Net Book Value at 1st April 2013	**561.875**	**888.095**	**70.317**	**294.956**	**22.464**	**21.817**	**72.150**	**1,931.674**	**71.666**
Additions - Capital Expenditure	36.223	6.242	20.386	18.529	1.174	4.895	20.476	**107.925**	0.025
Additions - Donations	1.792	-	0.054	-	-	-	-	**1.846**	-
Additions - PFI Recognition	-	16.403	-	11.301	-	-	1.291	**28.995**	28.995
Depreciation Charge	(26.182)	(26.240)	(13.828)	(16.022)	(0.893)	(0.134)	-	**(83.299)**	(3.185)
Revaluations - Recognised in Revaluation Reserve	0.920	24.410	-	-	-	2.415	-	**27.745**	-
Revaluations - Recognised in the CIES	7.812	(7.589)	-	-	-	(0.068)	-	**0.155**	-
Derecognition - Disposals	-	(0.453)	(0.037)	-	-	(2.840)	-	**(3.330)**	-
Derecognition - Other	(3.531)	(26.953)	-	-	-	(4.803)	-	**(35.287)**	-
Impairments - Recognised in the CIES	0.030	0.017	-	-	-	-	-	**0.047**	-
Transfers to Held for Sale/Investment	(9.837)	8.104	-	-	-	16.237	(16.825)	**(2.321)**	-
Net Book Value at 31st March 2014	**569.102**	**882.036**	**76.892**	**308.764**	**22.745**	**37.519**	**77.092**	**1,974.150**	**97.501**
Gross Book Value c/f	569.260	938.099	139.242	432.522	29.076	38.608	81.101	**2,227.908**	105.470
Accumulated Depreciation c/f	-	(55.706)	(62.350)	(123.758)	(6.331)	(1.089)	-	**(249.234)**	(7.969)
Accumulated Impairment c/f	(0.158)	(0.357)	-	-	-	-	(4.009)	**(4.524)**	-
Net Book Value at 31 March 2014	**569.102**	**882.036**	**76.892**	**308.764**	**22.745**	**37.519**	**77.092**	**1,974.150**	**97.501**

2012/13	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Gross Book Value b/f	562.651	953.325	106.106	394.861	26.413	18.100	40.895	**2,102.351**	**67.514**
Accumulated Depreciation b/f	-	(24.881)	(37.705)	(98.628)	(4.601)	(1.135)	-	**(166.950)**	**(1.956)**
Accumulated Impairment b/f	-	(0.729)	-	-	-	(0.136)	-	**(0.865)**	-
Net Book Value at 1st April 2012	**562.651**	**927.715**	**68.401**	**296.233**	**21.812**	**16.829**	**40.895**	**1,934.536**	**65.558**
Additions - Capital Expenditure	34.631	20.166	11.086	11.574	1.489	5.135	21.711	**105.792**	(0.008)
Additions - Donations	5.917	-	-	-	-	-	-	**5.917**	
Additions - PFI Recognition	-	-	-	8.944	-	-	-	**8.944**	8.944
Depreciation Charge	(25.655)	(25.999)	(12.959)	(15.205)	(0.837)	(0.732)	-	**(81.387)**	(2.828)
Revaluations - Recognised in Revaluation Reserve	(0.907)	64.631	-	-	-	(0.626)	-	**63.098**	-
Revaluations - Recognised in the CIES	(0.535)	(38.282)	-	-	-	(5.654)	-	**(44.471)**	-
Derecognition									
Derecognition - Disposals	-	-	-	-	-	(3.066)	-	**(3.066)**	-
Derecognition - Other	(2.877)	(24.654)	(0.004)	(6.590)	-	(1.600)	-	**(35.725)**	-
Impairments - Recognised in Revaluation Reserve	-	(6.547)	-	-	-	(2.147)	-	**(8.694)**	-
Impairments - Recognised in the CIES	(0.188)	(6.772)	-	-	-	(2.063)	-	**(9.023)**	-
Transfers to Held for Sale/Investment	(11.162)	(22.163)	3.793	-	-	15.741	9.544	**(4.247)**	-
Net Book Value at 31st March 2013	**561.875**	**888.095**	**70.317**	**294.956**	**22.464**	**21.817**	**72.150**	**1,931.674**	**71.666**
Gross Book Value c/f	562.063	934.174	119.894	402.692	27.902	30.454	76.159	**2,153.338**	76.450
Accumulated Depreciation c/f	-	(39.890)	(49.577)	(107.736)	(5.438)	(1.212)	-	**(203.853)**	(4.784)
Accumulated Impairment c/f	(0.188)	(6.189)	-	-	-	(7.425)	(4.009)	**(17.811)**	
Net Book Value at 31 March 2013	**561.875**	**888.095**	**70.317**	**294.956**	**22.464**	**21.817**	**72.150**	**1,931.674**	**71.666**

Depreciation

In line with the Accounting Policies for PPE (section 2.1.3) the following useful lives and depreciation rates have been used in the calculation of depreciation:

	Standard Life	Overall Range
Council Dwellings – component based calculation	-	20-80 years
Other Land and Buildings	-	5-75 years
Furniture & Equipment	5 years	5-22 years
Vehicles	7 years	1-7 years
Infrastructure and Community Assets	25 years	6-52 years

Where the Council departs from standard lives, the lives used are within the overall range outlined in the table above.

Revaluations

The Council carries out a rolling programme that ensures that all PPE carried at 'fair value' is revalued at least every 5 years. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on depreciated historical cost as a proxy for current value.

During 2013/14, the Council's internal valuers completed asset valuations for operational and surplus properties in compliance with the 5-year requirement. In addition, internal valuers also completed a number of reviews outside the Council's 5-year property revaluation programme, for properties undergoing significant changes as a result of capital investment, material impairment or reclassification.

External valuers Herbert Button & Partners and Freeman and Mitchell completed a desktop review of the Council Housing Stock valuation as at 31st March 2014.

Valuers Assumptions - Cyclical and Non Cyclical Valuations

States of Repair - All properties have been assumed to be in good condition unless specific disrepair has been identified and this has been taken into account in the valuation.

Contamination – Unless there is specific evidence, it is assumed that the properties are not, nor are likely to be affected by land contamination and that there are no ground conditions that would affect the present or future use of the properties. Where there is evidence of contamination, this as been reflected in the valuation unless the cost of decontamination work would be immaterial.

Title - It is assumed that there are no encumbrances on title.

Council Housing Stock Valuation – Desktop Review (see above)

Condition - The desktop review assumes that no significant changes have taken place to the council housing properties since the 2010 full revaluation and that all properties are in a similar condition.

Material Revaluation Gains, Losses and Impairments

7 properties with a total value of £23.324m have been removed from the Council's balance sheet as a result of schools gaining Academy Status and entering into long leasehold agreements at a peppercorn rent.

There were no other material changes as a result of revaluation in 2013/14.

In line with the Accounting Policies for PPE, the Council's componentisation policy has been applied to recognition, revaluation and depreciation of fixed assets during 2013/14.

Valuation at 31 March 2014

DESCRIPTION	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total £m
Carried at depreciated historical cost			76.892	308.764	22.745			408.401
Valued at depreciated fair value as at:								
2009/10	-	-	-	-	-	-	33.219	33.219
2010/11	-	164.035	-	-	-	-	2.196	166.231
2011/12	-	352.759	-	-	-	-	20.743	373.502
2012/13	-	234.439	-	-	-	20.948	14.295	269.682
2013/14	569.102	130.803	-	-	-	16.571	6.639	723.115
TOTAL	**569.102**	**882.036**	**76.892**	**308.764**	**22.745**	**37.519**	**77.092**	**1,974.150**

Capital Commitments

At 31 March 2014, the Council had entered into a number of contracts for the construction or enhancement of PPE which extend into future years. The major commitments are:

DESCRIPTION	Contract Period	31 March 2013 £m	31 March 2014 £m
Public Sector Housing Programme			
Lift Replacement Programme	2013-2015	-	1.057
Modern Living	2013-2015	-	4.980
Roof & Chimney Replacement	2013-2015	-	3.239
Management Fee	2013-2015	-	1.907
Composite Doors City Wide	2013-2015	-	1.916
No Fines/ Solid Wall Insulation Schemes	2013-2015	-	1.500
Green Deal Communities Funding	2013-2015	-	3.851
Sneinton District Heating - BMK'S	2013-2015	-	3.706
Victoria Centre Roof	2013-2015	-	2.333
Radford New Build	2013-2015	-	3.942
Lenton New Build - Phase 1 Includes ILS	2013-2015	-	3.894
Leaseholder Costs - Acquisitions - Cranwell / Meadows	2013-2015	-	2.263
Education Programme			
Ellis Guildford School – BSF	2011-2013	0.075	-
Bluecoat / Wollaton BSF	2012-2014	2.274	0.131
Forest Fields Primary Reorganisation	2012-2014	4.944	0.922
Manning Academy	2012-2014	1.308	-
Northgate Primary Reorganisation	2012-2014	0.681	-
ICT Managed Services - Installation in BSF schools	2009-2015	2.334	0.246
Transport Programmes			
Station Hub	2010-2015	6.111	3.112
Green Bus Fund - Round 3 Purchases	2012-2014	1.600	0.237
Local Link Buses (Local Sustainable Transport Fund)	2012-2014	0.980	-
Other Services			
Eastcroft Incinerator Waste Recycling Contract	Rolling	2.292	10.972
Forest Recreation Ground Masterplan	2012-2014	0.823	0.100
Harvey Hadden Pool	2013-2015	-	11.835
Forest Sports Zone	2013-2015	-	1.609
Victoria Leisure Centre	2009-2013	0.023	-
NET2/3 Land Acquisitions	2012-2013	38.185	31.286
NET2/3 Other Elements of Scheme	2013-2015	-	102.822
Vehicle Repalcement Programme	Rolling	-	2.188
Southglade Food Park - Phase 2	2013-2016	-	6.232
Downtown (Sneinton)	2013-2016	-	4.671
Creative Quarter - Daykene St Factory Refurbishment	2013-2016	-	5.968
Colwick Park and Ride Site	2014-2016	-	1.236
Contracts with Commitments less than £1m as at 31 March	-	17.184	23.765
TOTAL		**78.814**	**241.920**

6.2.2 Heritage Assets

The Council's register of Heritage Assets includes over 95,000 items (excluding natural history). The Council holds these assets as a contribution to the knowledge and cultural development of both citizens and visitors. The heritage assets items are either held on display at one of the Council's museums or held in storage, where access is encouraged.

These collections are reported either at cost or an adjusted external valuation, based on an annually updated market value, usually provided for insurance purposes. Items reported at cost are usually awaiting a market valuation.

	1 April 2012 £m	Revaluations £m	31 March 2013 £m	Revaluations £m	31 March 2014 £m
Byron Collection	13.301	0.591	13.892	0.260	14.152
Costume Collection	0.493	0.042	0.535	0.010	0.545
Decorative Art	2.281	0.075	2.356	0.042	2.398
Fine Art	26.578	1.077	27.655	0.495	28.150
Human & Social History	0.564	0.029	0.593	0.011	0.604
Industrial History	0.015	-	0.015	-	0.015
Civic Regalia & Silver Collection	1.257	0.041	1.298	0.023	1.321
TOTAL	**44.489**	**1.855**	**46.344**	**0.841**	**47.185**

Between 2009/10 and 2013/14 there have been no disposals or impairments, however, in 2010/11 there were additions to the value of Heritage Assets of £0.025m.

Preservation and Management

Each of the collections is managed by a curator who is responsible for their care and management in accordance with Nottingham City Council's policies and national guidelines. This policy requires that Heritage Assets are only disposed of when it is considered that they no longer contribute to the interest of the general public in their subject area. Although acquisitions are rare and primarily made by donation, on those rare occasions when a particularly important asset is available for purchase, the Council will apply for funding and undertake the purchase, provided that it meets the Council's objectives.

6.2.3 Transfers to/from Earmarked Reserves

The following table sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2013/14:

	Balance at 1 April 2012 £m	Transfers Out £m	Transfers In £m	Balance at 31 March 2013 £m	Transfers Out £m	Transfers In £m	Balance at 31 March 2014 £m
REVENUE							
Workforce Issues	11.647	(4.652)	5.555	12.550	(0.774)	3.451	15.227
Treasury Management	6.866	(3.207)	2.343	6.002	-	5.234	11.236
Investment Reserve	1.127	(0.085)	3.709	4.751	(0.586)	3.916	8.081
E-Government/IT Fund	6.641	(3.031)	4.656	8.266	(3.700)	3.553	8.119
Street Lighting PFI	3.888	-	2.502	6.390	-	1.267	7.657
NET City Reserve Fund	2.418	(11.260)	6.482	(2.360)	(4.543)	13.036	6.133
NHS Local Improvement Finance (LIFT)	3.333	-	1.642	4.975	-	0.931	5.906
C&F (CHS) Transitional Reserve	-	-	4.752	4.752	(0.492)	1.503	5.763
Housing Benefits	0.965	(0.354)	2.451	3.062	(0.734)	3.112	5.440
Trade Waste VAT Refund	-	-	4.786	4.786	(0.015)	-	4.771
Nottingham First Project	2.937	-	0.835	3.772	(0.110)	1.086	4.748
Transforming Services	0.805	(1.898)	5.092	3.999	(0.993)	0.355	3.361
BSF Bigwood & Oakfield PFI	2.945	(0.430)	0.270	2.785	-	0.237	3.022
Supporting People	2.353	-	-	2.353	(0.076)		2.277
Insurance Reserve	4.394	(2.094)	-	2.300	(0.253)	-	2.047
Emergency Hardship Fund	-	-	-	-	-	1.716	1.716
Jobs Fund	-	-	1.039	1.039	(0.197)	0.704	1.546
Agreed Budget Carry Forward	0.651	(1.082)	2.150	1.719	(1.658)	1.452	1.513
VAT Cultural Exemption	1.525	(0.144)	-	1.381	-	-	1.381
Public Health Transition Reserve	-	-	-	-	-	1.268	1.268
BDI Loan Fund	0.247	-	-	0.247	(0.247)	1.253	1.253
Revenue Grants Unapplied	1.890	(0.658)	0.317	1.549	(0.548)	0.046	1.047

Continued on the next page

	Balance at 1 April 2012 £m	Transfers Out £m	Transfers In £m	Balance at 31 March 2013 £m	Transfers Out £m	Transfers In £m	Balance at 31 March 2014 £m
REVENUE (Continued)							
Property Maintenance	1.638	(1.093)	0.750	1.295	(0.253)	-	1.042
Contingency Reserve	-	-	0.409	0.409	(0.523)	1.149	1.035
Area Committees	1.186	(0.443)	0.132	0.875	(0.068)	-	0.807
Economic Growth Plan	-	(0.022)	1.200	1.178	(0.436)	-	0.742
Future Nottingham	10.346	(4.993)	-	5.353	(5.227)	-	0.126
Management of Change (WFR)	0.496	(0.496)	-	-	-	-	-
Other Earmarked Reserves	13.339	(5.995)	3.421	10.765	(1.760)	5.038	14.043
	81.637	**(41.937)**	**54.493**	**94.193**	**(23.193)**	**50.307**	**121.307**
BALANCES HELD BY SCHOOLS UNDER A SCHEME OF DELEGATION							
School Statutory Reserve - Central	8.687	(2.730)	3.936	9.893	(3.523)	6.412	12.782
School Statutory Reserve - Schools	9.959	(0.450)	-	9.509	(0.867)	0.342	8.984
	18.646	**(3.180)**	**3.936**	**19.402**	**(4.390)**	**6.754**	**21.766**
CAPITAL							
Revenue Reserves for Capital	4.966	(1.429)	1.524	5.061	(0.086)	0.715	5.690
	4.966	**(1.429)**	**1.524**	**5.061**	**(0.086)**	**0.715**	**5.690**
TOTAL	**105.249**	**(46.546)**	**59.953**	**118.656**	**(27.669)**	**57.776**	**148.763**

Page 92

The purpose of each earmarked reserve with a value greater than £2m is listed below:

Revenue

Workforce Issues £15.227m
The reserve was initially set up to support the costs relating to job evaluation and equal pay issues. The reserve has been used in year to fund settlements and other costs incurred as a result of equal pay. By 31 March 2014 all phases of the process had been implemented. Contributions have been made to the reserve where the costs associated with equal pay in year have been less than budgeted. Future use of the reserve will be to fund any residual equal pay costs as well as other workforce issues.

Treasury Management £11.236m
The creation of a Treasury Management Reserve was formally approved by the Executive Board on 21 June 2005. The reserve was created in anticipation of future volatility in revenue charges arising in the Financing Transactions budget.

Investment Reserve £8.081m
Contributions were made to the reserve in year in line with the 2012-13 outturn and MTFP decisions. The reserve has been used in year to fund the Castle Development. £1.178m of the reserve is earmarked for local housing investment and a further £0.903m for invest to save schemes.

IT Development/E Government Fund £8.119m
When a major programme of computer hardware and software upgrades was implemented during the late 1990s, 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 an important reserve for continuing development of IT infrastructure for the Council

Street Lighting PFI £7.657m
The Street Lighting PFI contract reached financial close in May 2010, becoming operational in September 2010. The reserve is used to manage the Council's commitments under the contract to ensure that these commitments can be met over the 25 year contract period.

NET City Reserve Fund £6.133m
Established in 2011/12 because of the timing differences in respect of the various sources of funding and items of expenditure relating to the operation of NET Line One and the development of NET Lines 2 and 3 (Phase 2).

NHS Local Improvement Finance Trust (LIFT) £5.906m
LIFT is a public-private partnership initiative that is sponsored by the Department of Health to replace old and inadequate health-related buildings with new facilities. Under this initiative the Council has procured three Joint Service Centres at Clifton, Hyson Green and Bulwell. The arrangement is supported by PFI Credits issued by the Department for Communities and Local Government and requires the Council to enter into an agreement with the LIFT Company for a 25-year period. As part of the LIFT accounting arrangements, a fund is established into which PFI grant and required contributions from service departments are paid.

C&F (CHS) Transitional Reserve £5.763m
This reserve was created for grant specific programme slippage and/or approved project expenditure.

Housing Benefits £5.440m
Used to manage variations in the complex Housing Benefit claim.

Trade Waste VAT Refund £4.771m
This reserve is due to a successful claim to HMRC for VAT previously paid to them on income relating to the authority's trade waste collections which could potentially be liable to payback.

Nottingham First Project £4.748m
Approved in 2008/09 and has received further contributions in successive years to support Work Place Strategy implementation costs and prudential borrowing repayments.

Transforming Services £3.361m
A combination of other reserves amalgamated to support transformation within the Council.

BSF Bigwood & Oakfield PFI £3.022m
Set up in 2008 as part of wider approval for the Building Schools for the Future Programme, the reserve is used to manage the Council's commitments under the PFI contract for Big Wood and Oak Field schools, to ensure that these commitments can be met over the 25 year contract period.

Supporting People £2.277m
A sum of £0.076m has been transferred from this reserve during 2013/14 to cover payments in excess of funding for the Supporting People Programme. The reserve has been built up over previous years where grant received was in excess of the payments made.

Insurance Reserve £2.047m
This reserve reflects the potential future liabilities in relation to insurance claims.

Balances held by schools under a scheme of delegation

Schools' Statutory Reserve – Other £12.782m
This represents unspent school balances where the funds have not been delegated to schools but remain under the control of the Council. Part of the reserve is used to finance a school loan scheme, whereby schools are advanced funding and then repay over a maximum period of three years.

Schools' Statutory Reserve – Schools £8.984m
Again, this represents unspent school balances. In this case the funds have been delegated to schools and they are permitted to carry forward unspent balances from one financial year to the next. Conversely, any deficit balances are deducted from the following year's school budget share. The reserve balance is made up of £9.267m in surpluses and £0.283m deficit.

	Balance at 31 March 2013 £m	Movement £m	Balance at 31 March 2014 £m
Primary Schools	7.295	(0.137)	7.158
Secondary Schools	1.576	(0.803)	0.773
Special Schools	0.582	-	0.582
Nursery Schools	0.056	(0.083)	(0.027)
Pupil Refferal Units	-	0.498	0.498
TOTAL	**9.509**	**(0.525)**	**8.984**

Capital

Revenue Reserves for Capital Purposes £5.690m
Over the years sums have been appropriated into this reserve to provide additional funding for capital investment.

6.2.4 Investment Property

There are no restrictions on the Council's ability to sell its investment property or on its right to related income and the proceeds of disposal. There are no contractual obligations to purchase, construct or develop investment property or to conduct repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2012/13 £m	2013/14 £m
Balance at 1 April	37.454	36.962
Additions	0.227	6.572
Disposals	(0.220)	(3.820)
Net gains/(losses) from fair value adjustments	(0.499)	0.006
Transfers to / from Property Plant and Equipment	-	(1.332)
BALANCE AT 31 MARCH	**36.962**	**38.388**

Details of related income and expenditure included in the CIES are shown in section 6.1.2.

6.2.5 Intangible Assets

The Council accounts for software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of PPE. The balances shown below relate to purchased software licences. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use and for the major software suites this is assumed to be 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charged to revenue in 2013/14 was £0.513m.

The movement on intangible asset balances during the year is as follows:

	2012/13 £m	2013/14 £m
Balance at start of year:		
Gross carrying amounts	4.363	4.582
Accumulated amortisation	(2.299)	(2.801)
Net carrying amount at start of year	**2.064**	**1.781**
Additions - Purchases	0.219	1.061
Amortisation for the period	(0.502)	(0.513)
Net carrying amount at end of year	**1.781**	**2.329**
Comprising:		
Gross carrying amounts	4.582	5.643
Accumulated amortisation	(2.801)	(3.314)
Net carrying amount at end of year	**1.781**	**2.329**

6.2.6 Assets Held for Sale

	2012/13 £m	2013/14 £m
Balance outstanding at start of year	**5.607**	**5.918**
PPE declassified as held for sale	(0.050)	-
PPE newly classified as held for sale	4.423	3.653
Revaluation losses	(0.589)	-
Revaluation gains	2.978	2.438
Assets sold	(6.325)	(7.388)
Other movements	(0.126)	-
BALANCE AT 31 MARCH	**5.918**	**4.621**

6.2.7 Inventories

	2012/13				2013/14			
	Consumable Stores £m	Maintenance Materials £m	Client services work in progress £m	Total £m	Consumable Stores £m	Maintenance Materials £m	Client services work in progress £m	Total £m
Balance at 1 April	**0.697**	**0.055**	**0.716**	**1.468**	**0.536**	**0.051**	**0.622**	**1.209**
Purchases	4.172	1.264	8.381	13.817	2.903	1.366	12.029	16.298
Recognised as an expense in the year	(4.335)	(1.268)	(8.475)	(14.078)	(2.898)	(1.353)	(10.702)	(14.953)
Written off balances	0.002	-	-	0.002	(0.017)	-	-	(0.017)
BALANCE AT 31 MARCH	**0.536**	**0.051**	**0.622**	**1.209**	**0.524**	**0.064**	**1.949**	**2.537**

6.2.8 Short Term Debtors

	31 March 2013 £m	31 March 2014 £m
Central government bodies	13.491	20.735
Other local authorities	7.287	6.637
NHS Bodies	-	1.068
Public corporations and trading funds	-	0.187
Other entities and individuals	72.588	76.182
TOTAL	**93.366**	**104.809**

6.2.9 Cash and Cash Equivalents

The balance of Cash and Cash Equivalents comprises the following elements:

	31 March 2013 £m	31 March 2014 £m
Cash held by the Authority	0.306	0.394
Bank current accounts	0.610	4.047
Short-term deposits with banks and building societies	76.000	54.600
TOTAL	**76.916**	**59.041**

6.2.10 Short Term Creditors

	31 March 2013 £m	31 March 2014 £m
Central government bodies	(25.501)	(30.793)
Other local authorities	(10.184)	(7.975)
NHS Bodies	(0.121)	(7.437)
Other entities and individuals	(115.912)	(143.503)
TOTAL	**(151.718)**	**(189.708)**

6.2.11 Provisions

Current Provisions

These are amounts set aside meet specific expenditure in 2014/15. For Job Evaluation, £4.319m was provided to support the implementation of Single Status for school based non teaching staff as agreed by the Schools Forum. The first phase of implementation began 1st May 2013, with payments of £1.821m being made in 2013/14. The overall cost of implementation is now expected to increase so an additional provision of £0.549 has been made. Additionally a provision of £4.307m was initially provided for compulsory purchase of properties for the NET2 project, where the Council was in the process of negotiating final sale prices. A number of these purchases have now been completed leaving a balance on the provision of £1.750m

	Compulsory Purchases for NET2 £m	Carbon Reduction Credits £m	Job Evaluation £m	Municipal Mutual Insurance £m	Total £m
Balance at 1 April 2013	**(4.307)**	**(0.445)**	**(4.319)**	**(0.328)**	**(9.399)**
Additional provisions made	-	-	(0.549)	-	(0.549)
Amounts used	2.557	0.445	1.821	0.328	5.151
BALANCE AT 31 MARCH 2014	**(1.750)**	**-**	**(3.047)**	**-**	**(4.797)**

Non-Current Provisions

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

	Injury and Damage Compensation Claims £m	Business Rates Appeals £m	Other Provisions £m	Total £m
Balance at 1 April 2013	**(8.620)**	**-**	**(1.822)**	**(10.442)**
Additional provisions made	(1.035)	(4.419)	-	(5.454)
Amounts used	-	-	1.065	1.065
BALANCE AT 31 MARCH 2014	**(9.655)**	**(4.419)**	**(0.757)**	**(14.831)**

Insurance Compensation Claims

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 majority of costs met from the provision arise from property damage, liability claims made against the Council and motor accidents involving Council motor vehicles. In order to limit the Council's exposure to these risks the policies for external fire and motor and liability have been arranged with excesses of £0.100m, and £0.050m respectively. To further protect the Council's exposure to significant payments, aggregate 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 2013/2014 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 claim liabilities, which includes an element of incurred but not reported claims. In addition to the known and estimated liabilities there are also potential liabilities on the fund that have not been included in the fund balance.

Nottinghamshire County Council Closed 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 between 1 April 1974 and 31 March 1998 are administered by the County and paid by the insurers of that time. Uninsured claims and those that fall within the insurer excess levels are paid from the Closed Fund. At 31 March 2014, Nottinghamshire County Council was predicting the fund deficit would increase by £0.436m to £6.235m, based on known claims outstanding. The agreed contribution to the fund by the Council is 23.55% and, therefore, a net additional provision of £0.102m has been made to increase the Council's future anticipated contribution to the shortfall in the fund.

Business Rates

With the change in administration of NNDR the council now bears a risk of non-collection of business rates following appeals. A provision has therefore been made for successful future appeals. The Council's share of this provision amounts to £4.419m.

Equal Pay

A provision of £1.762m was set up in 2012/13 to meet the potential cost of additional settlements arising from an ongoing equal pay tribunal case. During the year payments of £1.005m have been made leaving a balance of £0.757m.

6.2.12 Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and section 6.2.3

6.2.13 Unusable Reserves

Unusable reserves have been created as a result of the difference between accounting under IFRS and statutory provisions for meeting expenditure from the General Fund. These reserves represent differences due to timing of funding certain items of expenditure and are, therefore, not available as a source of general funding.

	2012/13 £m	2013/14 £m
Revaluation Reserve	310.122	327.492
Capital Adjustment Account	869.605	881.690
Financial Instruments Adjustment Account	(7.530)	(7.186)
Pensions Reserve	(546.235)	(550.498)
Deferred Capital Receipts Reserve	3.985	4.293
Collection Fund Adjustment Account	1.419	5.006
Accumulated Absences Account	(5.187)	(4.629)
Available for Sale Financial Instruments Reserve	0.046	-
TOTAL UNUSABLE RESERVES	**626.225**	**656.168**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its PPE. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2012/13 £m	2013/14 £m
Balance at 1 April	**262.648**	**310.122**
Upward revaluation of assets	92.445	33.720
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(36.188)	(5.133)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	56.257	28.587
Difference between fair value depreciation and historical cost depreciation	(6.976)	(8.567)
Accumulated gains on assets sold or scrapped	(1.807)	(2.650)
Amount written off to the Capital Adjustment Account	(8.783)	(11.217)
BALANCE AT 31 MARCH	**310.122**	**327.492**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement. Depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account also contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council, together with revaluation gains accumulated on PPE before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2012/13 £m	2013/14 £m
Balance at 1 April	**921.935**	**869.605**
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Amortisation of intangible assets	(0.502)	(0.513)
Charges for depreciation of non-current assets	(81.387)	(83.299)
Charges for impairment of non-current assets	(9.023)	0.047
Revaluation losses on Property, Plant and Equipment	(42.082)	2.593
Donated assets	5.916	1.846
Movements in the market value of Investment Properties	(0.499)	0.006
Revenue expenditure funded from capital under statute (REFCUS)	(12.696)	(6.572)
REFCUS expenditure funded by grants	9.876	4.933
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(45.334)	(50.639)
Charges for impairment of investment in subsidairy	(0.195)	-
Adjusting amounts written out of the Revaluation Reserve	8.783	11.217
	(167.143)	(120.381)
Capital financing applied in the year:		
Use of Capital Receipts Reserve to finance new capital expenditure	0.242	8.007
Use of the Major Repairs Reserve to finance new capital expenditure	15.466	18.088
Application of grants from the Capital Grants Unapplied Account	58.244	55.698
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	13.757	12.469
Voluntary set aside of capital receipts for debt redemption	17.226	22.410
Capital expenditure charged against the General Fund and HRA balances	10.534	16.820
Reduction in Liabilities & Repayment of Long Term Debtors etc:		
Principal Repayment of Capital Loans	(0.656)	(1.026)
	114.813	132.466
BALANCE AT 31 MARCH	**869.605**	**881.690**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the account to manage premiums paid and discounts received on the early redemption of loans. Premiums and discounts are debited or credited to the CIES when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

Similar treatment is applied to loans raised by the Council with variable interest rates applied (Lenders Option Borrowers Option loans), and for monies advanced by the Council at less than the market interest rate (soft loans).

	2012/13 £m	2013/14 £m
Balance at 1 April	**(7.902)**	**(7.530)**
Premiums incurred in the year	0.426	0.411
Discounts incurred in the year	(0.072)	(0.072)
Lenders Option Borrowers Option Loans	0.003	0.004
Soft Loans	0.015	0.001
BALANCE AT 31 MARCH	**(7.530)**	**(7.186)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. Post employment benefits are accounted for in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as employer's contributions are made to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2012/13 Disclosed £m	2012/13 Per revised IAS19 £m	2013/14 £m
Balance at 1 April	**(536.819)**	**(536.819)**	**(546.235)**
Return on plan assets	-	77.924	12.792
Actuarial gains or (losses) on pensions assets and liabilities	7.957	(61.860)	12.264
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(45.211)	(53.318)	(56.433)
Employer's pensions contributions and direct payments to the pensioners payable in the year	27.838	27.838	27.114
BALANCE AT 31 MARCH	**(546.235)**	**(546.235)**	**(550.498)**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2012/13 £m	2013/14 £m
Balance at 1 April	**4.058**	**3.985**
Transfer to the Capital Receipts Reserve upon receipt of cash	(0.073)	(0.066)
Created in year	-	0.374
BALANCE AT 31 MARCH	**3.985**	**4.293**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and NNDR income in the CIES as it falls due, compared with the statutory arrangements (funding basis) for paying across amounts to the General Fund from the Collection Fund.

	2012/13 £m	2013/14 £m
Balance at 1 April	**0.112**	**1.419**
Adjustment for council tax income and NNDR credited to the CIES on an accounting basis instead of funding basis	1.307	3.587
BALANCE AT 31 MARCH	**1.419**	**5.006**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements (funding basis) require it to be treated as an unusable reserve so that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2012/13 £m	2013/14 £m
Balance at 1 April	**(5.635)**	**(5.187)**
Settlement or cancellation of accrual made at the end of the preceding year	5.635	5.187
Amounts accrued at the end of the current year	(5.187)	(4.629)
Adjustment to CIES to include officer remuneration on an accounting (accruals) basis instead of funding basis	**0.448**	**0.558**
BALANCE AT 31 MARCH	**(5.187)**	**(4.629)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains lost
- de-recognised due to maturity/sale and the gains are realised

At the end of 2012/13 the reserve held a balance of £46,000 due to previous revaluation gains. During 2013/14 the assets were sold and the gain was written out to Other Investment Income in the CIES.

6.2.14 Capital Grants Received in Advance

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned if the conditions are not met.

The balances at the year-end are as follows:

	2012/13 £m	2013/14 £m
Department for Education	(0.575)	(0.264)
Department for Transport	(1.326)	-
S106 Contributions - Affordable Housing	(0.762)	(1.286)
S106 Contributions - Open Space	(0.828)	(0.799)
S106 Contributions - Transport / Public Realm / Training	(0.624)	(0.445)
Other Grants and Contributions	(0.475)	(0.516)
TOTAL	**(4.590)**	**(3.310)**

6.2.15 Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in three post employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Nottinghamshire County Council
- The Teachers Pension Scheme, managed by the Department for Education (DfE) and administered by Capita Business Services Ltd
- The NHS Pension Scheme, administered by the NHS Business Services Authority

Further details for these schemes can be found in Appendix C

The following tables explain the amounts in the financial statements. For 2012/13 the tables show both the original LGPS figures in last year's Statement of Accounts and the comparative figures, had the revised IAS 19 standard been applied. Teachers Benefits data is in respect of additional pensions granted at retirement by the Council and are paid for by the Council as they become due.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Local Government Pension Scheme			Teachers	
	2012/13 Disclosed £m	2012/13 Under revised IAS19 Standard £m	2013/14 £m	2012/13 £m	2013/14 £m
Opening balance at 1 April	**(1,225.358)**	**(1,225.358)**	**(1,334.670)**	**(30.959)**	**(34.402)**
Current service cost	(34.295)	(34.295)	(36.513)	-	-
Interest cost	(55.435)	(55.435)	(59.066)	(1.375)	(0.900)
Change in financial assumptions	combined below	(57.648)	(24.853)	-	1.508
Change in demographic assumptions	combined below	-	(57.517)	-	-
Experience loss/(gain) on defined benefit obligation	combined below	-	120.143	-	-
Total actuarial gains and losses	(57.648)	separated above	separated above	(4.212)	-
Losses/gains on curtailments	(1.009)	combined below	combined below	-	-
Liabilities assumed/extinguished on settlements	9.970	9.970	6.597	-	-
Estimated benefits paid net of transfers in	36.100	36.100	42.328	-	-
Past service costs	-	combined below	combined below	-	-
Past Service costs including curtailments	separated above	(1.009)	(0.708)	-	-
Contributions by scheme participants	(8.284)	(8.284)	(8.188)	-	-
Unfunded pension payments	1.289	1.289	1.256	2.144	2.136
CLOSING BALANCE AT 31 MARCH	**(1,334.670)**	**(1,334.670)**	**(1,351.191)**	**(34.402)**	**(31.658)**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme 2012/13 Disclosed £m	2012/13 Under revised IAS19 Standard £m	2013/14 £m
Opening balance at 1 April	**719.498**	**719.498**	**822.837**
Expected return on scheme assets	40.905	n/a	n/a
Interest on assets	n/a	32.872	36.704
Return on assets less interest	n/a	77.924	12.792
Other actuarial gains/losses	n/a	-	(27.017)
Total actuarial gains/losses	69.817	n/a	n/a
Administration expenses	n/a	(0.074)	(0.058)
Contributions by the employer including unfunded	25.694	25.694	24.978
Contributions by scheme participants	8.284	8.284	8.188
Estimated benefits paid plus unfunded net of transfers in	(37.389)	(37.389)	(43.584)
Settlement prices received/paid	(3.972)	(3.972)	(2.489)
CLOSING BALANCE AT 31 MARCH	**822.837**	**822.837**	**832.351**

The net pension liability shown in the balance sheet as at 31 March is as follows:

	Local Government Pension Scheme		Teachers Benefits	
	31 March 2013 £m	31 March 2014 £m	31 March 2013 £m	31 March 2014 £m
Present value of funded obligation	(1,319.790)	(1,336.017)	-	-
Fair value of scheme assets (bid value)	822.837	832.351	-	-
Net Liability	**(496.953)**	**(503.666)**	**-**	**-**
Present value of unfunded obligation	(14.880)	(15.174)	(34.402)	(31.658)
NET LIABILITY IN BALANCE SHEET	**(511.833)**	**(518.840)**	**(34.402)**	**(31.658)**

The liabilities show the underlying commitments that the Council has to pay in respect of post-employment (retirement) benefits. The total liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, as a result of the negative overall balance of £550.498m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the LGPS will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

6.2.16 Financial Instruments

The operation of the Council's Treasury Management function is regulated through the Local Government Act 2003 and supplementary guidance issued by the Department for Communities and Local Government, the CIPFA Code of Practice for Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council approves an annual treasury strategy, reviewing risk and expected activities during the year.

The 2011 Accounting Code of Practice requires disclosure of information pertaining to the scope, significance and risk associated with the Council's financial instruments.

Categories of Financial Instruments

A financial instrument arises from a contract which creates a financial asset in one organisation and a financial liability in another. The Balance Sheet contains a range of such financial instruments, both assets and liabilities.

The tables below show the appropriate value of all financial instruments on the Balance Sheet as at 31 March 2014 (and 31 March 2013). The investments figures reflect the impairment of deposits placed with Icelandic banks.

	Notes	Long-term		Current	
		31 March 2013 £m	31 March 2014 £m	31 March 2013 £m	31 March 2014 £m
Investments					
Loans and receivables					
- investments (principal)	1	-	15.000	116.000	138.600
- cash equivalents (principal)		-	-	76.000	54.600
- interest	1	-	-	0.269	0.317
- Icelandic deposits	1	5.565	-	4.896	2.450
		5.565	**15.000**	**197.165**	**195.967**
Available for sale		-		25.103	18.983
Unquoted equity investment at cost		0.787	0.787	-	-
TOTAL INVESTMENTS		**6.352**	**15.787**	**222.268**	**214.950**
Debtors					
Loans and receivables	2	58.652	60.696	74.856	83.990
TOTAL DEBTORS		**58.652**	**60.696**	**74.856**	**83.990**

Notes:

1. Current Total Investments, excluding cash equivalents equate to Short Term Investments in section 4.2: Balance Sheet.
2. Debtors exclude non-contractual items e.g. NNDR and Council Tax, together with Payments in Advance.

	Notes	Long-term 31 March 2013 £m	Long-term 31 March 2014 £m	Current 31 March 2013 £m	Current 31 March 2014 £m
Borrowings					
Financial liabilities at amortised cost					
- principal	1	700.372	684.943	76.308	25.311
- interest		-	-	9.590	6.884
- accounting adjustments		0.950	0.946	-	-
TOTAL BORROWINGS		**701.322**	**685.889**	**85.898**	**32.195**
Other Long Term Liabilities					
PFI and finance lease liabilities	1	64.035	91.789	2.185	1.891
Growing Places Fund and other		17.309	7.054	-	15.899
TOTAL OTHER LONG TERM LIABILITIES		**81.344**	**98.843**	**2.185**	**17.790**
Creditors					
Financial liabilities at amortised cost	2	-	-	109.302	146.218
TOTAL CREDITORS		**-**	**-**	**109.302**	**146.218**

Notes:

1. The principal element of borrowings plus PFI and finance lease liabilities equates to external debt for comparison against the operational boundary.
2. Creditors exclude non-contractual items e.g. NNDR and Council Tax, together with Receipts in Advance.

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

The following table discloses the income and expenditure recognised in the CIES for all financial assets and liabilities not held at fair value (calculated using the effective interest method):

	2012/13 £m	2013/14 £m
Interest expense	(21.388)	(23.878)
Impairment losses	(0.059)	1.080
Total Expense in Surplus or Deficit on the Provision of Services	**(21.447)**	**(22.798)**
Interest income	1.785	1.828
Interest income - impaired financial assets	0.676	0.507
Total Income in Surplus or Deficit on the Provision of Services	**2.461**	**2.335**
NET GAIN/(LOSS) FOR THE YEAR	**(18.986)**	**(20.463)**

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 net present value, at 31 March 2014, 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 published 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.
- Other long term liabilities, comprising finance leases and notional debt in respect of PFI schemes, have been excluded.
- 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.
- Available for sale investments are held on the Balance Sheet at fair value and therefore excluded from the table below.`

The fair values calculated are as follows:

	31 March 2013		31 March 2014	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
PWLB debt	693.869	848.935	655.141	746.230
Market loans	50.437	72.941	50.431	63.028
3% stock	2.335	1.707	0.919	0.625
Bonds etc	0.595	0.595	0.387	0.387
Other debt	39.985	39.985	11.184	11.184
Trade creditors	109.302	109.302	146.218	146.218
Financial Liabilities	**896.523**	**1,073.465**	**864.280**	**967.672**
Investments (< 1 year)	192.269	192.269	193.517	193.517
Investments (> 1 year)	-	-	15.000	15.107
Debtors	74.856	74.856	83.990	83.990
Long-term debtors	58.652	58.652	60.696	60.696
Financial Assets	**325.777**	**325.777**	**353.203**	**353.310**

The fair value of the debt is greater than the carrying amount because the 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 2014, giving a 'carrying amount' at year-end.

6.3 Movement in Reserves Statement Notes

6.3.1 Adjustments between Accounting Basis and Funding Basis under regulations

2013/14	Usable Reserves					
	General Fund £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	Unusable Reserves £m
Non Current Assets						
● Amortisation of Intangible Fixed Assets	0.508	0.005	-	-	-	(0.513)
● Depreciation	54.560	28.739	-	-	-	(83.299)
● Impairment	(0.017)	(0.030)	-	-	-	0.047
● Revaluation Losses	8.285	(8.440)	-	-	-	0.155
● Donated Assets	(0.054)	(1.792)	-	-	-	1.846
● Investment Property Movement	0.026	(0.032)	-	-	-	0.006
● Assets Held for Sale Movement	-	(2.438)	-	-	-	2.438
● Derecogniton of Fixed Assets	27.981	7.915	-	-	-	(35.896)
● (Loss)/Gain on Sale of Fixed Assets	0.386	0.226	14.131	-	-	(14.743)
	91.675	24.153	14.131	-	-	(129.959)
Capital Financing						
● Revenue Expenditure Funded From Capital Under Statute	1.639	-	-	-	-	(1.639)
● Statutory Minimum Revenue Provision for Capital Financing	(8.426)	-	-	-	-	8.426
● Voluntary Revenue Provision for Capital Financing	(21.405)	(1.005)	-	-	-	22.410
● PFI Minimum Revenue Provision	(4.043)	-	-	-	-	4.043
● Capital Expenditure charged in year to General Fund Balance	(11.072)	(5.748)	-	-	-	16.820
● Transfer to/from Major Repairs Reserve	-	(28.739)	-	10.651	-	18.088
● Transfer from usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool.	1.730	-	(1.730)	-	-	-
● Other Items: Regional Housing Grant, Bulwell LIFT, WD LT debtor	-	-	0.719	-	-	(0.719)
● Use of Capital Receipts Reserve to finance new Capital expenditure	-	-	(8.007)	-	-	8.007
● Capital Grants Applied	-	-	-	-	(55.698)	55.698
	(41.577)	(35.492)	(9.018)	10.651	(55.698)	131.134

Continued on the next page

2013/14	Usable Reserves					
	General Fund £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	Unusable Reserves £m
Employee Benefits	(0.558)	-	-	-	-	0.558
Pension Fund						
● Net charges made for Retirement Benefits in accordance with IAS19	56.433	-	-	-	-	(56.433)
● Employers contributions payable to the NCC Pension Fund and Retirement Benefits payable direct to pensioners.	(27.114)	-	-	-	-	27.114
	29.319	-	-	-	-	(29.319)
Other Movements						
● Capital Grants & Contributions	(55.739)	-	-	-	55.739	-
● Financial Instrument Adjustment Account	(0.330)	(0.014)	-	-	-	0.344
● Transfer to/(from) Collection Fund Adjustment Account	(3.588)	-	-	-	-	3.588
	(59.657)	(0.014)	-	-	55.739	3.932
TOTAL ADJUSTMENTS	**19.202**	**(11.353)**	**5.113**	**10.651**	**0.041**	**(23.654)**

2012/13	Usable Reserves					
	General Fund £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	Unusable Reserves £m
Non Current Assets						
● Amortisation of Intangible Fixed Assets	0.493	0.009	-	-	-	(0.502)
● Depreciation	53.731	27.656	-	-	-	(81.387)
● Impairment	7.945	1.078	-	-	-	(9.023)
● Revaluation Losses	44.754	(2.672)	-	-	-	(42.082)
● Donated Assets	-	(5.917)	-	-	-	5.917
● Investment Property Movement	0.499	-	-	-	-	(0.499)
● Decrecogniton of Fixed Assets	32.696	3.027	-	-	-	(35.723)
● (Loss)/Gain on Sale of Fixed Assets	(0.261)	(0.045)	9.917	-	-	(9.611)
	139.857	23.136	9.917	-	-	(172.910)
Capital Financing						
● Revenue Expenditure Funded From Capital Under Statute	1.960	0.860	-	-	-	(2.820)
● Statutory Minimum Revenue Provision for Capital Financing	(8.537)	-	-	-	-	8.537
● Voluntary Revenue Provision for Capital Financing	(16.219)	(1.007)	-	-	-	17.226
● PFI Minimum Revenue Provision	(5.220)	-	-	-	-	5.220
● Write down Arrow Share Value	0.195	-	-	-	-	(0.195)
● Capital Expenditure charged in year to General Fund Balance	(5.834)	(4.700)	-	-	-	10.534
● Transfer to/from Major Repairs Reserve	-	(27.656)	-	12.190	-	15.466
● Transfer from usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool.	1.541	-	(1.541)	-	-	-
● Other Items: Regional Housing Grant, Bulwell LIFT, WD LT debtor	-	-	0.729	-	-	(0.729)
● Use of Capital Receipts Reserve to finance new Capital expenditure	-	-	(0.242)	-	-	0.242
● Capital Grants Applied	-	-	-	-	(58.245)	58.245
	(32.114)	(32.503)	(1.054)	12.190	(58.245)	111.726

Continued on the next page

2012/13	Usable Reserves					
	General Fund £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	Unusable Reserves £m
Employee Benefits	(0.448)	-	-	-	-	0.448
Pension Fund						
● Net charges made for Retirement Benefits in accordance with FRS17	45.211	-	-	-	-	(45.211)
● Employers contributions payable to the NCC Pension Fund and Retirement Benefits payable direct to pensioners.	(27.838)	-	-	-	-	27.838
	17.373	-	-	-	-	(17.373)
Other Movements						
● Revenue Grants & Contributions	(61.770)	-	-	-	61.770	-
● Financial Instrument Adjustment Account	(0.344)	(0.029)	-	-	-	0.373
● Transfer to/(from) Collection Fund Adjustment Account	(1.307)	-	-	-	-	1.307
	(63.421)	(0.029)	-	-	61.770	1.680
TOTAL ADJUSTMENTS	**61.247**	**(9.396)**	**8.863**	**12.190**	**3.525**	**(76.429)**

6.3.2 Post Employment Benefits Transactions

The Council recognise the cost of retirement benefits in the cost of services when they are earned by employees; rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the MIRS. The following transactions have been made in the General Fund Balance via the MIRS during the year:

	Local Government Pension 2012/13 Disclosed £m	Local Government Pension 2012/13 Under revised IAS19 £m	Local Government Pension 2013/14 £m	Teachers Benefits 2012/13 £m	Teachers Benefits 2013/14 £m
Movement in Reserves Statement					
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	(43.836)	(51.943)	(55.533)	(1.375)	(0.900)
Actual amount charged against the General Fund Balance for pensions in the year:					
Employers' contributions payable to scheme	25.694	25.694	24.978		
Retirement benefits payable to pensioners				2.144	2.136

These transactions can be summarised as follows:

	2012/13 Disclosed £m	2012/13 Under revised IAS19 Standard £m	2013/14 £m
Movement in Reserves Statement:			
Reversal of Charges made in accordance with the Code	(45.211)	(53.318)	(56.433)
Charges to General Fund made on a funding basis	27.838	27.838	27.114
TOTAL	**(17.373)**	**(25.480)**	**(29.319)**

6.4 Cash Flow Statement Notes

6.4.1 Operating Activities

The cash flows for operating activities include the following items:

	2012/13 £m	2013/14 £m
Interest received	1.686	2.336
Interest paid	(20.529)	(25.870)
Dividends received	0.500	1.000

6.4.2 Investing Activities

	2012/13 £m	2013/14 £m
Purchase of property, plant and equipment, investment property and intangible assets	(114.435)	(131.390)
Purchase of short-term and long-term investments	(95.517)	(22.648)
Other payments for investing activities	(4.064)	(0.417)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	10.007	13.011
Other receipts from investing activities	63.602	60.250
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(140.407)**	**(81.194)**

6.4.3 Financing Activities

	2012/13 £m	2013/14 £m
Cash receipts of short and long-term borrowing	138.750	10.000
Other receipts from financing activities	(10.154)	3.097
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2.280)	(1.325)
Repayments of short and long-term borrowing	(117.186)	(86.875)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**9.130**	**(75.103)**

6.5 Other Notes

6.5.1 Trading Operations

These trading operations operate in a commercial environment and seek to balance their budget by generating income from other parts of the Council or other organisations.

	2012/13			2013/14		
	Turnover	Expenditure	(Surplus)/ Deficit	Turnover	Expenditure	(Surplus)/ Deficit
	£m	£m	£m	£m	£m	£m
Bereavement Services	1.082	0.944	(0.138)	1.030	0.929	(0.101)
Car Parks, Bus Stations and Park & Ride	7.802	6.194	(1.608)	7.798	5.175	(2.623)
Property	10.250	4.004	(6.246)	10.381	4.889	(5.492)
City Advertising	0.279	0.337	0.058	0.328	0.333	0.005
Markets	1.413	1.358	(0.055)	1.535	1.569	0.034
Royal Centre	13.268	12.572	(0.696)	13.288	12.997	(0.291)
Translation and Interpretation	0.340	0.355	0.015	0.409	0.315	(0.094)
Highways and Sewer Work	4.762	5.797	1.035	0.083	0.704	0.621
Garage Revenue	2.886	2.991	0.105	1.425	3.695	2.270
Education Catering	6.570	6.708	0.138	7.771	7.668	(0.103)
NET (SURPLUS)/DEFICIT ON TRADING OPERATIONS	**48.652**	**41.260**	**(7.392)**	**44.048**	**38.274**	**(5.774)**

Trading operations (surpluses)/deficits are incorporated into the CIES, under Financing and Investment Income – other investment income.

6.5.2 Agency Services

The Council does not receive any significant income for agency services.

6.5.3 Jointly Controlled Operations

From 3rd September 2012 Nottingham City Council (NCC) entered into a joint operation with Leicestershire County Council (LCC) to provide shared transactional finance, human resources and payroll services to both councils under the name of East Midlands Shared Services (EMSS). EMSS operates under a Joint Committee established under section 102 of the Local Government Act 1972. The Joint Committee does not have separate legal personality and is therefore not a separate entity.

Operations relating to EMSS are carried out at both NCC and LCC premises, with LCC being the employing authority and NCC the host authority. In line with the partnership agreement, the net expenditure is shared between the two authorities by allocating an equal share of the financial benefits (savings) accruing from the operation of EMSS. This has resulted in a share of costs for NCC of 57.3%.

A summary of the income and expenditure of EMSS, and the associated amounts included in NCC's accounts is shown below:

	Total EMSS		Amounts included within NCC Accounts	
	Sept 2012 to March 2013 £m	2013/14 £m	Sept 2012 to March 2013 £m	2013/14 £m
Income:				
Direct External Income	(1.074)	(1.797)	(0.353)	(0.540)
LCC Share of NCC Direct Costs			(0.135)	(0.149)
Total Income	**(1.074)**	**(1.797)**	**(0.488)**	**(0.689)**
Expenditure:				
Total EMSS Expenditure	3.806	5.676		
Direct costs incurred by NCC			0.329	0.348
Third party payments to LCC			1.774	2.566
Total Expenditure	**3.806**	**5.676**	**2.103**	**2.914**
NET EXPENDITURE	**2.732**	**3.879**	**1.615**	**2.225**

6.5.4 Councillors Allowances

The Council paid the following amounts to Councillors during the year:

	2012/13 £m	2013/14 £m
Allowances	1.042	1.059
Expenses	0.002	0.002
TOTAL	**1.044**	**1.061**

6.5.5 Officers Remuneration

The remuneration paid to the Council's senior employees is as follows:

POST HOLDER	2012/13 £	2013/14 £
Chief Executive - Ian Curryer		
- Salary, Fees & Allowances	148,516	160,000
- Expense Allowances	-	283
- Pension Contributions	26,728	28,800
	175,244	**189,083**
Deputy Chief Executive and Corporate Director Resources - Carole Mills		
- Salary, Fees & Allowances	160,952	144,653
- Expense Allowances	227	92
- Pension Contributions	28,971	26,038
	190,150	**170,783**
Corporate Director - Children and Families *		
- Salary, Fees & Allowances	-	57,167
- Pension Contributions	-	10,290
	-	**67,457**
Corporate Director - Quality and Commissioning **		
- Salary, Fees & Allowances	88,329	102,807
- Expense Allowances	-	59
- Pension Contributions	15,899	18,505
	104,228	**121,371**
Corporate Director - Communities		
- Salary, Fees & Allowances	130,000	130,000
- Pension Contributions	3,900	23,400
	133,900	**153,400**
Corporate Director - Development		
- Salary, Fees & Allowances	127,500	127,500
- Expense Allowances	2,006	-
- Pension Contributions	22,950	22,950
	152,456	**150,450**
Director - One Nottingham		
- Salary, Fees & Allowances	61,530	61,484
- Pension Contributions	11,049	11,067
	72,579	**72,551**
Director - Policy, Partnership and Comms		
- Salary, Fees & Allowances	77,820	77,895
- Pension Contributions	14,008	14,021
	91,828	**91,916**

* Corporate Director - Children and Families - Appointed 4/11/2013

** Corporate Director - Quality and Commissioning - Seconded to Corporate Director Children and Families from 1/2/2013-3/11/2013

During 2013/14 there was a joint arrangement with Nottinghamshire County Council, whereby the Director of Public Health for the County would also undertake this role for the City Council. It was agreed that the role would operate on the basis of a 60/40 split, with 40% dedicated to the City Council. The Director of Public Health is not included within the officers' remuneration note as the post holder is not an employee of the City Council.

A total of 181 employees (including senior employees) received remuneration of more than £0.050m, of these 89 are employed directly by schools. However, the figures do not include staff employed by academy schools, who are not Council employees:

Remuneration Banding	Number of Employees					
	2012/13			2013/14		
£	School Based Staff	Senior Employees	Other Staff	School Based Staff	Senior Employees	Other Staff
50,000 - 54,999	31	-	28	32	-	29
55,000 - 59,999	23	-	19	20	1	17
60,000 - 64,999	24	1	15	17	1	11
65,000 -69,999	13	-	4	9	-	6
70,000 - 74,999	2	-	2	3	-	2
75,000 - 79,999	1	1	5	2	1	6
80,000 - 84,999	1	-	3	1	-	4
85,000 - 89,999	2	1	6	1	-	5
90,000 - 94,999	3	-	-	2	-	2
95,000 - 99,999	3	-	1	1	-	-
100,000 - 104,999	-	-	2	1	1	1
105,000 - 109,999	-	-	-	-	-	-
110,000 - 114,999	-	-	-	-	-	-
115,000 - 119,999	-	-	1	-	-	-
120,000 - 124,999	-	1	-	-	-	-
125,000 - 129,999	-	1	-	-	2	1
130,000 - 134,999	-	1	-	-	-	-
135,000 - 139,999	-	-	-	-	-	-
140,000 - 144,999	-	-	-	-	1	-
145,000 - 149,999	-	1	-	-	-	-
150,000 - 154,999	-	-	-	-	-	-
155,000 - 159,999	-	-	-	-	-	-
160,000 - 164,999	-	1	-	-	1	-
Total	**103**	**8**	**86**	**89**	**8**	**84**
Grand Total			**197**			**181**

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Type of Exit Package	2012/13 Up to £20,000	2012/13 £20,001 to £40,000	2012/13 £40,001 to £150,0000	2013/14* Up to £20,000	2013/14* £20,001 to £40,000
Number of:					
Compulsory redundancies	62	10	5	48	2
Other departures agreed	61	13	3	42	6
Total departures	**123**	**23**	**8**	**90**	**8**
Total Cost	£1,101,610	£678,548	£501,515	£823,801	£189,213

* There were no exit packages which cost in excess of £40,000 in 2013/14

6.5.6 External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts and statutory inspections and certification of grant claims:

	2012/13 £m	2013/14 £m
Statutory audit and inspection work	0.232	0.233
Certification of grant claims and returns	0.023	0.025
Refund of prior year fees by Audit Commission	(0.020)	-
TOTAL	**0.235**	**0.258**

There were no other non-audit services provided by the Council's external auditors.

6.5.7 Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded primarily by DSG provided by the Department for Education. This is a ring fenced grant and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the Schools and Early Years Finance (England) Regulations 2013. The Schools Budget includes elements for a range of educational services provided on a council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2013/14 are as follows:

Notes		Central Expenditure £m	ISB £m	Total £m
A	Final DSG for 2013/14 before Academy recoupment			**220.514**
B	Academy figure recouped for 2013/14			**(82.607)**
C	Total DSG after Academy recoupment for 2013/14			**137.907**
D	Brought forward from 2012/13			**9.074**
E	Carry forward to 2014/15 agreed in advance			**6.693**
F	Agreed initial budgeted distribution in 2013/14	27.581	119.093	**146.674**
G	In year Adjustments	(3.800)	(2.322)	**(6.122)**
H	Final Distribution for 2013/14	23.781	116.771	**140.552**
I	Less Actual central expenditure	18.512		
J	Less ISB deployed to schools		(116.771)	
K	Plus Local Authority contribution 2013/14	-	-	-
L	**Carry forward to 2014/15 agreed in advance**	**5.269**	**-**	**11.962**

Notes to DSG:

A Figure as announced by the Department for Education (DfE) in March 2014.

B Figure recouped from the Council in 2013/14 by the DfE for the conversion of maintained schools into Academies.

C Total figure after DfE recoupment for 2013/14.

D Figure brought forward from 2012/13 as agreed with the DfE.

E The amount which the Council planned after consultation with the schools forum to carry forward to 2014/15, rather than distribute in 2013/14.

F Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.

G Changes to the initial distribution.

H Budgeted distribution of DSG as at the end of the financial year.

I Actual amount of central expenditure items in 2013/14.

J Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the Council once it is deployed to schools' budget shares).

K Any contribution from the Council in 2013/14 which will have the effect of substituting for DSG in funding the Schools Budget.

L Carry forward to 2014/15. The total figure is the carry forward to 2014/15 agreed in advance (line E) plus carry forwards on central expenditure and ISB (Line L).

6.5.8 Related Parties

The 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 readers 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 has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the CIES note 6.1.5. Grant receipts outstanding at 31 March 2014 are shown in Table 6.2.14.

Councillors

Councillors have direct control over financial and operating policies. The total of Councillors' allowances paid in 2013/14 is shown in the Councillors' allowances note.

During 2013/14 payments, receipts and balances outstanding for works and services to companies (including subsidiaries and associated companies) in which Councillors had an interest were as follows:

	2012/13 £m	2013/14 £m
Payments	72.279	72.766
Receivables	(8.266)	(9.451)
Debtors	2.736	5.957
Creditors	-	(0.009)

Details of all these transactions are recorded in the Register of Members' Interest, open to public inspection during office hours.

Other Public Bodies

The Council has pooled budget arrangements with ICES, the Adult Safeguarding Partnership Board and the St Ann's Valley Centre. There were no significant transactions with the Council for these arrangements in 2013/14

The Council paid £0.067m in 2013/14 (£0.077m 2012/13) to the Environment Agency for flood defence.

Entities Controlled or Significantly Influenced by the Council

The following are significant related-party transactions with the Council's subsidiary and associated companies. These companies are included in the Group Accounts. Further information on all companies, associated with the Council, can be found within Section 8 - Group Financial Statements and Notes.

	2012/13		2013/14	
	Payments £m	Receipts £m	Payments £m	Receipts £m
Nottingham City Transport	8.087	(1.212)	7.783	(0.756)
Nottingham City Homes (NCH) Ltd	55.568	(5.517)	56.512	(7.997)
Enviroenergy Ltd	0.673	(2.646)	0.929	(3.537)
Futures Advice, Skills and Employment Ltd	3.144	(0.002)	2.514	(0.003)
Other Related Parties	0.741	(2.543)	0.560	(3.668)

	2012/13		2013/14	
	Debtors £m	Creditors £m	Debtors £m	Creditors £m
Nottingham City Transport	1.071	(0.029)	0.889	(0.152)
Nottingham City Homes (NCH) Ltd	4.481	(6.318)	4.260	(11.787)
Enviroenergy Ltd	16.131	(0.341)	18.669	(2.244)
Futures Advice, Skills and Employment Ltd	-	(0.015)	-	(0.440)
Other Related Parties	5.794	(1.682)	5.592	(2.913)

6.5.9 Road Charging Schemes under the Transport Act 2000

The Council introduced the workplace parking levy on the 1st April 2012. The levy is charged under section 178-190 of the Transport Act 2000 (the Act). As per section 180 and 181 of the Act, all monies which are raised by the levy are to be re-invested in the City Councils Transport Plan. The figures for the year ending 31st March 2014 are as follows:

	2012/13 £m	2013/14 £m
Income	(7.752)	(8.453)
Expenditure	0.883	0.809
NET EXPENDITURE	**(6.869)**	**(7.644)**

6.5.10 Leases

Council as Lessee

Finance Leases

The assets acquired under these leases are carried as PPE in the Balance Sheet at the following net amounts:

	31 March 2013 £m	31 March 2014 £m
Other Land and Buildings	31.992	39.347
Vehicles, Plant, Furniture and Equipment	0.002	0.001
TOTAL	**31.994**	**39.348**

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council, and finance costs that will be payable by the Council in future years. The minimum lease payments are made up of the following amounts:

	31 March 2013 £m	31 March 2014 £m
Finance lease liabilities*:		
current	0.006	0.002
non-current	2.208	2.206
Finance costs payable in future years	11.717	11.510
MINIMUM LEASE PAYMENTS	**13.931**	**13.718**

* Net present value of minimum lease payments

The finance costs which the Council has committed to are significant when compared to the lease liabilities, because the property leases are for a period of 99 years or more and the majority of payments made are for the interest element.

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2013 £m	31 March 2014 £m	31 March 2013 £m	31 March 2014 £m
Not later than one year	0.213	0.209	0.006	0.002
Between one and five years	0.834	0.833	0.005	0.005
Later than five years	12.884	12.676	2.203	2.201
TOTAL	**13.931**	**13.718**	**2.214**	**2.208**

The Council has committed to a number of long term property leases, this is evidenced with the high value of minimum lease payments which have been committed to be paid later than five years.

The Council has not sub-let any of the properties held under these finance leases.

Operating Leases

The future minimum lease payments due under non-cancellable leases are:

	31 March 2013 £m	31 March 2014 £m
Not later than one year	0.603	0.359
Between one and five years	2.108	0.989
Later than five years	2.268	2.168
TOTAL	**4.979**	**3.516**

The expenditure charged to the CIES during 2013/14 in relation to these leases was £0.330m (2012/13 £0.559m).

Council as Lessor

Finance Leases

As a lessor, the Council has an investment in finance leases. This is made up of the minimum lease payments expected to be received over the remaining term, together with the residual value anticipated for the property at the end of the lease. The minimum lease payments comprise the settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years. The gross investment is made up of the following amounts for all finance leases:

	31 March 2013 £m	31 March 2014 £m
Long term finance lease debtor*	1.022	1.022
Finance income receivable in future years	59.470	59.404
Anticipated residual value of property	8.144	8.595
GROSS INVESTMENT IN THE LEASE	**68.636**	**69.021**

* Net present value of minimum lease payments

The finance income which the Council will receive in future years is significant when compared to the lease debtors. This is because a number of assets are being leased for a period of 999 years which means the majority of current payments are for the interest element of the debtor.

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2013 £m	31 March 2014 £m	31 March 2013 £m	31 March 2014 £m
Not later than one year	0.067	0.067	0.067	0.067
Between one and five years	0.266	0.266	0.266	0.266
Later than five years	68.303	68.688	60.160	60.093
TOTAL	**68.636**	**69.021**	**60.493**	**60.426**

The Council has committed to leasing out a number of assets on long term leases. This is evidenced with the high value of minimum lease payments which will be received in the period later than five years.

The Council has not set aside an allowance for uncollectible amounts on the above finance leases.

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- The provision of community services, such as sports facilities, tourism services and community centres
- Economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases are:

	31 March 2013 £m	31 March 2014 £m
Not later than one year	4.533	4.187
Between one and five years	16.018	11.321
Later than five years	106.399	96.410
TOTAL	**126.950**	**111.918**

Contingent Rents

The minimum lease payments identified in the tables above do not include rents that are contingent on events taking place after the lease was entered into, such as:

- the level of sales achieved by the tenant
- rate of inflation
- usage

For operating leases where the Council is lessor there were contingent rents receivable by the Authority in 2013/14 of £0.950m (2012/13 £1.181m). There were no contingent rents for any of the other types of lease arrangement.

6.5.11 Private Finance Initiatives and Similar Contracts

The Councils has four PFI arrangements, all of the assets within the following arrangements have been recognised on the Council's Balance Sheet:

NET

The Council reached financial close on NET Phase Two in December 2011, this PFI arrangement is to incorporate an additional two tram lines within the City's current tram network. The additional tram lines are currently under construction and it is envisaged that the NET expansion will become operational winter 2014.

The concession agreement runs from 15 December 2011 to 20 March 2034. At the end of the contract, title to the property transfers to the Council (or a continuing concessionaire) at nil cost, with the assets in a satisfactory condition for its continued operational use.

Building Schools for the Future (BSF)

The Council received handover of two PFI schools, Big Wood Phase 1 / Oak Field in 2009/10, Big Wood Phase 2 in 2010/11. The contract for these PFI schools will end in 2034.

A new school has been recognised during 2013/14 (Farnborough School), the buildings have been recognised in 2013/14. The land is currently recognised as an asset under construction with a liability of equal value, but the Council's service charges will not include the land element until the transfer is completed in 2014/15. The PFI contract for Farnborough School expires August 2038.

Upon expiry of the contract terms, all assets under this programme will be passed back to the City Council.

Local Improvement Finance Trust (LIFT) Joint Service Centres

The Council has completed two new Joint Service Centres located at Hyson Green and Bulwell. These centres have been procured using the LIFT vehicle in partnership with NHS Nottingham City. As such the Council has recognised its share of occupancy of both sites on the Balance Sheet.

The contract expiry and the asset treatment are as follows:

- *Mary Potter Centre (Hyson Green), contract expires October 2032. Upon expiry of the contract term, the Council does not have an option to purchase the asset.*
- *Bulwell Riverside (Bulwell), contract expires October 2036. Upon expiry of the contract term, the Council does have an option to purchase the asset.*

Another Joint Service Centre was procured in 2007 (Clifton Cornerstone). This arrangement has been treated as an operating lease and as such is excluded from the Council's Balance Sheet and the PFI tables shown below.

Street Lighting Contract

In May 2010 the Council entered into a PFI arrangement in relation to Street Lighting. The first five years of the contract provide for the replacement of outdated lighting columns, together with modifications to other columns that have an acceptable residual life. The contract also allows for adjustments and is followed by operation and maintenance of the street lighting network.

The contract expires August 2035 and upon expiry the assets will revert back to the City Council at nil cost.

Future Contractual Payments

The table below shows the Councils future contractual payments. The future Service Charge payments are estimated using the Service Charge payments incurred during 2013/14, which are then inflated using the inflation rate implicit with each PFI arrangement:

	2014/15 £m	2015/16 - 2018/19 £m	2019/20 - 2023/24 £m	2024/25 - 2028/29 £m	2029/30 - 2033/34 £m	2034/35 - 2038/39 £m	Total £m
NET							
Repayment of Liability	97.349	15.612	23.057	19.682	24.303	-	**180.003**
Interest Charges	5.352	57.988	54.586	31.552	10.197	-	**159.675**
Service Charges	17.370	64.937	87.140	113.555	130.692	-	**413.694**
NET Unitary Charge	**120.071**	**138.537**	**164.783**	**164.789**	**165.192**	**-**	**753.372**
BSF							
Repayment of Liability	0.727	4.714	9.155	12.734	17.064	7.000	**51.394**
Interest Charges	3.939	14.915	16.066	11.812	6.106	0.972	**53.810**
Service Charges	3.273	12.787	16.912	20.433	25.631	9.747	**88.783**
BSF Unitary Charge	**7.939**	**32.416**	**42.133**	**44.979**	**48.801**	**17.719**	**193.987**
LIFT							
Repayment of Liability	0.390	1.696	2.769	3.424	4.254	2.082	**14.615**
Interest Charges	1.221	4.568	4.886	3.667	2.118	0.395	**16.855**
Service Charges	0.562	2.618	3.910	5.365	5.912	1.927	**20.294**
LIFT Unitary Charge	**2.173**	**8.882**	**11.565**	**12.456**	**12.284**	**4.404**	**51.764**
Street Lighting							
Repayment of Liability	0.588	3.173	6.802	11.716	10.934	6.490	**39.703**
Interest Charges	3.351	16.655	18.271	13.365	6.965	0.637	**59.244**
Service Charges	1.976	6.795	9.248	10.481	23.269	3.634	**55.403**
Street Lighting Unitary Charge	**5.915**	**26.623**	**34.321**	**35.562**	**41.168**	**10.761**	**154.350**
TOTAL CHARGES	**136.098**	**206.458**	**252.802**	**257.786**	**267.445**	**32.884**	**1,153.473**

N.B. The table excludes Clifton Cornerstone LIFT JSC which is classified as an operating lease.

Liabilities resulting from PFI arrangements

The following table shows the value of liabilities resulting from PFI arrangements and the in year movements:

	2012/13	2013/14			
	Total £m	BSF £m	LIFT £m	Street Lighting £m	Total £m
Opening balance at 1 April	**57.120**	33.675	14.979	15.158	**63.812**
Additions	**8.944**	17.694	-	11.301	**28.995**
Repayment of Liability	**(2.252)**	0.025	(0.364)	(0.994)	**(1.333)**
CLOSING BALANCE AT 31 MARCH	**63.812**	**51.394**	**14.615**	**25.465**	**91.474**

There were no outstanding liabilities for capital expenditure on the NET PFI scheme.

6.5.12 Trust Funds

The Council acts as a sole trustee for a number of trust funds. The funds do not represent assets of the Council and, therefore, have not been included in the Balance Sheet. These trusts include the Bridge Estate Trust, which holds net assets of £27.097m (£26.540m at 31 March 2013) with a turnover of £1.999m (£1.997m 2012/13), primarily from the rental of investment properties. The Trust was established for the repair and maintenance of Trent Bridge, or the construction of new bridges over the River Trent.

The Council is also the sole trustee for a number of other Trusts whose net assets total £1.716m (£1.713m as at 31 March 2013) with a turnover of £0.361m (£0.381m 2012/13). These Trusts include:

- Harvey Hadden Stadium and Highfields Leisure Park, for the provision of public recreation and pleasure grounds.
- Hanley and Gellestrope, which provides 9 almshouses to accommodate the poor.
- Nottingham Aged Persons Trust, George Pendry's Fund, Church and Poor's Charity which provide benefit for the poor and elderly.
- Abbott Brown Fund, established to enable a doctor from Ljubljana Hospital study medicine in the United Kingdom.

6.5.13 Contingent Liabilities

At 31 March 2014, the Council has the following material contingent liabilities:

Employment Tribunal Cases

There are a number of employment tribunal and equal pay claims/cases outstanding together with the potential costs arising from the cases. Due to the stage that the employment tribunal cases are at, it is very difficult to make an accurate cost analysis.

Insurance Claims

A contingent liability exists for insurance claims that pre-date the coverage provided by the Insurance 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, or an insurer refuses an indemnity, the costs would have to be met from the provision.

In addition there will be a number of incidents that have been incurred but not yet reported (IBNR) as claims. These IBNR's may need to be self-funded if they fall outside the scope of insurance cover, fall within current or historic excess levels, or be in periods where insurers are untraceable. The severity, value and number of IBNR cases are unknown.

A contingent liability therefore exists to the extent that existing provisions could be insufficient to meet the potential liabilities.

Municipal Mutual Insurance

Under the scheme for a solvent settlement for Municipal Mutual Insurance's liabilities, the clawback rate is reviewed every 12 months. The review includes provision for the rate to be adjusted up or down as necessary. Predicting ultimate claims costs for occupational disease and abuse related claims arising from past exposure is extremely difficult and, therefore, there may further calls for clawback over the next 10 to 20 financial years as IBNR's become known liabilities. The maximum potential liability at 31 March 2014 was £1.911m.

NET – Chilwell Road and Clifton Financial Assistance

A contingent liability exists for financial assistance that may be paid in recognition of the potential for economic hardship on small and medium size businesses whilst NET Phase Two is under construction. The estimated financial effect of £1.750m is based on the assessment of the number and nature of businesses involved. Actual assistance provided will depend on magnitude of claims received during the 3-4 year construction period.

Workforce Reductions

As outlined in the 2012/13 Medium Term Financial Plan (MTFP), the Council anticipates incurring one-off costs in respect of workforce reduction. The 2012/13 MTFP allows for £3.560m but the actual cost will depend on a number of factors such as the actual staff numbers and employment profile of the affected employees.

Cavendish Court

The Council has responsibility under the Housing Act to undertake some work at Cavendish Court, which is in serious disrepair. The responsibilities are with the property owner, but it is likely the Council will have to undertake works. The work involved could include improvements, closure demolition or clearance and compulsory purchase. The Council is currently undertaking the statutory procedures and consultation required before any action can be finalised. The estimated financial effect is approximately £0.520m, although some cost recovery may be possible.

Judicial Review challenge to the decision of an additional licensing designation in Nottingham.

A Judicial Review has been raised to challenge the decision of the Council's scheme of additional licensing of Houses in Multiple Occupation, which began on 1 January 2014. Legal proceedings started in December 2013. There is still no determination by the Courts as to how this will proceed.

6.5.14 Nature and Extent of Risks arising from Financial Instruments

The Council's activities potentially bring exposure 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 Council might not have funds available to meet commitments to make payments;
- Re-financing risk – the possibility that the 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 Council as a result of changes in such measures as interest rates or equity prices.

Overall Procedures for Managing Risk

The 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 in *Local Government Act 2003* and the associated regulations. These require compliance 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 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 which limit:
  - 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 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 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 surplus cash, through Treasury Management Practices, which are a requirement of the Code of Practice and are regularly reviewed.

Credit Risk

Credit risk arises from the Council's investments with banks and other financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long term credit rating, the UK government and other local authorities. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The adopted credit criteria in respect of financial assets held by the Council in 2013/14 are:

1) Minimum credit ratings – a minimum long-term credit rating of A- (or equivalent).
2) Individual cash limits – a limit of £20m per counterparty for eligible UK banks and £10m for eligible non-UK banks.
3) Group limits – where more than one bank on the counterparty list is included within a banking group (e.g. Bank of Scotland and Lloyds TSB Bank), individual limits will also apply to the group as a whole.
4) Country limits – other than UK institutions, a total investment limit for all counterparties in a particular country. No more than 15% of the investment portfolio, at the time of the deposit, will be placed with any one country.
5) Overall country limit – no more than 25% of the investment portfolio, at the time of the deposit, will be placed with non-UK banks in total.
6) Money Market Funds – individual cash limit of £10m with any one fund and an overall limit of £100m for all Money Market Funds.

The Council's maximum exposure to credit risk in relation to its investments of £227.169m at 31 March 2014 (excluding deposits in Icelandic banks) cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise.

The following table summarises the value of the Council's investment portfolio at 31 March 2014 (excluding Icelandic bank deposits) and confirms that all investments were made in line with the approved credit rating criteria:

COUNTERPARTY	Criteria met? at time of investment (Yes /No)	Criteria met? at 31 March 2014 (Yes /No)	Total £m
UK banks - deposits	Yes	Yes	55.000
UK banks - call/notice accounts	Yes	Yes	40.000
UK building societies - deposits	Yes	Yes	20.000
Non UK banks - call accounts	Yes	Yes	10.000
Non UK banks - deposits	Yes	Yes	30.000
Money Market Funds	Yes	Yes	24.600
Other Local Authority - deposits	Yes	Yes	23.000
Government Debt Management Office	Yes	Yes	24.569
TOTAL			**227.169**

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

Liquidity Risk

The Council has ready access to borrowings from the Money Markets and other local authorities 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 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 Council manages its liquidity position through the risk management procedures (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 Council maintains a significant debt and investment portfolio. There is a risk relating to managing exposure to replacing financial instruments as they mature. There is a risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans and ensuring that the approved prudential indicator limits the Council's borrowing that matures in any given period.

The Council approved treasury and investment strategies address the main risks, and the central treasury team addresses the operational risks within these approved parameters. Measures include:

- 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 Council's day-to-day cash flow needs.

The maturity analysis of the principal element of financial liabilities at 31 March 2014 is:

	31 March 2013 £m	31 March 2014 £m
Less than 1 year	76.308	25.311
1 to 2 years	14.015	15.111
2 to 5 years	46.506	88.508
5 to 10 years	152.780	136.585
10 – 25 years	276.033	235.116
25 – 40 years	127.476	145.574
40 – 70 years	81.197	63.098
Irredeemable	2.365	0.951
TOTAL	**776.680**	**710.254**

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 at 31 March 2014 is shown below. The Icelandic bank deposits have been expressed based on the current forecast of recovery percentages and dates.

	31 March 2013 £m	31 March 2014 £m
Less than 1 year	221.895	214.620
1 to 2 years	0.838	15.000
2 to 3 years	0.892	-
More than 3 years	3.836	-
TOTAL	**227.461**	**229.620**

Interest Rate Risk

The Council is exposed to risk in terms of exposure to interest rate movements on borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the borrowings will fall

- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus of Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the prudential indicators and 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.

The 2013/14 strategy allowed for a maximum of 50% of borrowings in variable rate loans. The risk of loss is ameliorated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the cost of borrowing and provide compensation for a proportion of any higher costs.

According to this assessment strategy, at 31 March 2014, if interest rates had been 1% higher, with all other variables held constant, the financial effect would be:

	£m
Increase in interest payable on variable rate borrowings	(0.543)
Increase in interest receivable on variable rate investments	0.746
Impact on Surplus or Deficit on the Provision of Services	0.203
Share of overall impact debited to the HRA	0.342
IMPACT ON OTHER COMPREHENSIVE INCOME AND EXPENDITURE	0.545

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £0.787m in a number of joint ventures and in local industry, at 31 March 2014. 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 Council'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, "open book" arrangements are maintained with the companies concerned to enable monitoring of the factors that might cause a fall in the value of specific holdings.

Foreign Exchange Risk

As a result of the collapse of certain Icelandic banks (see 6.5.15), the Council currently has approximately ISK465m (Icelandic Krona) held in escrow in Iceland which had a sterling value of £2.5m, based on the official exchange rate at 31 March 2014 (see note 6.5.15). The Council is working with the Local Government Association, in conjunction with other affected authorities, to progress the conversion of this ISK element of its Icelandic bank deposits into sterling.

6.5.15Icelandic Bank Deposits

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 £41.600m deposited across 3 of these institutions with varying maturity dates and interest rates as follows:

BANK	Principal £m	From	To	Rate
Glitnir	5.000	20/04/2007	20/04/2009	5.92%
Landsbanki	4.000	15/06/2007	15/06/2009	6.43%
Glitnir	6.000	30/11/2007	28/11/2008	5.98%
Heritable	3.300	18/03/2008	21/11/2008	5.93%
Landsbanki	3.500	14/05/2008	13/05/2009	6.05%
Heritable	5.500	14/05/2008	13/05/2009	6.05%
Heritable	4.000	18/07/2008	22/04/2009	6.24%
Heritable	2.800	22/07/2008	21/07/2009	6.37%
Landsbanki	6.000	19/09/2008	27/04/2009	6.21%
Landsbanki	1.500	19/09/2008	21/08/2009	6.35%
	41.600			

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 outlined that the final dividend was paid in August 2013 bringing the return to creditors of 94.017%. Based on the latest advice, the Council has decided to recognise an impairment based on it recovering a total of 94p in the £.

Recoveries are expressed as a percentage of the Council'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 banks administrators have made dividend payments totalling £8.197m to date, including interest. The balance of the monies is scheduled to be paid to all priority creditors over the next 5-6 years, although uncertainties exist regarding actual timing, currency exchange rate fluctuations and future Icelandic legislation. To mitigate these risks, the Council participated in a group auction of UK local authority creditor claims in January 2014 which resulted in the sale of the balance of its creditor claim. The payment received was £6.127m, giving a total receipt of £14.324m, including interest. Based on the latest advice, the Council has decided to recognise an impairment based on it recovering a total of 91p in the £.

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.

In March 2012, a distribution was made to the Council which represented the full value of the claim. Around 19% of this payment was made in Icelandic Krona, which are still the subject of control by the Central Bank of Iceland (CBI). As a consequence, this element has been lodged in an Icelandic interest-bearing escrow account, pending approved release by the CBI.

Impairment

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 Council 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).

A gross impairment provision of £7.150m was made in the 2010/11 Income and Expenditure Account. At 31 March 2014, as a consequence of the improved repayment forecasts, this impairment loss had reduced to £5.172m. The revised provision has been offset by accrued interest to date of £4.537m. This provides a net cash loss, when all monies have been repaid, of £0.634m.

Section 7
SUPPLEMENTARY FINANCIAL STATEMENTS AND NOTES

7.1 Housing Revenue Account (HRA)

7.1.1 Housing Revenue Income and Expenditure Account

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to the Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Consequently, the HRA is a statutory account, ring-fenced from the rest of the General Fund, so that rents cannot be subsidised from council tax.

	2012/13 £m	2013/14 £m
Expenditure		
Repairs and maintenance	31.870	32.043
Supervision and Management	20.201	16.771
Rents, rates, taxes and other charges	1.994	2.911
Depreciation and impairment of non-current assets	24.041	16.011
Debt management costs	0.091	0.066
Movement in the allowance for bad debts	0.393	1.010
Total Expenditure	**78.590**	**68.812**
Income		
Dwelling Rents	(97.412)	(96.308)
Non Dwelling Rents	(2.451)	(2.524)
Charges for Services and Facilities	(0.346)	(0.339)
HRA Subsidy Receivable	(0.077)	-
Major Repairs Allowance receivable	(0.288)	(0.244)
Total Income	**(100.574)**	**(99.415)**
Net Cost of HRA Services as included in the CIES	**(21.984)**	**(30.603)**
HRA services' share of Corporate and Democratic Core	0.033	0.033
Fixed Asset Derecognition	-	7.916
NET COST FOR HRA SERVICES	**(21.951)**	**(22.654)**
HRA Share of the Operating Income and Expenditure included in the CIES		
Gain or (loss) on sale of HRA non-current assets	(0.045)	0.226
Interest payable and similar charges	12.383	11.511
Interest and Investment Income	(0.219)	(0.260)
(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES	**(9.832)**	**(11.177)**

7.1.2 Movement on the HRA Statement

	2012/13 £m	2013/14 £m
Balance on HRA at the start of the Year	**4.594**	**5.030**
Surplus or (deficit) for the year	9.832	11.177
Adjustments between accounting basis and funding basis	(9.396)	(11.353)
Increase or (Decrease) in Year on the HRA	**0.436**	**(0.176)**
BALANCE ON THE HRA AT THE END OF THE YEAR	**5.030**	**4.854**

7.1.3 Notes to the HRA Financial Statements

7.1.3.1 Housing Stock

The Council was responsible for managing the following housing stock:

	31 March 2013 Number	31 March 2014 Number
Houses and Bungalows		
1 Bedroom	996	993
2 Bedroom	5,778	5,855
3 Bedroom	10,675	10,476
4 or more Bedrooms	526	519
Flats		
1 Bedroom	7,504	7,308
2 Bedrooms	1,620	1,564
3 or more Bedrooms	227	205
TOTAL	**27,326**	**26,920**

7.1.3.2 Valuation of Housing Assets

The value of land, houses and other property within the HRA is as follows:

	Value at 31 March 2013 £m	Value at 31 March 2014 £m
Operational Assets		
Council Dwellings	561.875	569.102
Other Land and Buildings	7.156	9.746
Assets Under Construction	1.121	7.160
Surplus Assets not held for sale	10.854	16.532
Investment Properties	1.124	1.156
Assets Held for Sale	0.745	0.210
Infrastructure	19.482	20.492
Vehicles, IT and Other Equipment	5.224	7.821
TOTAL VALUE OF ASSETS	**607.581**	**632.219**

7.1.3.3 Asset value of Dwellings

The vacant possession valuation of Council dwellings at 31 March 2014 was £1,673.897m (1 April 2013 £1,652.574m). The Balance Sheet value of dwellings was £569.102m. The difference of £1,104.795m 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.

External valuers Herbert Button & Partners and Freeman & Mitchell completed a desktop review of the housing stock valuation as at 31 March 2014.

7.1.3.4 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 were as follows:

	2012/13 £m	2013/14 £m
Balance Brought Forward	**(15.817)**	**(28.007)**
Credits - Depreciation on HRA Assets	(27.656)	(28.739)
Debits - Capital Expenditure	15.466	18.088
BALANCE AT END OF YEAR	**(28.007)**	**(38.658)**

7.1.3.5 Capital Expenditure

Capital expenditure of £52.398m (£44.225m in 2012/13) in respect of HRA assets was financed from a range of sources in 2013/14. This is set out below:

	2012/13 £m	2013/14 £m
CAPITAL EXPENDITURE	**44.225**	**52.398**
Financed By:		
Capital Receipts Reserve	-	0.054
Major Repairs Reserve (MRR)	15.466	18.088
Direct Revenue Financing*	4.700	5.749
Other Capital Grants and Contributions	24.059	28.507
TOTAL FINANCING	**44.225**	**52.398**

* The debit under item 2 of part II of Schedule 4 to the Local Government and Housing Act 1989

7.1.3.6 Capital Receipts

Capital receipts of £8.886m (£7.888m in 2012/13) arose from the sale of land, houses and other property within the HRA in 2013/14. Of this total, £5.676m (£4.906m in 2012/13) related to the disposal of houses and flats under the right to buy scheme and £2.543m (£2.799m in 2012/13) from the sale of vacant non purpose built council houses.

	2012/13 £m	2013/14 £m
Land	0.095	0.311
Houses	7.705	8.219
Other Property	0.088	0.356
TOTAL	**7.888**	**8.886**

7.1.3.7 Depreciation

Depreciation was charged in respect of HRA operational assets in 2013/14 as follows:

	2012/13 £m	2013/14 £m
Dwellings	25.656	26.181
Other Operational HRA Assets:		
Other Land and Buildings	0.106	0.135
Vehicles, Plant, Furniture and Equipment	0.721	1.193
Infrastructure and Community Assets	1.173	1.224
Assets Held for Sale	-	0.006
TOTAL	**27.656**	**28.739**

7.1.3.8 Revaluations and Impairments during the Financial Year

£8.440m (£1.584m loss in 2012/13) in respect of revaluation losses have been debited to the HRA during the year.

Donated assets amounting to £1.792m (£5.917m in 2012/13) resulted from energy efficiency works undertaken to council dwellings by energy companies as part of a government initiative.

A de-recognition write out of £7.916m (£3.026m in 2012/13) was made to reflect the residual value of assets replaced.

Assets held for sale as part of a corporate sales initiative amounted to £2.438m

A charge of £0.030m has been debited in respect of an insurance impairment and £0.005m amortisation.

A charge of £0.032m has been debited in respect of Investment Properties.

7.1.3.9 Rent Arrears and the Balance Sheet provision in respect of Collectable Debts

Gross rent arrears (including service charges and overpaid housing benefit) in respect of current and former tenants amounted to £4.427m at 31 March 2014 (£4.266m at 31 March 2013). A total bad debt provision of £4.370m has been established at 31 March 2014 (£3.420m at 31 March 2013).

7.1.3.10 Average Rent for HRA Dwellings

Year	Average Rent £
2005/06	48.07
2006/07	50.68
2007/08	52.94
2008/09	56.04
2009/10	57.98
2010/11	59.39
2011/12	63.73
2012/13	67.37
2013/14	71.13

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

7.1.3.11 Item 8 Debit and Credit (General) Determination

The regulation sets out the entries to be accounted for within the Housing Revenue Account and is required by legislation under the Local Government and Housing Act 1989. The Item 8 Debit Determination sets out the method for charging the capital asset charges and the deduction required for capital asset accounting adjustment. Debt management charges are also included in this section. The Item 8 Credit Determination covers bank interest charges, mortgage interest and premiums and discounts on premature loan repayments and rescheduling. There is also an entry known as the "T" adjustment, which is an adjustment between the depreciation charge and the Major Repairs Allowance. The overall effect on the HRA of the Item 8 Debit and Credit entries is to neutralise the effect on the bottom line of the HRA, so that only the actual capital financing charges impact on the Account.

The reconciliation between the Item 8 Determination and the actual charges to the HRA is shown in the following two tables:

	2012/13 £m	2013/14 £m
Debit Determination		
Capital Asset Charges	24.032	23.921
Debt Repayment and Management Charges	0.091	0.066
Capital Asset Charges and Accounting Adjustment	19.895	24.244
Transfer to Major Repairs Reserve	27.655	28.739
	71.673	**76.970**
Credit Determination		
Bank Interest	(0.210)	(0.259)
Mortgage Interest	(0.008)	(0.002)
"T" Adjustment	(28.516)	(36.659)
Premiums and Discounts	0.028	0.014
	(28.706)	**(36.906)**
TOTAL	**42.967**	**40.064**

The actual charges to the HRA were:

	2012/13 £m	2013/14 £m
Bank Interest	(0.210)	(0.259)
Mortgage Interest	(0.008)	(0.002)
Capital Financing	12.384	11.511
Debt Repayment and Management Charges	0.091	0.066
Premiums and Discounts	0.028	0.014
Transfer to Major Repairs Reserve	30.682	28.734
TOTAL	**42.967**	**40.064**

7.2 Collection Fund

7.2.1 Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

	2012/13	2013/14		
		Business Rates	Council Tax	Total
	£m	£m	£m	£m
INCOME				
Council Tax Receivable	(125.091)		(99.054)	(99.054)
Business Rates Receivable	(122.668)	(127.155)		(127.155)
TOTAL INCOME	**(247.759)**	**(127.155)**	**(99.054)**	**(226.209)**
EXPENDITURE				
Precepts, Demands and Shares				
Central Government	119.658	55.463	-	55.463
Police Authority	12.549	-	9.633	9.633
Fire Authority	5.255	1.097	3.957	5.054
Billing Authority	103.885	53.750	79.751	133.501
Charges to Collection Fund				
Write offs of uncollectable amounts	3.576	2.536	1.879	4.415
Increase (-)/Decrease in Bad Debt Provision	0.810	0.069	2.040	2.109
Increase (-)/Decrease in Provision for Appeals	-	9.018	-	9.018
Cost of Collection	0.497	0.498	-	0.498
Disregarded Amounts	-	0.090	-	0.090
TOTAL EXPENDITURE	**246.230**	**122.521**	**97.260**	**219.781**
Movement on the Collection Fund Balance	(1.529)	(4.634)	(1.794)	(6.428)
(Surplus)/Deficit Brought Forward	(0.132)	-	(1.661)	(1.661)
(SURPLUS)/DEFICIT CARRIED FORWARD	**(1.661)**	**(4.634)**	**(3.455)**	**(8.089)**

7.2.2 Notes to Collection Fund Statement

7.2.2.1 National Non-Domestic Rates (NNDR)

The Council collects NNDR from local businesses based on the rateable value of their property multiplied by a business rate, set nationally by Central Government. In previous financial years the total amount due, less certain allowances, was paid to a central pool (the NNDR pool) administered by Central Government. The Council was then paid its share of the pool on the basis of a fixed amount per head of population.

In 2013/14, the administration of NNDR changed, following the introduction of a business rates retention scheme that aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NNDR to the central pool, local authorities retain a proportion of the total collectable rates due. The Council retains 49% of the NNDR with the remainder distributed to Central Government (50%) and the Nottinghamshire Fire and Rescue Authority (1%).

	2012/13 £	2013/14 £
Rate in the pound	45.8p	47.1p
Total non-domestic rateable value per NNDR system	326,154,425	324,418,061
Gross Debit	149,379,000	152,800,900
Net debit after adjustments and reliefs	131,688,000	130,326,000

7.2.2.2 Council Tax

Council tax is broadly based on the capital value of domestic property as estimated at 1 April 1991 and classified into 8 bands. Charges are calculated by 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.

	2012/13	2013/14
Council Tax Base	**77,519**	**60,261**
Council Tax (Band D) Property	**£1,613.68**	**£1,643.76**

Band	Average Number of Properties	Taxable Properties after discounts, exemptions etc.	Conversion Factor to Band D	Band D Equivalents
A	85,353	45,678	6/9	30,452
B	21,988	13,697	7/9	10,653
C	15,597	10,783	8/9	9,585
D	6,559	4,823	9/9	4,823
E	2,309	1,916	11/9	2,342
F	997	872	13/9	1,259
G	696	608	15/9	1,013
H	110	67	18/9	134

7.2.2.3 Redistribution of Collection Fund Surplus/Deficit

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

	2012/13	2013/14		
		Council Tax	NNDR	Total
	£m	£m	£m	£m
Nottingham City Council	(1.419)	(2.953)	(2.271)	(5.224)
Nottinghamshire Police Authority	(0.172)	(0.356)	(0.046)	(0.402)
Nottinghamshire Fire and Rescue Authority	(0.070)	(0.146)	(2.317)	(2.463)
TOTAL	**(1.661)**	**(3.455)**	**(4.634)**	**(8.089)**

Section 8
GROUP FINANCIAL STATEMENTS AND NOTES

8.1 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 financial statements in section 3 consider the Council only as a single entity, while 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 jointly controlled entities.

The following pages include:

- Group Comprehensive Income and Expenditure Statement
- Group Balance Sheet
- Group Movement in Reserves Statement
- Group Cash Flow Statement
- Notes to the Group Accounts

8.2 Inclusion within the Group Accounts

The Council maintains relationships with a number of organisations over which it has varying degrees of control or influence. An assessment of all of these joint arrangements has been carried out to determine which of the following categories they fall under:

- Subsidiaries – where the Council exercises control and gains benefits or has 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.
- Jointly Controlled Entities – where the Council exercises joint control with one or more organisations. Where these are material they have been included in the group.
- No group relationship – where the body 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.

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 intra-group transactions written out. Associates / jointly controlled entities are accounted for by including the Council's share of their net operating results and net assets (equity method of accounting).

For 2013/14 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 these organisations are given in group accounts note 8.5.

The group accounts for 2013/14 have been completed using audited accounts from Bridge Estate Trust, EnviroEnergy Ltd, Nottingham City Homes Ltd, Nottingham City Transport Ltd, Nottingham Ice Centre Ltd, Futures Advice, Skills and Employment Ltd.

8.3 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 financial statements. These policies differ from those applicable to the Council's primary financial statements only in the following respects:

- 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.
- Any trust funds which the Council controls and which generate economic benefits, or deliver goods or services in accordance with the Council'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.
- Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and is tested for impairment annually, or on such other occasions that changes in circumstances indicate that it might be impaired.

  Any impairments of goodwill are recognised as loses in the CIES, with an equal amount being reversed out of the General Fund Balance in the MIRS and posted to the Capital Adjustment Account.

8.4 Core Group Financial Statements

8.4.1 Group Comprehensive Income and Expenditure Statement (Group CIES)

The purpose of this statement is explained in section 3.1 of the Council's single entity Statement of Accounts.

	2012/13 Gross Expenditure £m	2012/13 Gross Income £m	2012/13 Net Expenditure £m	2013/14 Gross Expenditure £m	2013/14 Gross Income £m	2013/14 Net Expenditure £m
Central services to the public	5.383	(3.183)	2.200	5.397	(3.492)	1.905
Cultural and related services	70.461	(18.482)	51.979	48.022	(18.345)	29.677
Environmental and regulatory services	46.208	(16.156)	30.052	48.571	(14.767)	33.804
Planning services	26.513	(21.354)	5.159	25.288	(14.234)	11.054
Education and children's services	257.189	(166.488)	90.701	257.562	(172.532)	85.030
Highways and transport services	104.743	(88.599)	16.144	109.743	(113.882)	(4.139)
Local authority housing (HRA)	78.591	(100.574)	(21.983)	65.586	(96.189)	(30.603)
Other housing services	203.950	(183.993)	19.957	162.631	(146.281)	16.350
Adult social care	118.714	(34.281)	84.433	119.726	(32.753)	86.973
Corporate and democratic core	35.367	(14.903)	20.464	32.299	(20.169)	12.130
Non distributed costs	4.444	(0.309)	4.135	(1.370)	-	(1.370)
Cost of Services	**951.563**	**(648.322)**	**303.241**	**873.455**	**(632.644)**	**240.811**
Services Transferred to NCC						
Public Health				24.770	(25.765)	(0.995)
Total Continuing Services				**898.225**	**(658.409)**	**239.816**
Other operating expenditure	43.710	(10.197)	33.513	38.769	(0.890)	37.879
Financing and investment income and expenditure **(Note 8.7.1.1)**	107.525	(62.667)	44.858	109.864	(59.263)	50.601
Taxation and non-specific grants	-	(341.713)	(341.713)		(350.035)	(350.035)
(Surplus) or Deficit on Provision of Services	**1,102.798**	**(1,062.899)**	**39.899**	**1,046.858**	**(1,068.597)**	**(21.739)**
Tax expenses of subsidiaries			(0.547)			0.132
Group (Surplus)/Deficit			**39.352**			**(21.607)**
Surplus or deficit on revaluation of Property, Plant and Equipment assets			(56.259)			(28.587)
Remeasurements of the net defined benefit liability/asset			(14.965)			(12.348)
Other gains/losses recognised required			(0.125)			0.046
Other Comprehensive Income and Expenditure			**(71.349)**			**(40.889)**
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			**(31.997)**			**(62.496)**

Analysis of Minority Interest Shares in the Group Comprehensive Income and Expenditure Statement

In consolidating subsidiaries, 100% of their transactions are included in the CIES even if ownership is less than 100%. The note below discloses the attributable amounts of the group surplus or deficit and other comprehensive income and expenditure to the minority interest in subsidiaries.

	2012/13 Authority £m	2012/13 Minority Interest £m	2012/13 Total £m	2013/14 Authority £m	2013/14 Minority Interest £m	2013/14 Total £m
Group (surplus) / Deficit	39.352	-	39.352	(21.490)	(0.117)	(21.607)
Other CIES	(71.502)	0.153	(71.349)	(41.028)	0.139	(40.889)
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE	**(32.150)**	**0.153**	**(31.997)**	**(62.518)**	**0.022**	**(62.496)**

Reconciliation of single entity (surplus)/deficit for the year to the Group (surplus)/deficit

	2012/13 £m	2013/14 £m
Total (surplus)/deficit on the authority's single entity CIES	(28.368)	(74.106)
Add (surplus)/deficit arising from group entities:		
Subsidiaries	(5.145)	12.027
Trust Funds	1.516	(0.417)
Total (surplus)/deficit on the Group CIES	**(31.997)**	**(62.496)**

8.4.2 Group Balance Sheet

The purpose of this statement is explained in section 3.2 of the Council's single entity Statement of Accounts.

	Notes	31 March 2013 £m	31 March 2014 £m
Property, Plant & Equipment	**8.7.2.1**	1,968.970	2,022.780
Heritage Assets		46.344	47.185
Investment Property	**8.7.2.2**	66.587	66.692
Intangible Assets		1.781	2.329
Long Term Investments		6.665	16.119
Long Term Debtors		54.349	56.836
Long Term Assets		**2,144.696**	**2,211.941**
Short Term Investments		146.268	160.350
Intangible Assets		0.034	
Assets Held for Sale		6.249	4.621
Inventories		4.016	4.849
Short Term Debtors	**8.7.2.3**	76.324	84.089
Cash and Cash Equivalents	**8.7.2.4**	90.467	73.399
Current Tax Asset		0.081	-
Current Assets		**323.439**	**327.308**
Short Term Borrowing		(85.715)	(31.973)
Short Term Creditors	**8.7.2.5**	(163.432)	(197.961)
Provisions		(10.415)	(5.605)
Current Tax Liability		(0.003)	(0.018)
Current Liabilities		**(259.565)**	**(235.557)**
Long Term Creditors		(13.163)	(18.351)
Provisions		(10.442)	(14.831)
Long Term Borrowing		(701.370)	(685.889)
Other Long Term Liabilities		(81.344)	(98.843)
Capital Grants Receipts in Advance		(4.590)	(3.310)
Deferred Tax Liability		(0.108)	(0.222)
Defined Benefit Pension Scheme		(589.482)	(610.600)
Long Term Liabilities		**(1,400.499)**	**(1,432.046)**
NET ASSETS		**808.071**	**871.646**
Usable Reserves	**8.7.2.6**	195.237	**240.874**
Unusable Reserves	**8.7.2.7**	612.834	**630.772**
TOTAL RESERVES		**808.071**	**871.646**

8.4.3 Group Movement in Reserves Statement

The purpose of this statement is explained in section 3.3 of the Council's single entity Statement of Accounts.

2013/14	General Fund Balance £m	Earmarked General Fund Reserves £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m	Authority's Share of Group Reserves £m	Minority Interest £m	Total Reserves £m
Balance at 31 March 2013	**13.802**	**118.656**	**5.030**	**9.303**	**28.007**	**19.225**	**194.023**	**626.225**	**820.248**	**(12.573)**	**0.396**	**808.071**
Opening balance restatement (note 8.7.3.1)										**(0.579)**		**(0.579)**
Movement in reserves during 2013/14:												
Surplus/(deficit) on the provision of services	60.580	-	11.177	-	-	-	71.757	-	71.757	(50.267)	0.117	21.607
Other CIES	-	-	-	-	-	-	-	53.597	53.597	(12.569)	(0.139)	40.889
Total CIES (Table 8.4.1)	**60.580**	**-**	**11.177**	**-**	**-**	**-**	**71.757**	**53.597**	**125.354**	**(62.836)**	**(0.022)**	**62.496**
Adjustments between group accounts and authority accounts **(Note 8.7.3.2(a))**	(51.248)	-	-	-	-	-	(51.248)	-	(51.248)	**52.516**	-	**1.268**
Net Increase/Decrease before Transfers	**9.332**	**-**	**11.177**	**-**	**-**	**-**	**20.509**	**53.597**	**74.106**	**(10.320)**	**(0.022)**	**63.764**
Adjustments between accounting basis and funding basis under regulations	19.202	-	(11.353)	5.113	10.651	0.041	23.654	(23.654)	-	0.390	-	0.390
Net Increase/Decrease before Transfers to Earmarked Reserves	**28.534**	**-**	**(0.176)**	**5.113**	**10.651**	**0.041**	**44.163**	**29.943**	**74.106**	**(9.930)**	**(0.022)**	**64.154**
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**	**29.943**	**74.106**	**(9.930)**	**(0.022)**	**64.154**
BALANCE AT 31 MARTH 2014	**12.229**	**148.763**	**4.854**	**14.416**	**38.658**	**19.266**	**238.186**	**656.168**	**894.354**	**(23.082)**	**0.374**	**871.646**

2012/13	General Fund Balance £m	Earmarked General Fund Reserves £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m	Authority's Share of Group Reserves £m	Minority Interest £m	Total Reserves £m
Balance at 31 March 2012	**11.686**	**105.249**	**4.594**	**0.440**	**15.817**	**15.700**	**153.486**	**638.394**	**791.880**	**(17.071)**	**0.549**	**775.358**
Opening balance restatement (note 8.7.3.1)										**(0.116)**		**(0.116)**
Movement in reserves during 2012/13:												
Surplus/(deficit) on the provision of services	8.369	-	9.832	-	-	-	18.201	-	18.201	(57.553)	-	(39.352)
Other CIES	-	-	-	-	-	-	-	64.260	64.260	7.242	(0.153)	71.349
Total CIES (Table 8.4.1)	**8.369**	**-**	**9.832**	**-**	**-**	**-**	**18.201**	**64.260**	**82.461**	**(50.311)**	**(0.153)**	**31.997**
Adjustments between group accounts and authority accounts **(Note 8.7.3.2(a))**	(54.093)	-	-	-	-	-	(54.093)	-	(54.093)	**54.531**	-	**0.438**
Net Increase/Decrease before Transfers	**(45.724)**	**-**	**9.832**	**-**	**-**	**-**	**(35.892)**	**64.260**	**28.368**	**4.220**	**(0.153)**	**32.435**
Adjustments between accounting basis and funding basis under regulations	61.247	-	(9.396)	8.863	12.190	3.525	76.429	(76.429)	-	0.394	-	0.394
Net Increase/Decrease before Transfers to Earmarked Reserves	**15.523**	**-**	**0.436**	**8.863**	**12.190**	**3.525**	**40.537**	**(12.169)**	**28.368**	**4.614**	**(0.153)**	**32.829**
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**	**4.614**	**(0.153)**	**32.829**
BALANCE AT 31 MARCH 2013	**13.802**	**118.656**	**5.030**	**9.303**	**28.007**	**19.225**	**194.023**	**626.225**	**820.248**	**(12.573)**	**0.396**	**808.071**

8.4.4 Group Cash Flow Statement

The purpose of this statement is explained in section 3.4 of the Council's single entity Statement of Accounts.

	Notes	2012/13 £m	2013/14 £m
Net (Surplus)/Deficit on the provision of Services		**(39.899)**	**21.739**
Adjustments to net surplus or deficit on the provision of services for non-cash movements		214.350	202.687
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(78.816)	(79.158)
Net Cash Flows from Operating Activities	**8.7.4.1**	**95.635**	**145.268**
Investing activities	**8.7.4.2**	(151.934)	(81.554)
Financing activities	**8.7.4.3**	7.951	(80.782)
Net Increase or Decrease in Cash and Cash Equivalents		**(48.348)**	**(17.068)**
Cash and cash equivalents at the beginning of the reporting period		138.815	90.467
CASH AND CASH EQUIVALENTS AT 31 MARCH		**90.467**	**73.399**

8.5 Details of subsidiaries, jointly controlled entities and trust funds included in the group accounts

8.5.1 Subsidiaries:

Arrow Light Rail Ltd (Registered Company Number: 03942516)

Nature of Business
Arrow Light Rail ceased trading in relation to Net Line One immediately after acquisition by the Council on 15 December 2011. The Council appointed liquidators during September 2013 and Arrow Light Rail completed a Members' Voluntary Liquidation during January 2014. All assets held by Arrow Light Rail were distributed to the Council.

Relationship with the Council
The Council is the ultimate controlling party of Arrow Light Rail Ltd, owning 100% of the issued share capital. Following completion of Voluntary Liquidation during 2013/14 there were no shares held by the Council at 31 March 2014.

Accounts
Copies of the accounts of Arrow Light Rail Ltd can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

Enviroenergy Limited (Registered Company 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 Council
The Council is the ultimate controlling party of Enviroenergy Ltd, owning 100% of the issued share capital. The 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, Cardiff, CF14 3UZ.

Audit Opinion
The accounts used to produce the 2013/14 group accounts are audited.

Nottingham City Homes Limited (Registered Company Number: 05292636)

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

Relationship with the Council
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 the Council.

Accounts
Copies of the accounts of Nottingham City Homes Ltd can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

Audit Opinion
The accounts used to produce the 2013/14 group accounts are audited.

Nottingham City Transport Limited (Registered Company Number: 2004967)

Nature of Business
The company is the principal public bus operator in the Greater Nottingham area.

Relationship with the Council
This company is controlled by the Council and commenced trading on 26 October 1986. The total shareholding owned by the Council is 95%. Transdev Plc has a minority interest in Nottingham City Transport 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 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 group takes into account 100% of the results of the company with the 5% minority interest being disclosed where appropriate.

Accounts
Copies of the accounts of Nottingham City Transport Ltd can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

Audit Opinion
The accounts used to produce the 2013/14 group accounts are audited.

Nottingham Ice Centre (Registered Company 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 Council
The Council is the ultimate controlling party of Nottingham Ice Centre Ltd, owning 100% of the issued share capital.

Accounts
Copies of the accounts of Nottingham Ice Centre Ltd can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

Audit Opinion
The accounts used to produce the 2013/14 group accounts are audited.

8.5.2 Jointly Controlled Entity:

Futures Advice, Skills and Employment Ltd (Registered Company Number: 04172770)

Nature of the business
Futures Advice, Skills and Employment Ltd (Futures) is a company which is an all age, careers and employability advice service which delivers a range of careers, advice and consultancy services in the East Midlands and across England.

Relationship with the Council
The company is jointly owned by the Council and Nottinghamshire County Council.

Accounts
Copies of the accounts of Futures can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

The Council's share of Future's accumulated liability as at 31 March 2014 has not been recognised in the group accounts in accordance with IAS 28 'Investments in Associates and Joint Ventures'.

Audit Opinion
The accounts used to produce the 2013/14 group accounts are audited.

8.5.3 Trust Fund:

Bridge Estate (Registered Charity 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.

Relationship with the Council
Bridge Estate is a charity of which the Council is sole trustee. Councillors are appointed to the Trusts and Charities Committee by full Council to fulfil the Council's responsibilities as Trustee including the responsibility for making recommendations on the management of the charity.

All transactions relating to Bridge Estate are subject to the same financial regulations and procedures as those relating to the Council.

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

Audit Opinion
The accounts used to produce the 2013/14 group accounts are audited.

8.6 Details of associates, jointly controlled entities and trust funds not included in the group accounts

The Council has considered its relationship with the following associates, jointly controlled entities and trust funds. These organisations have been excluded from the group accounts on the basis of risk and materiality.

8.6.1 Associates

Nottingham Regeneration Ltd (Registered Company Number: 3665996)
Nature of the company
The principal activity of Nottingham Regeneration Ltd is that of securing the overall economic social and environmental regeneration of the City of Nottingham, the greater Nottingham area and beyond.

Relationship with the Council
A partnership between the Council and the Homes and Communities Agency.

Ticketing Network East Midlands Ltd (Registered Company Number: 06623526)
Nature of the company
The founding members of Ticketing Network East Midlands Ltd (TNEM) are the Lakeside Arts Centre, Nottingham Theatre Royal and Royal Concert Hall, Nottingham Playhouse and Dance4. TNEM is run on behalf of this consortium of arts organisations to manage its ticketing and customer relationship management system.

TNEM is the first consortium in the United Kingdom to be formed specifically for the purpose of enabling multiple organisations within this region to share Tessitura software and services from the Tessitura network.

Relationship with the Council
The Council holds 25% of the shares of TNEM, as do each of the other three member organisations Lakeside Arts Centre, Nottingham Playhouse and Dance4.

8.6.2 Jointly Controlled Entities

emPSN Services Ltd – formerly EMBC Procurement Ltd (Registered Company Number: 5882746)
Nature of the Company
emPSN Service Ltd is a regional partnership formed to secure a regional network and services for schools and a service framework for the public sector.

Relationship with the Council
As a customer of emPSN the Council is a member of the company and has a stake in its future as a public sector owned company Limited by Guarantee.

Inspired Spaces Nottingham Ltd - Local Education Partnership (Registered Company Number: 6506329)
Nature of the Company
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 sector in accordance with the terms and agreement set up with the Council.

Relationship with the Council
The Council has a 10% shareholding in the company. 10% is also held by Amber Investments and 80% is held by Carillion.

8.6.3 Trust Funds

Harvey Hadden Stadium Trust (Registered Charity 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 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 Council

Harvey Hadden Stadium Trust is a charity of which the Council is sole trustee. Councillors are appointed to the Trusts and Charities Committee by full Council to fulfil the Council's responsibilities as Trustee including the responsibility for making recommendations on the management of the charity.

All transactions relating to Harvey Hadden Stadium Trust are subject to the same financial regulations and procedures as those relating to the Council.

Highfields Leisure Park Trust (Registered Charity 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 objective of the Trust is to provide public recreation and pleasure grounds for the people of the City of Nottingham forever.

Relationship with the Council

Highfields Leisure Park Trust is a charity of which the Council is sole trustee. Councillors are appointed to the Trusts and Charities Committee by full Council to fulfil the Council's responsibilities as Trustee including the responsibility for making recommendations on the management of the charity.

All transactions relating to Highfields Leisure Park Trust are subject to the same financial regulations and procedures as those relating to the Council.

8.7 Notes to the Core Group Financial Statements

These notes provide information that supports, and helps in interpreting the financial statements. Where the group account figures are not materially different from those of the council only accounts, no additional disclosure notes have been made.

8.7.1 Group Comprehensive Income and Expenditure Statement Notes

8.7.1.1 Financing and Investment Income and Expenditure

	2012/13			2013/14		
	Expenditure £m	Income	Net	Expenditure £m	Income	Net
Net Interest on Pension Fund	17.328	-	17.328	24.375	-	24.375
Other interest & similar	32.596	(0.392)	32.204	37.937	(8.051)	29.886
Investment Properties	0.785	(4.430)	(3.645)	1.079	(5.370)	(4.291)
Other investments	48.656	(49.685)	(1.029)	37.195	(36.564)	0.631
TOTAL	**99.365**	**(54.507)**	**44.858**	**100.586**	**(49.985)**	**50.601**

8.7.2 Group Balance Sheet Notes

8.7.2.1 Property, Plant and Equipment

2013/14	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Gross Book Value b/f	562.063	934.773	187.276	402.692	27.902	30.454	76.575	**2,221.735**	**76.450**
Accumulated Depreciation b/f	-	(40.797)	(78.984)	(107.736)	(5.438)	(1.212)	-	**(234.167)**	**(4.784)**
Accumulated Impairment b/f	(0.188)	(5.856)	(1.120)	-	-	(7.425)	(4.009)	**(18.598)**	-
Net Book Value at 1st April 2013	**561.875**	**888.120**	**107.172**	**294.956**	**22.464**	**21.817**	**72.566**	**1,968.970**	**71.666**
Additions - Capital Expenditure	36.223	6.242	39.515	18.529	1.174	4.895	21.446	**128.024**	0.025
Additions - Donations	1.792	-	0.054	-	-	-	-	**1.846**	-
Additions - PFI Recognition	-	16.403	-	11.301	-	-	1.291	**28.995**	28.995
Depreciation Charge	(26.182)	(26.308)	(19.604)	(16.022)	(0.893)	(0.134)	-	**(89.143)**	(3.185)
Revaluations - Recognised in Revaluation Reserve	0.920	24.543	-	-	-	2.415	-	**27.878**	-
Revaluations - Recognised in the CIES	7.812	(7.589)	-	-	-	(0.068)	-	**0.155**	-
Derecognition - Disposals	-	(0.453)	(3.091)	-	-	(2.840)	-	**(6.384)**	-
Derecognition - Other	(3.531)	(26.953)	-	-	-	(4.803)	-	**(35.287)**	-
Impairments - Recognised in the CIES	0.030	0.017	-	-	-	-	-	**0.047**	-
Other - Transfers to Held for Sale	(9.837)	8.104	0.583	-	-	16.237	(17.408)	**(2.321)**	-
Net Book Value at 31st March 2014	**569.102**	**882.126**	**124.629**	**308.764**	**22.745**	**37.519**	**77.895**	**2,022.780**	**97.501**
Gross Book Value c/f	569.260	939.608	220.078	432.522	29.076	38.608	81.904	**2,311.056**	105.470
Accumulated Depreciation c/f	-	(57.125)	(94.778)	(123.758)	(6.331)	(1.089)	-	**(283.081)**	(7.969)
Accumulated Impairment c/f	(0.158)	(0.357)	(0.671)	-	-	-	(4.009)	**(5.195)**	-
Net Book Value at 31 March 2014	**569.102**	**882.126**	**124.629**	**308.764**	**22.745**	**37.519**	**77.895**	**2,022.780**	**97.501**

Page 159

2012/13	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Gross Book Value b/f	562.651	953.830	169.531	394.861	26.413	18.100	40.901	**2,166.287**	**67.514**
Accumulated Depreciation b/f	-	(25.737)	(63.472)	(98.628)	(4.601)	(1.135)	-	**(193.573)**	**(1.956)**
Accumulated Impairment b/f	-	(0.376)	-	-	-	(0.136)	-	**(0.512)**	-
Net Book Value at 1st April 2012	**562.651**	**927.717**	**106.059**	**296.233**	**21.812**	**16.829**	**40.901**	**1,972.202**	**65.558**
Additions - Capital Expenditure	34.631	20.260	16.878	11.574	1.489	5.135	22.140	**112.107**	(0.008)
Additions - Donations	5.917	-	-	-	-	-	-	**5.917**	-
Additions - PFI Recognition	-	-	-	8.944	-	-	-	**8.944**	8.944
Depreciation Charge	(25.655)	(26.050)	(18.190)	(15.205)	(0.837)	(0.732)	-	**(86.669)**	(2.828)
Revaluations - Recognised in Revaluation Reserve	(0.907)	64.631	-	-	-	(0.626)	-	**63.098**	-
Revaluations - Recognised in the CIES	(0.535)	(38.282)	-	-	-	(5.654)	-	**(44.471)**	-
Derecognition - Disposals	-	-	(0.263)	-	-	(3.066)	-	**(3.329)**	-
Derecognition - Other	(2.877)	(24.654)	(0.004)	(6.590)	-	(1.600)	-	**(35.725)**	-
Impairments - Recognised in Revaluation Reserve	-	(6.567)	-	-	-	(2.147)	-	**(8.714)**	-
Impairments - Recognised in the CIES	(0.188)	(6.772)	(1.120)	-	-	(2.063)	-	**(10.143)**	-
Other - Transfers to Held for Sale	(11.162)	(22.163)	3.812	-	-	15.741	9.525	**(4.247)**	-
Net Book Value at 31st March 2013	**561.875**	**888.120**	**107.172**	**294.956**	**22.464**	**21.817**	**72.566**	**1,968.970**	**71.666**
Gross Book Value c/f	562.063	934.773	187.276	402.692	27.902	30.454	76.575	**2,221.735**	76.450
Accumulated Depreciation c/f	-	(40.797)	(78.984)	(107.736)	(5.438)	(1.212)	-	**(234.167)**	(4.784)
Accumulated Impairment c/f	(0.188)	(5.856)	(1.120)	-	-	(7.425)	(4.009)	**(18.598)**	-
Net Book Value at 31 March 2013	**561.875**	**888.120**	**107.172**	**294.956**	**22.464**	**21.817**	**72.566**	**1,968.970**	**71.666**

8.7.2.2 Investment Properties

The following table summarises the movement in the fair value of investment properties over the year:

	2012/13 £m	2013/14 £m
Opening Balance At 1 April	60.591	66.587
Additions	8.604	7.851
Disposals	(0.431)	(6.023)
Net gains/losses from fair value adjustments	(2.177)	(0.391)
Transfers to / from Property Plant and Equipment	-	(1.332)
CLOSING BALANCE AT 31 MARCH	**66.587**	**66.692**

Where the Bridge Estate's fixed assets have been consolidated with the Council's it has been assumed that the properties class will remain as investment property upon consolidation.

8.7.2.3 Short Term Debtors

	31 March 2013 £m	31 March 2014 £m
Central government bodies	13.511	21.257
Other local authorities	2.913	5.548
NHS bodies	0.005	1.247
Public corporations and trading funds	-	0.187
Other entities and individuals	59.895	55.850
TOTAL	**76.324**	**84.089**

8.7.2.4 Cash and Cash Equivalents

The balance of Cash and Cash Equivalents comprises of the following elements:

	31 March 2013 £m	31 March 2014 £m
Cash held by the Authority / Group Organisation	0.317	0.405
Bank current accounts	7.003	11.121
Short-term deposits with banks and building societies	83.147	61.873
TOTAL CASH AND CASH EQUIVALENTS	**90.467**	**73.399**

8.7.2.5 Short Term Creditors

	31 March 2013 £m	31 March 2014 £m
Central government bodies	(28.270)	(34.009)
Other local authorities	(4.661)	(1.846)
NHS bodies	(0.121)	(7.437)
Other entities and individuals	(130.380)	(154.669)
TOTAL	**(163.432)**	**(197.961)**

8.7.2.6 Usable Reserves

Movements in the usable reserves are detailed in the MIRS.

8.7.2.7 Unusable Reserves

Unusable reserves have been created as a result of the difference between accounting under IFRS and statutory provisions. These reserves represent differences due to timing of funding certain items of expenditure and are, therefore, not available as a source of general funding. The unusable reserves also include the Council's share of profit and loss and other reserves of jointly controlled entities included in the group accounts.

	31 March 2013 £m	31 March 2014 £m
Revaluation Reserve	319.783	336.762
Capital Adjustment Account	885.701	897.201
Financial Instruments Adjustment Account	(7.530)	(7.186)
Pensions Reserve	(588.226)	(602.376)
Deferred Capital Receipts Reserve	3.985	4.293
Collection Fund Adjustment Account	1.419	5.006
Accumulated Absences Account	(5.577)	(5.023)
Available For Sale Financial Instruments Reseve	0.046	-
Profit and Loss and Other Reserves of Group Entities	2.837	1.721
Minority Interest - Equity	0.396	0.374
TOTAL	**612.834**	**630.772**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Group arising from increases in the value of its PPE. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2012/13 £m	2013/14 £m
Opening Balance at 1 April	**273.978**	**319.783**
Upward revaluation of assets	93.003	32.571
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(38.439)	(4.388)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**54.564**	**28.183**
Difference between fair value depreciation and historical cost depreciation	(6.952)	(8.554)
Accumulated gains on assets sold or scrapped	(1.807)	(2.650)
Asset reclassifications	-	
Amount written off to the Capital Adjustment Account	**(8.759)**	**(11.204)**
CLOSING BALANCE AT 31 MARCH	**319.783**	**336.762**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation. Impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Group. The account also contains revaluation gains accumulated on PPE before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2012/13 £m	2013/14 £m
Opening Balance at 1 April	**933.790**	**885.701**
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Amortisation of intangible assets	(0.502)	(0.513)
Charges for depreciation of non-current assets	(81.384)	(83.296)
Charges for impairment of non-current assets	(9.023)	0.047
Revaluation losses on Property, Plant and Equipment	(42.083)	2.593
Donated Assets	5.917	1.846
Movements in the market value of Investment Properties	(0.499)	0.006
Revenue expenditure funded from capital under statute (REFCUS)	(12.696)	(6.572)
REFCUS expenditure funded by grants	9.876	4.933
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(45.550)	(52.701)
Charges for Impairment of investment in subsidairy	(0.195)	-
Adjusting amounts written out of the Revaluation Reserve	8.783	11.217
	(167.356)	(122.440)
Capital financing applied in the year:		
Use of Capital Receipts Reserve to finance new capital expenditure	4.696	9.285
Use of the Major Repairs Reserve to finance new capital expenditure	15.466	18.088
Application of grants to capital financing from the Capital Grants Unapplied Account	58.244	55.698
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	13.757	12.469
Voluntary set aside of capital receipts for debt redemption	17.226	22.606
Capital expenditure charged against the General Fund and HRA balances	10.534	16.820
Reduction in Liabilities & Repayment of Long Term Debtors etc:		
Bulwell LIFT	-	
Principal Repayment of Capital Loans	(0.656)	(1.026)
	119.267	133.940
CLOSING BALANCE AT 31 MARCH	**885.701**	**897.201**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. Post employment benefits are accounted for in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as employer's contributions are made to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2012/13 Disclosed £m	2012/13 Per revised IAS19 £m	2013/14 £m
Opening Balance at 1 April	**(588.941)**	**(588.941)**	**(588.226)**
Return on plan assets		77.924	12.792
Actuarial gains or (losses) on pensions assets and liabilities	18.088	(51.729)	2.377
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(45.211)	(53.318)	(56.433)
Employer's pensions contributions and direct payments to the pensioners payable in the year	27.838	27.838	27.114
CLOSING BALANCE AT 31 MARCH	**(588.226)**	**(588.226)**	**(602.376)**

8.7.3 Group Movement in Reserves Statement Notes

Nottingham Ice Centre Ltd's 2012/13 final audited accounts were adjusted by non-material amounts from those figures included within the 2012/13 Group accounts. The balance of reserves at 31 March 2013 was affected, therefore an opening balance adjustment has been included in the MIRS.

The following tables detail the adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement:

2013/14	General Fund Balance £m	Total Authority Reserves £m	Authority's Share of Group Reserves £m	Total Reserves £m
Payments in relation to goods and services from subsidiaries	(65.849)	(65.849)	65.849	-
Grants and provisions for subsidiaries	(0.046)	(0.046)	0.046	-
Receipts in relation to goods and services provided to subsidiaries	11.511	11.511	(11.511)	-
Interest and investment income from/to subsidiaries	1.696	1.696	(1.696)	-
Contributions from subsidiaries	1.440	1.440	(1.440)	-
Other movements		-	1.268	1.268
TOTAL ADJUSTMENTS	(51.248)	(51.248)	52.516	1.268

2012/13	General Fund Balance £m	Total Authority Reserves £m	Authority's Share of Group Reserves £m	Total Reserves £m
Payments in relation to goods and services from subsidiaries	(64.857)	(64.857)	64.857	-
Grants and provisions for subsidiaries	(0.224)	(0.224)	0.224	-
Receipts in relation to goods and services provided to subsidiaries	8.499	8.499	(8.499)	-
Interest and investment income from/to subsidiaries	1.005	1.005	(1.005)	-
Contributions from subsidiaries	1.484	1.484	(1.484)	-
Other movements		-	0.438	0.438
TOTAL ADJUSTMENTS	(54.093)	(54.093)	54.531	0.438

8.7.4 Group Cash Flow Notes

8.7.4.1 Operating Activities

The cash flows for operating activities include the following items:

	2012/13 £m	2013/14 £m
Interest received	7.748	9.112
Interest paid	(28.327)	(34.174)
Dividends received	0.500	1.000
Dividends paid	(0.814)	(1.340)
Taxation	(0.120)	0.043

8.7.4.2 Investing Activities

	2012/13 £m	2013/14 £m
Purchase of property, plant and equipment, investment property and intangible assets	(126.411)	(140.899)
Purchase of short-term and long-term investments	(95.563)	(22.668)
Other payments for investing activities	(4.064)	(0.417)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	10.502	17.480
Proceeds from short-term and long-term investments	-	0.342
Other receipts from investing activities	63.602	64.608
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(151.934)**	**(81.554)**

8.7.4.3 Financing Activities

	2012/13 £m	2013/14 £m
Cash receipts of short and long-term borrowing	142.673	10.000
Other receipts from financing activities	0.270	3.143
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(7.492)	(6.607)
Repayments of short and long-term borrowing	(117.346)	(87.318)
Other payments for financing activities	(10.154)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	**7.951**	**(80.782)**

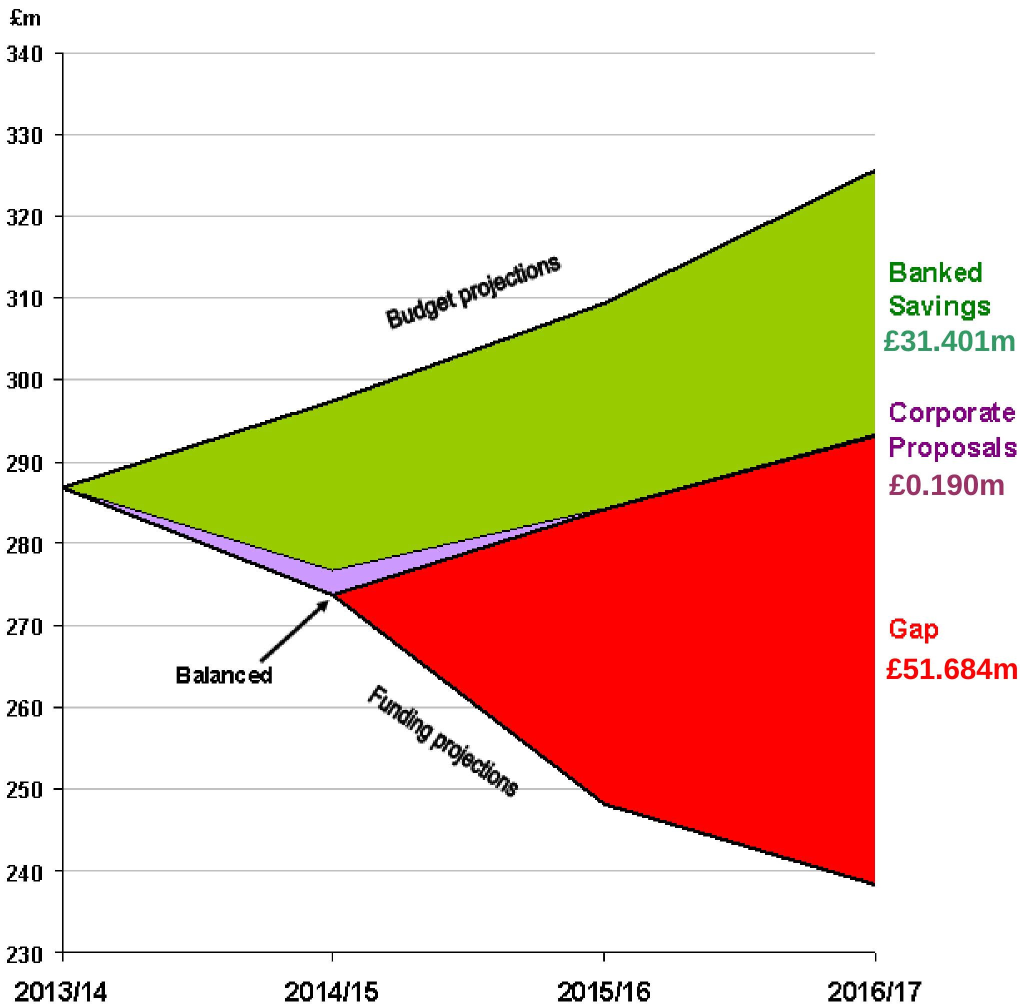
Section 9 (Appendix A)
Forward Plans

9.1 Medium Term Financial Plan

In March 2014 the Council approved a revised Medium Term Financial Plan (MTFP) covering the 3 year period from 2014/15 to 2016/17.

The Council's MTFP was developed within the context of an integrated service planning and budget preparation cycle with 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 cost reductions, budget and cost pressures for the next three years. Detailed budgets were then worked up based on current priorities and plans, underlying demographic trends and predicted inflation factors.

Local government continues to operate in a challenging environment and there is considerable uncertainty over the future levels of funding. However, it is clear that the public sector will have lower than previously anticipated levels of funding in the years ahead and that significant further savings will need to be identified. These issues have been brought together to produce a 3 year Medium Term Financial Outlook (MTFO) and summarised in the graph below:



The Council has identified proposals to produce a balanced budget for 2014/15 and will continue to work on proposals to meet the future funding gap, which rises to £51.684m by 2016/17.

The capital programme faces a similar challenge for the foreseeable future. Funding reductions have been factored into projections and continue to be proactively monitored to ensure funding is secured before making any commitment to spend. However, the medium term programme is still substantial and includes investment in NET2, Public Sector Housing, highways maintenance and local transport infrastructure. The capital programme and funding proposals following the 2013/14 Outturn are detailed below:

	CAPITAL PROGRAMME					
	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
Expenditure:						
Public Sector Housing	84.392	47.169	33.672	36.940	38.604	**240.777**
Transport	35.404	17.421	6.644	2.250	-	**61.719**
Education	18.831	9.342	5.647	-	-	**33.820**
All Other Services	186.408	26.975	21.781	17.540	15.684	**268.388**
TOTAL	**325.035**	**100.907**	**67.744**	**56.730**	**54.288**	**604.704**
Forecast Funding:						
Unsupported Borrowing	162.758	20.768	15.678	14.435	13.451	**227.090**
Capital Receipts	13.240	5.975	5.817	-	-	**25.032**
Revenue /Reserves etc	20.645	4.503	7.841	9.924	11.660	**54.573**
Major Repairs Reserve (Housing)	29.001	29.001	29.001	29.001	29.001	**145.005**
Grants & Contributions	55.484	25.037	17.321	8.692	6.642	**113.176**
TOTAL	**281.128**	**85.284**	**75.658**	**62.052**	**60.754**	**564.876**
Resources Brought Forward	75.646	31.739	16.116	24.030	29.352	
CUMULATIVE SURPLUS	**(31.739)**	**(16.116)**	**(24.030)**	**(29.352)**	**(35.818)**	

Additionally, the Council is currently developing a Capital Investment Strategy which will focus on supporting a higher level of growth and regeneration within the City. Potential funding streams are being explored from a variety of sources, including prudential borrowing.

A number of potential capital schemes are currently being assessed and the decision to progress schemes will be dependent on securing the stated level of external funding or grant as appropriate. The Capital Programme shown above does not yet include provision for these schemes. Any resulting additional schemes will be subject to robust evaluation including deliverability of business plans and the appropriate governance arrangements.

Some spending within the capital programme will be delivered in partnership with other organisations. The paragraphs below summarise the major partnership schemes with expenditure incurred from 2014/15 onwards:

NET2 (Lines 2 and 3) – A PFI scheme with a private sector partner ("Tramlink") which was signed on 15 December 2011 for the operation of Line 1 and construction and operation of Lines 2 and 3. The Council will incur capital expenditure of around £146m together with annual availability payments to Tramlink.

Nottingham Station Improvements (The Hub) – An agreement with Network Rail to fund improvements of £60m to Nottingham Station. The Council has approved a contribution of up to £18.130m

Building Schools for the Future (BSF) and Academies Programmes – A Government initiative to rebuild and/or renew school buildings. The council obtained funding for rebuilding and remodeling 13 schools and academies together with provision of ICT managed services. At January 2014, all but two schemes had been handed back to the City Council by the contractor, with the remaining schemes all under construction and on programme.

9.2 Future Significant Developments

9.2.1 Universal Credit

Over the next 5 years the Government plans to introduce a single Universal Benefit to replace a number of individual benefits, including Council Tax Benefit and Housing Benefit. The Council will no longer receive payments for these benefits directly, but instead will need to recover Council Tax and rents directly from residents, potentially increasing the level of bad debts the council incurs.

Section 10 (Appendix B)
Accounting Policies

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

10.1 General Principles

10.1.1Statutory Guidance and Accounting Standards used

The Statement of Accounts summarises the Council’s transactions for the 2013/14 financial year and its position at the year end of 31 March 2014. It provides the reader with information about the Council's financial position and its stewardship of public funds. The Statement of Accounts is a legal requirement under the Accounts and Audit Regulations 2011 and must comply with proper accounting practices. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) which is based on approved accounting standards. In addition to compliance with the Code, the Council's accounts also comply with the Service Reporting Code of Practice 2013/14. This Code sets out proper practice for financial reporting to ensure consistency and comparability across Councils. The accounts are supported by IFRS and statutory guidance issued under section 7 of the 2011 Act.

10.1.2Accounting Convention

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

10.1.3Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

A prior period adjustment will be made to the accounts as a result of a change in accounting policies. Changes in accounting estimates will be accounted for prospectively. Material errors in prior periods are corrected retrospectively by amending opening balances and comparative amounts. A full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

10.1.4Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the Balance Sheet date of 31 March and the date when the Statement of Accounts is authorised for issue. The two types of events and the accounting treatment are given below:

- For any material events after the balance sheet date which provide additional evidence regarding conditions existing at the balance sheet date, an adjustment has been made to the Statement of Accounts.
- Material events after the balance sheet date which concerned conditions not existing at 31 March have been disclosed as a separate note to the accounts.

10.1.5 Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Further details are given below:

- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Cash received or paid and not yet recognised as income or expenditure is shown as a creditor (receipt in advance) or debtor (payment in advance) in the Balance Sheet and the Comprehensive Income and Expenditure Statement (CIES) adjusted accordingly. 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.
- Fees, charges and rents due from customers are accounted for as income at the date that the Council provides the associated goods or services.
- Supplies are recorded as expenditure in the period during which they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet. For some quarterly payments including gas and electricity, 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, once complete, prior to completion they are carried as 'works in progress' on the Balance Sheet.
- For significant accruals such as pay awards, estimates are made based on the best information available at the time. Cost of pay awards not yet settled but likely to apply to part of the financial year to which the accounts relate are based on forecasted cost.
- Interest payable on borrowings and interest receivable on investments is accounted for as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Income and expenditure are credited and debited to the relevant service revenue account in the CIES. Capital expenditure creates a fixed asset which is shown on the Balance Sheet.

  Accruals have been made on the basis of the known value of the transaction wherever possible. Where estimates have been required to be made, they are based on appropriate and consistently applied methods. In the case of highways and building works, the related assets or liabilities will be valued at the year-end by colleagues working in the relevant service. Where there has been a change to an estimation method from that applied in previous years and the effect is material, a description of the change and if practicable, the effect on the results for the current period is separately disclosed.

10.2 Policies primarily affecting the CIES

10.2.1Government Grants and Contributions

Government grants and other contributions are recognised as due to the Council when the attached conditions have been satisfied and there is reasonable assurance that the grant or contribution will be received.

Grants and contributions are credited to income when there is reasonable assurance that the attached conditions will be met. Any grants received where conditions have not been met are carried in the Balance Sheet as creditors. When all conditions are satisfied, the grant is credited to the relevant service line and non-ring fenced grants and capital grants are credited to Taxation and Non-specific grant income in the CIES.

10.2.2Business Improvement Districts (BID)

A BID scheme applies across the whole of the Council. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the CIES.

10.2.3Operating Leases

Receivable (Council as lessor)

Where the Council has granted an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made on a straight line basis over the life of the lease and any direct costs incurred in negotiating and arranging the lease are added to the carrying amount and charged as an expense over the lease term on the same basis as rental income.

Payable (Council as lessee)

Rentals paid under operating leases are charged to the service benefiting from use of the leased asset in the CIES. Charges are made on a straight-line basis over the life of the lease, regardless of the pattern of payments.

10.2.4Employee Benefits

Benefits Payable During Employment

Wages and salaries, paid annual leave and paid sick leave are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of the holiday entitlements or for any form of leave, e.g. time off in lieu, which employees have earned during the year but are able to carry forward into the next financial year.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the CIES when the Council is demonstrably committed to the termination of the employment of an employee or group of employees or are making an offer to encourage voluntary redundancy.

Teachers Pension Scheme

Pension costs relating to Teachers' Pension Scheme have been treated as defined contribution schemes and the costs are charged to Children's and Education in the CIES.

Defined Benefit Schemes (Local Government Pension Scheme)

Within the CIES, service revenue accounts have been charged with their current service cost, which represents the extent to which the pension liability has increased as a result of employee service during the year. Past service costs, settlements and curtailments have been charged to non-distributable costs.

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.

10.2.5 Charges to Service Revenue Accounts for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and 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 the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

10.2.6 Financing and Investment

The financing an investment line of the CIES is charged or credited for the following amounts relating to investments:

- Gain or loss on the difference between net sale proceeds and carrying value of investment properties.
- Rental income from investment properties
- Gains and losses on the repurchase or early settlement of borrowing.
- Interest costs and expected return on Defined Benefit pension schemes.

10.2.7 Other Operating Expenditure

Other operating expenditure includes charges for:

- The proportion of receipts relating to HRA disposals payable to the Government
- Gains or losses on sale and derecognition of non-current assets (excluding investment properties)
- Actuarial gains or losses and return on plan assets of Defined Benefit Pension Schemes, which are charged to the Pension Reserve

10.2.8 Overheads and Support Services

Overheads and support services are charged to service revenue accounts, trading undertakings and other support services in accordance with the Service Reporting Code of Practice. The basis for apportionment is generally time spent by colleagues on relevant tasks although other bases are used where more appropriate. The costs of Corporate and Democratic and Non-Distributable costs are not charged to service revenue accounts but are shown as separate lines on the CIES.

10.2.9 Carbon Reduction Commitment Scheme

As energy is used and carbon dioxide is emitted, an expense is charged to services in the CIES based on the current market price of allowances, together with a corresponding liability being created on the Balance Sheet. The expense is apportioned to services on the basis of energy consumption. The liability is subsequently discharged when the allowances are purchased retrospectively.

10.2.10 Landfill Allowance Schemes

When landfill is used an expense is charged to the CIES. This expense is matched by treating the use of landfill allowances allocated by DEFRA as government grants. Landfill used in excess of the allowances will appear as an expense in the form of allowances purchased from other Waste Disposal Authorities or a cash penalty paid to DEFRA.

Any residual allowances are measured at the lower of cost or net realisable value. However, due to the significant level of surplus landfill allowances available and trading being minimal, any surplus landfill allowances are judged to have no value

10.2.11 Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure its incurs and the share of income it earns from the activity of the operation.

10.2.12 Exceptional Items

Normally any material exceptional items are separately identified on the face of the CIES, in order to give a fair presentation of the accounts. Where these items are less significant they are included within the cost of the relevant service, however, details of all exceptional items are given in the Explanatory Foreword.

10.2.13 Value Added Tax

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.

10.3 Policies primarily affecting the Balance Sheet

10.3.1Property, Plant and Equipment (PPE), Heritage Assets and Intangible Assets

PPE - Recognition

General

All expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it brings benefits to the Council for more than one financial year. Expenditure that maintains but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as an expense when it is incurred.

Surplus Assets

Assets that are surplus to service needs but that do not meet the classification of Investment Property or Assets Held for Sale are classified as PPE 'Surplus', pending a decision on the future use of the asset.

Private Finance Initiative (PFI) and Similar Contracts

In accordance with the code, the Council accounts for its PFI contracts in accordance with IFRC 12 Service Concession Agreements. The Council is deemed to control the services that are provided under its PFI schemes and ownership will pass to the Council at the end of the contracts for no additional charge (with the exception of LIFT Joint Service Centres for which there is an option to purchase). Therefore, the Council carries the assets used under the contracts, on its Balance Sheet as PPE, where they are accounted for in the same way as the other assets. The original recognition of assets is at fair value with a corresponding liability for the amounts due to the scheme operator.

The amounts payable to the PFI operators is comprised of 5 elements. The Fair Value of Services received during the year, Finance Cost, Contingent Rent, and Lifecycle replacement costs are posted to the CIES. The final element is a payment towards the outstanding liability on the balance sheet.

Finance Leases - General

Leases are classified as finance leases where substantially all of the risks and rewards incidental to ownership of the PPE transfer from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Finance Leases – where the Council is Lessee

The asset is matched by a liability for the obligation to pay the lessor. Any initial direct costs of the Council are added to the carrying amount of the asset.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the PPE – applied to write down the lease liability and
- A finance charge which is debited to the Financing and Investment Income and Expenditure line in the CIES.

Finance Leases – the Council as Lessor

Where the Council grants a finance lease over a property or an item of plant or equipment, the carrying amount of the asset is written off and a long term debtor raised in the Balance Sheet.

Lease rentals receivable are apportioned between the principal repayment which reduces the debtor balance and interest which is credited to the Financing and Investment Income and Expenditure line in the CIES.

Heritage Assets

Acquisitions are either purchased by the City Council or donated by a third party. Purchases are initially recorded at cost while donations are held at nil value until the assets related collection is externally valued within the heritage asset valuation cycle.

Items are omitted from the Balance Sheet where the Council is unable to obtain the valuations at a cost which is commensurate with the benefits it would provide to users of the financial statements.

Intangible Assets

Intangible assets where the Council has control of the asset through either custody or legal protection for e.g. software licences are capitalised at cost.

Measurement

Assets are initially measured at cost, i.e. purchase price plus any costs incurred in bringing the asset into working condition for its intended use. The Council does not capitalise borrowing costs. Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure for e.g. roads and bridges and community assets for e.g. parks and land used for cemeteries and crematoria are generally valued at depreciated historical cost.
- Council dwellings are valued at Existing Use Value for Social Housing as defined in the Royal Institute of Chartered Surveyors valuation manual. The valuation exercise was carried out in accordance with guidance issued by the Department for Communities and Local Government in 2009/10 based on a full valuation of beacon properties by Chartered Surveyors Herbert Button & Partners and Freeman and Mitchell.
- Other land and buildings are valued at fair value, the amount that would be paid for the asset in its existing use. Where insufficient market based evidence of fair value is available because an asset is specialised in nature, Depreciated Replacement Cost has been applied.
- Finance leases are recognised at fair value or the present value of the minimum lease payments if lower.
- Heritage assets are reported in the Balance Sheet at market value and have been valued by an external valuer, the valuation dates range from 2001 to 2008. These external valuations have been carried out by a variety of qualified experts in the relevant field. These external valuations are adjusted annually by the Council to provide an internal valuation which is used until the collection is periodically externally revalued.
- All other assets are valued at fair value.

Assets included in the Balance Sheet at fair value are revalued, as a minimum, every 5 years. However, if there is evidence that there have been material changes in the value a further valuation will be undertaken.

Increases in valuations are credited to services within the CIES where they arise from the reversal of a revaluation or an impairment loss previously charged on the same asset. Any gains in excess of previous revaluation losses are matched by credits to the Revaluation Reserve.

Any revaluation losses are firstly written down against any previous revaluation gains held in the Revaluation Reserve. Where there are no previous revaluation gains, the losses are charged to the relevant service line of the CIES.

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.

De Minimis Levels

All assets acquired can be included in the Balance Sheet, regardless of their cost. However where the current value is less than the following amounts the Council may choose to exclude the asset from the Balance Sheet.

Description	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

Impairment

Asset values are assessed at the end of each financial year for evidence of reductions in value. If identified either as part of this review or as a result of a valuation exercise, they are accounted for as follows:

- Where there is a balance of revaluation gains on the Revaluation Reserve for the relevant asset the impairment loss is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains the impairment loss is charged to the relevant service line of the CIES.
- For intangible assets there will be no Revaluation Reserve balance, so impairment losses are charged to the relevant service line of the CIES only.

Depreciation and Amortisation

Depreciation is provided for on all PPE assets. The annual charge to the CIES is calculated by dividing the value less any residual 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, Heritage Assets, certain Community Assets and assets under construction.

Depreciation is calculated on the following bases:

- Dwellings – straight line allocation over the useful life on the building major components.
- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer.

- Vehicles, plant, furniture and equipment – straight line allocation over the useful life.
- Infrastructure and Community – straight-line allocation generally over 25 years.
- Finance leases - over the lease term. If the lease term is shorter than the asset's estimated useful life and ownership of the asset does not transfer to the authority at the end of the lease period.
- Intangible assets – amortised on a straight line basis over the economic life, which is generally assessed to be 5 years.

Where an item of PPE asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

The Revaluation Reserve is also reduced for the depreciation relating to revaluation gains with a corresponding credit to the Capital Adjustment Account..

Componentisation

Where an asset consists of significant components that have different useful lives and / or depreciation methods to the remainder of asset, these components are separately identified and depreciated accordingly. A component value must be at least 20% of the whole asset. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, the parts have been grouped to determine the depreciation charge. Componentisation only applies to enhancement and acquisition expenditure and revaluations carried out from 1st April 2010 with a de-minimis level of £3m.

10.3.2Investment Property

Investment properties are those used solely to earn rentals and/or for capital appreciation and does not apply to properties which are being used to deliver services for the Council.

Investment properties are measured initially at cost. They are not depreciated but are revalued annually according to market conditions.

10.3.3Long Term Investments

Interests in Companies and Other Entities
Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council's interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses.

Available-for-sale Financial Assets
Available-for-sale assets are valued at fair value. Where available-for-sale assets are quoted in an active market, the quoted market price is taken as fair value.

10.3.4PPE Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets held for sale are carried at the lower of carrying value and fair value less costs to sell.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

10.3.5 Inventories 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.

10.3.6 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet initially at fair value and carried at their amortised cost. Interest payable is charged to the Financing and Investment Income and Expenditure line of the CIES. The amount shown in the Balance Sheet is the carrying amount of the loan at 31st March.

10.3.7 Loans and Receivables

Loans and receivables are recognised on the Balance Sheet, initially at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

10.3.8 Provisions

Provisions have only been recognised in the accounts where there is a legal or constructive obligation to transfer economic benefits as a result of a past event and where such an amount can be reliably estimated. Provisions are charged to the CIES and, depending on their materiality, are either disclosed as a separate item on the Balance Sheet or added to the carrying balance of an appropriate current liability. When expenditure is eventually incurred, it is charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it is apparent that the provision is not required or is lower than originally anticipated, the provision is reversed and credited back to the relevant service

Where some or all of the payment required to settle a provision is expected to be recovered from another party, for e.g. from an insurance claim, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

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

10.3.9 Contingent Liabilities

Where a potential provision cannot be accurately estimated or an event is not considered sufficiently certain, it has not been included in the accounts but is instead disclosed in the notes as a contingent liability. A contingent liability also occurs where a liability may arise but is dependent upon the outcome of future events before it can be confirmed

10.3.10 Contingent Assets

A contingent asset occurs where a possible asset may arise but is dependent upon the outcome of future events before it can be confirmed Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

10.3.11 Defined Benefit Schemes (Local Government Pension Scheme)

For defined benefit schemes, pension fund assets are accounted for at fair value as follows:

- Quoted and unitised securities - current bid price
- Unquoted securities - professional estimate
- Property - market value.

Pension liabilities are measured on an actuarial basis, using an assessment of the future payments that will be made for retirement benefits earned to date by employees. This assessment includes assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

Liabilities are discounted at the Balance Sheet date using a discount rate that takes into account the duration of the employer's liabilities and the requirements of IAS19. The discount rate chosen is the annualised yield at the 21 year point on the Merrill Lynch AA rated corporate bond curve.

10.3.12 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Transfers to and from reserves are shown in the MIRS and not within services. Expenditure is charged to the CIES and not directly to any reserve. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and are not usable resources for the Council

10.4 Policies Affecting the Cash Flow Statement

10.4.1Cash and Cash Equivalents

The Council's Cash Flow Statement reflects the movements in cash and cash equivalents during the year and is shown net of bank overdrafts that are repayable on demand. Cash is represented by cash in hand and deposits with the Council's own bank. Cash equivalents are deposits with financial institutions repayable without penalty on notice of not more than 24 hours. This includes Council deposits in other UK bank call accounts and Money Market Funds

10.5 Policies used to account on a Funding Basis

In a number of areas statutory provisions require the Council to account for transactions relating to the General Fund (and subsequently the amount to be raised from Council Tax) differently from the treatment required by IFRS. In each case the adjustment required is offset by a transfer to a specific reserve. The adjustments are shown within the MIRS as Adjustments between accounting basis and funding basis under regulations.

10.5.1Depreciation, amortisation, revaluation gains and losses and impairment

Instead of these charges the Council is required to make an annual provision from revenue to contribute towards the reduction in its borrowing requirement (at least 4% of the adjusted Capital Financing Requirement, excluding amounts attributable to HRA). The difference between the two transactions is adjusted with the Capital Adjustment Account.

For the HRA, depreciation is replaced by a contribution to the Major Repairs Reserve.

10.5.2Gains and Losses on Sale of Assets

Where sale proceeds are in excess of £10k, the gain or loss on sale or disposal (including finance leases) is removed from the CIES and adjusted with the Usable Capital Receipts Reserve (sale proceeds) and the Capital Adjustment Account (carrying value in the Balance Sheet).

A proportion of receipts relating to HRA disposals is payable to the Government and a corresponding sum is therefore transferred back from the Capital Receipts Reserve to the General Fund.

10.5.3Capital grants

Capital Grants are reversed out of the General Fund to the Capital Grants Unapplied Account. When the grant is applied to fund capital expenditure, it is posted to the Capital Adjustment Account.

10.5.4Revenue Expenditure Funded from Capital under Statute (REFCUS)

Certain items of expenditure and related grant funding charged to the CIES under IFRS may be treated as capital for funding purposes. A transfer is made between the General Fund and the Capital Adjustment Account reserve for these items.

10.5.5Employee Benefits

Accruals made for holiday entitlements or leave are reversed out of the General Fund to the Accumulated Absences Account.

10.5.6Termination Benefits - Pension Enhancements

Pension costs calculated according to IAS 19 are replaced by the actual pension payment for the year. The difference between the two transactions is transferred between the General Fund and the Pensions Reserve

10.5.7Financial Liabilities

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund to be spread over future years. The gain or loss is spread over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The difference between the two approaches is transferred between the General Fund and the Financial Instruments Adjustment Account.

10.5.8Loans and Receivables

Statutory provisions allow the General Fund to be charged with the actual interest receivable for the financial year. The adjustment to the CIES for soft loans is therefore removed and adjusted with the Financial Instruments Adjustment Account.

10.5.9 Use of Reserves

The Council may make a charge against the General Fund to set aside specific amounts as reserves for future policy purposes or to cover contingencies. The Council may then also choose to use these reserves to reduce the impact on the General Fund when the expenditure is incurred.

10.6 Accounting Policies not relevant or not material

The accounting policies are reviewed each year to assess whether it is appropriate for individual policies to be included. There are a number of accounting policies that have not been included above, because the statements are not materially affected by their implementation. These policies include:

- Use of capital receipts to fund disposal proceeds
- Intangible Assets – Recognition of website development and other internally generated assets
- Derecognition or impairment of available for sale financial assets, loans and receivables
- Valuation of available for sale financial assets other than at quoted market price
- Restructuring of loan portfolios and treatment of bonds
- Treatment of soft loans
- Changes to accounting policies
- Community Infrastructure Levy
- Subsequent revaluation of assets held for sale
- Jointly controlled assets
- Provision for backpay arising from unequal pay claims

Section 11 (Appendix C)
PENSION SCHEMES

11.1 Defined Benefit Pension Schemes accounted for as Defined Contribution Schemes

11.1.1 Teachers Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered in accordance with the Teachers' Pensions Regulations 2010. The Scheme is contracted out of the State Second Pension and currently provides benefits based on final salary and length of service on retirement. Changes to the Scheme will come into effect from 1 April 2015 and any benefits accrued from this date will be based on career average revalued salary, with various protections in place for those members in the Scheme before the changes take effect.

The Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. Contributions to the Scheme by employers and employees are set at rates determined by the Secretary of State, taking advice from the Scheme's actuary. The Schemes payments are partially funded by the employer and employee contributions, the balance of funding being provided by Parliament through the annual Supply Estimates process.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and a notional fund is used as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013/14, the Council paid £4.988m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2012/13 were £5.949m and 14.1%. There were no contributions remaining payable at the year-end. The employer contribution rate for 2014/15 will be 14.1% of pensionable pay.

The contribution rates into the Scheme will change from September 2015. HM Treasury has published the expected outcome of the Teachers' Pension Scheme valuation of a total contribution rate of 26%. The Schemes proposed final agreement provides that scheme members will pay an average contribution rate of 9.6%, with the balance falling on the employers; meaning that the new Scheme employer contribution rate will be 16.4% which will be payable from September 2015.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Scheme.

The Council's membership as at 31 March 2011 was 2,500, average age of 74 with a pensions cost of £1.988m.

11.1.2NHS Pension Scheme

Public Health employees who transferred into the Council from Nottingham City PCT on 01.04.13 are members of the NHS Pension Scheme. The NHS Pension Scheme is administered by NHS Business Services Authority.

The Scheme is an unfunded defined benefit occupational Scheme providing pensions, based on final salary for Council employees, and a career average arrangement for GPs and General Dental Practitioners. The Scheme is not designed to be run in a way that would enable NHS bodies / local authorities to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the Council is taken as equal to the contributions payable to the scheme for the accounting period.

The scheme receives contributions from employers and employees to defray the costs of pensions and other benefits. The costs of the scheme are determined by the Government and also the Scheme actuary who performs periodic valuations of the Scheme to determine how much needs to be paid in to provide the benefits paid out. These costs are shared between the NHS employers and the Scheme members.

Following the full actuarial review by the Government Actuary undertaken as at 31 March 2004, and after consideration of changes to the Scheme taking effect from 1 April 2008, the valuation report recommended that employer contributions could continue at the existing rate of 14% of pensionable pay following the introduction of the employee contributions on a tiered scale from 5.0% to 13.3% of their pensionable pay for 2013/14. On advice from the Scheme actuary, Scheme contributions may be varied from time to time to reflect changes in the Schemes liabilities.

In 2013/14 the Council’s contribution to the Scheme was £0.171m, representing 14% of pensionable pay (£1.220m). The Councils expected contributions to the Scheme for 2014/15 are 14% of member’s pensionable pay.

The last published actuarial valuation undertaken for the Scheme was completed for the year ending 31 March 2004. Consequently, a formal actuarial valuation would have been due for the year ending 31 March 2008. However, formal actuarial valuations for unfunded public service schemes were suspended by HM Treasury on value for money grounds while consideration is given to recent changes in public service pensions, and while future scheme terms are developed as part of the reforms to public service pension provision due in 2015. A formal valuation for funding purposes as at 31 March 2012 is currently close to completion and will be used to inform the contribution rates applicable from 1 April 2015.

If the Scheme operates with a surplus of cash outflow, due to income exceeding the payments made, the surplus is returned to HM Treasury during the following financial year. If payments exceed income within a financial year, or the scheme requires funds to maintain a level of cash flow to make payments the balance of the funding required is requested from parliament through the annual Supply Estimates process.

As the Scheme is unfunded liabilities are underwritten by the Exchequer.

The latest assessment of the Scheme is contained within the published annual NHS Pension Scheme (England and Wales) Resource Account which can be viewed on the NHS Pension website.

11.2 Defined Benefit Pension Scheme

11.2.1Local Government Pension Scheme

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2007/08, is contracted out of the State Second Pension and until 31 March 2014 provided benefits based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1 April 2014 and any benefits accrued from this date are based on career average revalued salary, with various protections in place for those members in the scheme before the changes take effect.

The Administering Authority for the Fund is Nottinghamshire County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As Administering Authority to the Fund, Nottinghamshire County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles. These should be amended when appropriate based on the Fund's performance and funding.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

On an Employer's withdrawal from the plan, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

In general, participating in a defined benefit pension scheme means that the Council is exposed to a number of risks:

Investment risk: The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.

Interest rate risk: The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.

Inflation risk: All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.

Longevity risk: In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Nottinghamshire County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Council e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

Assets and Liabilities in Relation to Post-employment Benefits

The projected pension expenses for the year to 31 March 2015 are as follows:

	LGPS	Teachers Benefits
	31 March 2015	
	£m	£m
Service cost	29.597	-
Net interest on the defined liability (asset)	22.304	1.076
Administration expenses	0.059	-
TOTAL	**51.960**	**1.076**
Employer Contributions	24.971	-

Actuarial Methods and Assumptions

Both the Local Government Pension Scheme and Teachers Benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries, with estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2013 and using financial assumptions that comply with IAS19.

Valuation Data - Data Sources

In completing the calculations for accounting purposes the actuary have used the following items of data, which they received from Nottinghamshire County Council:

- The results of the valuation as at 31 March 2013 which was carried out for funding purposes;
- Estimated whole fund income and expenditure items for the period to 31 March 2014;
- Estimated Fund returns based on assets used for the purpose of the funding valuation as at 31 March 2013, a Fund asset statement as at 31 December 2013, and market returns (estimated where necessary) thereafter for the period 31 March 2014.
- Estimated Fund income and expenditure in respect of the employer for the period to 31 March 2014.
- Details of any new early retirements for the period to 31 March 2014 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of the data items have been estimated, they are not likely to have a material effect on the results. The actuary is not aware of any material changes or events since the received the data.

Employer Membership Statistics

The table below summarises the membership data, as at 31 March 2013 for members receiving funded benefits, and as at 31 March 2014 for members receiving unfunded benefits:

	Local Government Pension Scheme		
	Number	Salaries / Pensions £m	Average Age
Actives	7,531	131.650	45
Deferred Pensioners	11,002	11.897	45
Pensioners	5,812	26.717	69
Unfunded Pensioners	2,466	2.204	79

The Council also has responsibility for a 29.3% share of the Nottinghamshire County Council liabilities accrued prior to 1 April 1998, and a responsibility for the liabilities of Nottingham City Transport accrued prior to 26 October 1986. These have been allowed for in the liabilities as well as in the pension cash flows. The data underlying the pre-1998 Nottinghamshire County Council and Nottingham City Transport LGPS liabilities is as follows:

	Local Government Pension Scheme		
	Number	Salaries / Pensions £m	Average Age
Pre-1998 Nottinghamshire County Council:			
Deferreds	3,905	2.711	53
Pensioners	6,211	21.000	76
Nottingham City Transport:			
Actives	101	2.042	58
Deferreds	63	0.253	55
Pensioners	777	4.740	71

The service cost for the year ending 31 March 2014 is calculated using an estimate of the average total pensionable payroll during the year of £128.910m. The projected service cost for the year ending 31 March 2015 has been calculated assuming the payroll remains at this level over the year.

There were 28 new early LGPS retirements in respect of the year ending 31 March 2014.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2014 is estimated to be 6%.

The LGPS estimated asset allocation for the Council as at 31 March 2014 is as follows:

	Local Government Pension Scheme			
	31 March 2013		31 March 2014	
	£m	%	£m	%
Equities	600.671	73%	607.616	73%
Gilts	57.599	7%	66.588	8%
Other Bonds	49.370	6%	41.618	5%
Property	98.740	12%	91.559	11%
Cash	16.457	2%	24.971	3%
TOTAL	**822.837**	**100%**	**832.352**	**100%**

Based on the above, the Council's share of the assets of the Fund is approximately 23%.

Of the Equities allocation above, 49% are UK investments, 48% are overseas investments and 3% are private equity investments of unspecified origin. Of the above, 93% are listed in a market and the remainder are not.

Of the Gilts allocation above, 60% are UK fixed interest Gilts, 25% are overseas fixed interest government bonds, and 15% are UK inflation-linked Gilts.

Of the Other Bonds allocation above, 59% are UK corporates, 9% are overseas corporates and 32% are inflation-linked.

The Teachers Benefits arrangements have no assets to cover its liabilities.

Valuation Approach

The full actuarial valuation involved projecting future cash flows to be paid from the Fund and placing a value on them. These cash flows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However, the actuary are satisfied that the approach of rolling forward the previous valuation data to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Council and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. The actuary has confirmed that there appears to be no evidence that this approach is inappropriate.

The asset share has been calculated by rolling forward the assets allocated to the Council at 31 March 2013 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from the fund by and in respect of the Council and its employees.

Valuation Method

As required under IAS19, the projected unit method of valuation has been used to calculate the service cost.

Demographic/Statistical Assumptions

Assumed life expectations are shown in the table below.

The following assumptions have also been made:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Financial Assumptions

These assumptions are set with reference to market conditions at 31 March 2014.

The financial assumptions used for the purpose of the IAS19 calculations are included in the table below.

Expected Return on Assets

The expected return on assets and the interest cost has been replaced with a single net interest cost, which effectively sets the expected return equal to the discount rate.

Past Service Costs/Gains

Past service costs can arise when the Council awards discretionary benefits such as added years and other forms of augmentation of benefits. A change to benefits may result in either a past service cost or a past service gain. No additional benefits were granted in year.

Curtailments

The cost of curtailments is calculated at the point of exit, with interest applied to the accounting date accounted for separately. Over the year, 28 former Council employees became entitled to unreduced early retirement benefits under the LGPS (27 due to redundancy, 1 due to voluntary redundancy / other grounds). The capitalised cost of the additional benefits relative to those reserved for under IAS19 is calculated at £0.708m.

No employees in the Teachers Scheme were permitted by the Council to take unreduced early retirement that they would not otherwise have been entitled to.

Settlements

As a result of some members transferring to / from another Employer over the year, LGPS liabilities have been settled at a cost different to the IAS19 reserve. The capitalised gain of this settlement is £4.108m.

There were no liabilities settled at a cost materially different to the iAS19 reserve during the year under the Teachers Scheme.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Teachers Benefits	
	2012/13	2013/14	2012/13	2013/14
Mortality Assumptions (Years):				
Longevity at 65 retiring today:				
Males	18.7	22.0	18.7	18.8
Females	22.8	25.1	22.8	22.9
Longevity at 65 retiring in 20 years:				
Males	20.7	24.1	20.7	20.8
Females	24.6	27.4	24.6	24.7
Financial Assumptions:				
RPI increase	3.4%	3.5%	3.0%	3.1%
CPI increase	2.6%	2.7%	2.2%	2.3%
Rate of increase in salaries	4.8%	4.5%	4.4%	4.1%
Rate of increase in pensions	2.6%	2.7%	2.2%	2.3%
Rate for discounting scheme liabilities	4.5%	4.4%	2.7%	3.4%
Estimate in years of duration of liabilities	21	18	8	8

Sensitivity Analysis

The sensitivity analysis focuses on four assumptions – discount rate, salary increases, inflation (which is used to determine pension increases and deferred revaluation) and mortality. The calculation method of the figures in the table below has not changed from 2012/13, except for the use of more up to date membership data.

Sensitivity analysis on the major assumptions:

	Local Government Pension Scheme			Teachers Benefits		
	£m	£m	£m	£m	£m	£m
Adjustment to discount rate:	+0.1%	0.0%	-0.1%	+0.1%	0.0%	-0.1%
Present value of total obligation	1,328.001	1,351.191	1,374.809	31.414	31.658	31.904
Projected service cost	28.936	29.597	30.274	-	-	-
Adjustment to long term salary increase:	+0.1%	0.0%	-0.1%	-	-	-
Present value of total obligation	1,354.617	1,351.191	1,347.787	-	-	-
Projected service cost	29.597	29.597	29.597	-	-	-
Adjustment to pension increases and deferred revaluation:	+0.1%	0.0%	-0.1%	+0.1%	0.0%	-0.1%
Present value of total obligation	1,371.754	1,351.191	1,331.002	31.906	31.658	31.411
Projected service cost	30.285	29.597	28.925	-	-	-
Adjustment to mortality age rating assumption:	+1 Year	None	-1 Year	+1 Year	None	-1 Year
Present value of total obligation	1,302.855	1,351.191	1,399.990	30.424	31.658	32.907
Projected service cost	28.567	29.597	30.637	-	-	-

Section 12
ABBREVIATIONS/GLOSSARY

12.1 Abbreviations

BID	-	Business Improvement District
BSF	-	Building Schools for the Future
CIES	-	Comprehensive Income and Expenditure Statement
CFR	-	Capital Financing Requirement
CRCs	-	Carbon Reduction Credits
DSG	-	Dedicated Schools Grant
EMSS	-	East Midlands Shared Services
HRA	-	Housing Revenue Account
IBNR	-	Incurred but not yet Reported
IAS	-	International Accounting Standard
ICES	-	Integrated Community Equipment Services
IFRS	-	International Financial Reporting Standards
ISB	-	Individual Schools Budget
LGPS	-	Local Government Pension Scheme
LIFT	-	Local Improvement Finance Trust
LCC	-	Leicestershire County Council
MIRS	-	Movement in Reserves Statement
MTFO	-	Medium Term Financial Outlook
MTFP	-	Medium Term Financial Plan
NCC	-	Nottingham City Council
NET	-	Nottingham Express Transit
NNDR	-	National Non-Domestic Rates
PFI	-	Private Finance Initiative
PPE	-	Property Plant and Equipment
PWLB	-	Public Works Loan Board
REFCUS	-	Revenue Expenditure Financed from Capital under Statute
RSG	-	Revenue Support Grant

12.2 Glossary of Financial Terms

Items in **bold** are described further within the glossary.

Accounting Period
The period of time covered by the Council'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**).

Actuarial gains and losses
The changes in the net pension's **liability** that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions.

Agency Services
Services that are performed by or for another Council or public body, where the Council responsible for the service reimburses the Council carrying out the work for the cost of that work.

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.

Bad (and doubtful) Debts
Debts which may be uneconomical to collect or unrecoverable.

Balance Sheet
A statement of recorded **assets** and **liabilities,** and other balances at the end of an **accounting period**.

Business Rates – see **Non-Domestic Rates**

Capital Adjustment Account
This account contains the balances previously held on the Capital Financing Account, the Fixed Asset Restatement Account and the Government Grants Deferred Account. The movements in year relate to the amount of capital expenditure financed from revenue, grants and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

Capital Expenditure
Expenditure on an acquisition or enhancement of fixed **assets**. Enhancement would include increases in value, lengthening the life of the **asset** or increasing the usage of the **asset**.

Capital Financing Requirement
An amount calculated from the value of Fixed Assets less the balances on Capital Adjustment Account and Fixed Asset Restatement Account. The sum represents the "underlying" need to borrow of the Council. The Council is required to make an annual provision of 4% of this amount from revenue resources to meet its debt repayment obligations. This is known as the Minimum Revenue Provision

Capital Receipt
Money received from the disposal of land and other **assets**, and from the repayment of capital grants and loans made by the Council.

Cash and Cash Equivalents
Cash in hand, cash overdrawn and short term investments that are readily convertible into known amounts of cash

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.

Code of Practice on Local Authority Accounting (UK)
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.

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.

Consolidated
Added together with adjustments to avoid double counting of income, expenditure or to avoid exaggeration e.g. debtors

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.

Contingent Rents
The portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than with the passage of time. (E.g. percentage of future sales, amount of future use, future price indices and future market rates of interest.)

Corporate and Democratic Core
Defined elements of support service costs which are not chargeable to services, sub-divided into Democratic Representation and Corporate Management.

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.

Current Service Cost
The increase in present value of a defined benefit pension scheme’s **liabilities** expected to arise from employee service in the current financial year.

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.

Defined Benefit Pension Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

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 Council 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 Council's accounts. There is also a requirement to review the arrangements in place to ensure the economic and effective use of resources.

Fair Value
The fair value of an **asset** is the price at which it could be exchanged in an arms length transaction.

Finance Lease
A lease, which transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance. Asset held under Finance Leases are recognised on the Balance Sheet as Assets.

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 Council, including the borrowing and lending of money and the making of investments.

Fixed Assets
Tangible assets which have value to the Council for more than one year.

Funding Basis
The accounting basis that local authorities are required by statute to follow when setting their Council Tax. This is different to the IFRS basis, which is used to produce the Statement of Accounts.

General Fund
The common name for the account which accumulates balances for all services except the **Housing Revenue Account** and the **Collection Fund**.

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.

Impairment
A reduction in the value of a fixed **asset** resulting from financial loss, damage or obsolescence. In order to comply with accounting standards, the 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.

International Financial Reporting Standards
International Financial Reporting Standards are standards and interpretations adopted by the International Accounting Standards Board (IASB). Many of the standards forming part of the IFRS were previously known as International Accounting Standards.

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
The statutory minimum amount that authorities must set aside each year as provision for debt repayment based on 4% of the Capital Financing Requirement

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 Council's budget requirement and use of **reserves**.

Non-Cancellable Lease
A lease that is cancellable only:

- Upon the occurrence of some remote contingency.
- With the permission on the lessor.
- If the lessee enters into a new lease for the same or an equivalent asset with the same lessor
- Upon payment by the lessee of such an additional amount that, at the inception of the lease, continuation of the lease is reasonably certain.

Non-operational Assets
Assets held by the Council 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 Council'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 the Council for the purpose of the direct delivery of services for which the Council has either a statutory or discretionary responsibility. See **Non-operational Assets**.

Outturn
Actual income and expenditure in an **accounting period**.

Past Service Cost
The increase in **liabilities** arising from current year decisions whose effect relates to years of service earned in earlier years.

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.

Residual Value
The net realisable value of an **asset** at the end of its useful life

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 Expenditure Funded From Capital under Statute (REFCUS)
This is expenditure that can be deemed capital expenditure under Statute but does not result in an **asset** for the Council (e.g. Housing improvement grants). Such expenditure is written off to the Income and Expenditure Account in the year it is incurred. .

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.

Service Reporting Code of Practice
Published by **CIPFA** the Service Reporting Code of Practice 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 2011.

Single Entity Financial Statements
The main financial statements for the Council as shown in section 3.

Specific Grant
Government financial support for a specific purpose or service that can not be spent on anything else.

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.

This page is intentionally left blank

AUDIT COMMITTEE – 19 SEPTEMBER 2014

Title of paper:	**AUDIT AND ACCOUNTABILITY ACT 2014**	
Director(s)/ Corporate Director(s):	Glen O'Connell Acting Corporate Director for Corporate Services	**Wards affected:** All
Report author(s) and contact details:	Barry Dryden, Senior Finance Manager, Financial Reporting barry.dryden@nottinghamcity.gov.uk 0115 876 2799	
Other colleagues who have provided input:	None	
Recommendation(s):		
1	Note the Government's proposals for appointing auditors and changes to the Accounts and Audit Regulations.	

1 **REASONS FOR RECOMMENDATIONS**

1.1 In June 2014 the Department for Local Government published their detailed proposals under the Audit and Accountability Act 2014 which sets out the new local audit framework, including the process for the future appointment of local government auditors.

1.2 The DCLG have also published proposals to replace the existing Accounts and Audit Regulations 2011, which include regulations on publication and public inspection of accounts, with revised arrangements under a new Accounts and Audit Regulations 2014.

2 BACKGROUND

2.1 In 2012 the Government appointed KPMG to audit the Council's accounts for 5 years from 2012/13 (i.e. up to and including 2016/17). From 2017/18 the external auditors will be appointed under The Local Audit (Specified Person) Regulations 2014, which are currently in draft form.

2.2 The existing Accounts and Audit (England) Regulations 2011 require the Chief Finance Officer to certify the draft Statement of Accounts by 30th June. This certification allows the Statement to be placed on deposit for public inspection for a period of 20 working days. Following this period any local government elector or their representative may question the external auditors about the accounts or make any objections.

2.3 The 2011 Regulations also state that a public notice identifying the inspection and objection periods is placed in the local press and on the Council's website

2.4 The 2011 Regulations further require that the audited Statement is submitted for consideration and approval by the Council or a committee of the Council by 30th September.

3 SUMMARY OF KEY CHANGES

3.1 The draft Local Audit (Specified Person) Regulations 2014 will fulfil the Government's commitment to provide collective procurement arrangements for auditor appointments. The Secretary of State will specify who is the appointing person (or body) who will set the scale of fees for audit and appoint an auditor for up to 5 years, to those authorities that opt in to the scheme.

3.2 Every 5 years the appointing person will issue an invitation to authorities to opt into the scheme. If the Council wishes to take up the option it will have to be agreed by Full Council.

3.3 If the Council chooses not to opt in, it will need to appoint an auditor panel and undertake its own procurement process.

3.4 The draft Accounts and Audit (England) Regulations 2014 will update the 2011 Regulations to bring forward the dates for completion and audit of the Statement of Accounts and change the procedure for public inspection and objections to the accounts.

3.5 The new arrangements propose to bring forward the date for the certification of the draft statements by one month to 31 May. The date for approving and publishing the final audited accounts will also be brought forward, but by 2 months to 31 July.

3.6 It is proposed to replace the two separate periods for inspection and objections with a single period of 30 working days from the certification of the draft accounts. In addition there will be no specific requirement to advertise the inspection period in the press.

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

None

5 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

The Accounts and Audit (England) Regulations 2011
DCLG Local Audit Consultation June 2014

AUDIT COMMITTEE – 19 SEPTEMBER 2014

Title of paper:	**ANNUAL GOVERNANCE STATEMENT 2013/14**	
Director(s)/ Corporate Director(s):	Glen O'Connell Acting Corporate Director for Resources	**Wards affected: All**
Report author(s) and contact details:	Shail Shah Head of Internal Audit Tel: 0115-8764245 Email: shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To approve the Annual Governance Statement (AGS) 2013/14 set out at **Appendix 1.**	

1. REASONS FOR RECOMMENDATIONS

This report presents the Annual Governance Statement 2013/14 (AGS). The publication of an AGS alongside the Statement of Accounts is required by the Accounts and Audit Regulations 2011.

2. BACKGROUND

2.1 The City Council's governance arrangements aim to ensure that it sets and meets its objectives and responsibilities in a timely, open, inclusive and honest manner. The governance framework comprises the systems, processes, cultures and values by which the Council is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which brings together an underlying set of legislative requirements, good practice principles and management processes.

2.2 The Accounts and Audit Regulations 2011 require the council conduct a review, at least annually, of the effectiveness of its internal control and prepare and prepare an AGS.

2.3 The 2007 CIPFA/SOLACE publication "Delivering Good Governance in Local Government Framework" provides the principles by which good governance should be measured. This was adopted as the Council's Local Code of Corporate Governance at the Executive Board meeting on 20 May 2008.

2.4 In 2012 CIPFA/SOLACE produced an updated guidance note covering the delivery of good governance in local government and how an authority's arrangements can be reflected in the AGS. The City Council has incorporated this guidance in both the evaluation of its governance arrangements and in the production of its AGS.

2.5 The Audit Committee has the delegated authority for the formal approval of the AGS. It is good practice to approve the AGS before, and as close to publication of, the final Statement of Accounts as possible. The timetable for production of the AGS was approved at the February 2014 meeting of this Committee. In accordance with the timetable an interim statement was presented to the July 2014 meeting the Committee. There are no significant changes made to the final statement attached as **Appendix 1**.

2.6 The AGS reflects the governance arrangements operating within the Council and its significant partners. Responsibility for its production lies with the Chief Finance Officer (CFO) / Acting Director of Strategic Finance.

2.7 Assurance used in compiling the final report was derived from several sources: Corporate Directors and other key colleagues including the Monitoring Officer, Section 151 Officer and the Head of Internal Audit have reviewed the governance arrangements according to their respective responsibilities and have given assurance and commented as to its effectiveness. A similar exercise has been conducted involving the Council's significant partners and groups.

2.8 In accordance with the Local Code of Corporate Governance this AGS will be signed by the Leader of the Council and the Chief Executive.

2.9 This statement maps the policies, procedures and initiatives the Council has put in place to address the governance issues embodied in its Local Code, including:-

- an acknowledgement of responsibility for ensuring that there is a sound system of governance;
- an indication of the level of assurance that the systems and processes that comprise the Authority's governance arrangements can provide;
- a brief description of the key elements of the governance framework, including those of significant groups or partners;
- a brief description of the processes undertaken to maintain and review the governance arrangements, including some comment on the work undertaken by the Council, Executive Board, Committees with governance remits and Internal Audit;
- an outline of the actions taken, or proposed, to deal with significant governance issues.

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

None.

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- CIPFA/SOLACE - Delivering Good Governance in Local Government (Framework)
- CIPFA/SOLACE - Delivering Good Governance in Local Government Guidance Note - 2012
- Accounts and Audit Regulations 2011
- Executive Board 20 May 2008 – Local Code of Corporate Governance

- Audit Committee Papers February 2014 – Annual Governance Statement - Progress Made To Date On Issues Reported 2012/13 And Process For Producing 2013/14 Statement
- Audit Committee Papers July 2014 – Interim Annual Governance Statement 2013/14

Appendix 1

Nottingham City Council

ANNUAL GOVERNANCE STATEMENT 2013/14

Scope of responsibility

Nottingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, 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, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, this includes arrangements for the management of risk.

The Council approved and adopted a code of corporate governance consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* publication. A copy of the code is available on our website at http://www.nottingham.gov.uk/governance. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an Annual Governance Statement.

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 the Council to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money

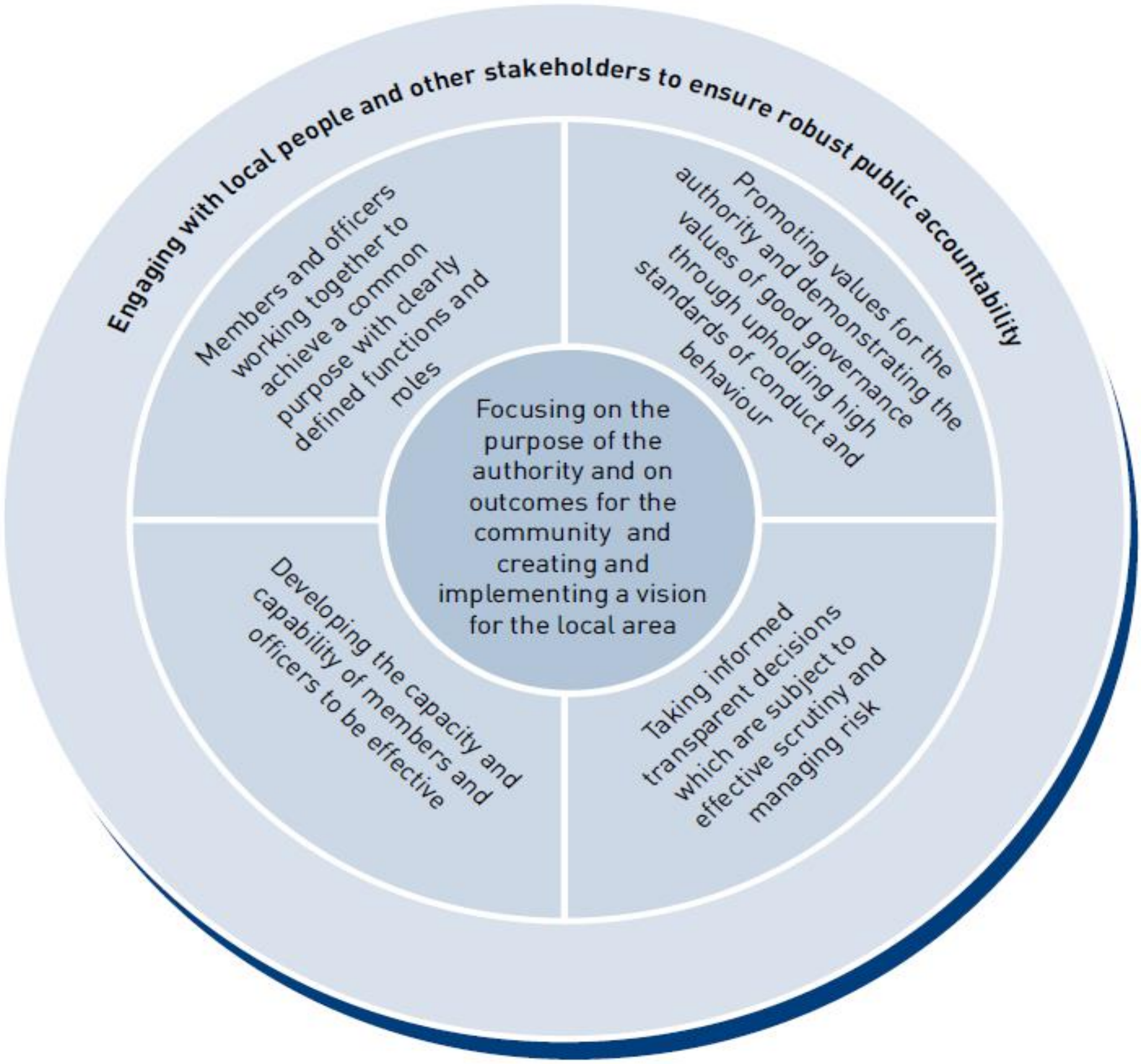
The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system 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 was in place at the Council for the year ended 31 March 2014 and up to the date of approval of the annual report and Statement of Accounts.

The Governance Framework

The core principles of the CIPFA/SOLACE framework for delivering good governance adopted by the Council in its local framework are illustrated below. Each of these principles is underpinned by the core components described.

CIPFA/SOLACE - Principles underpinning the delivery of good governance



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, and improving public involvement with the work of the Council has been identified as a priority.

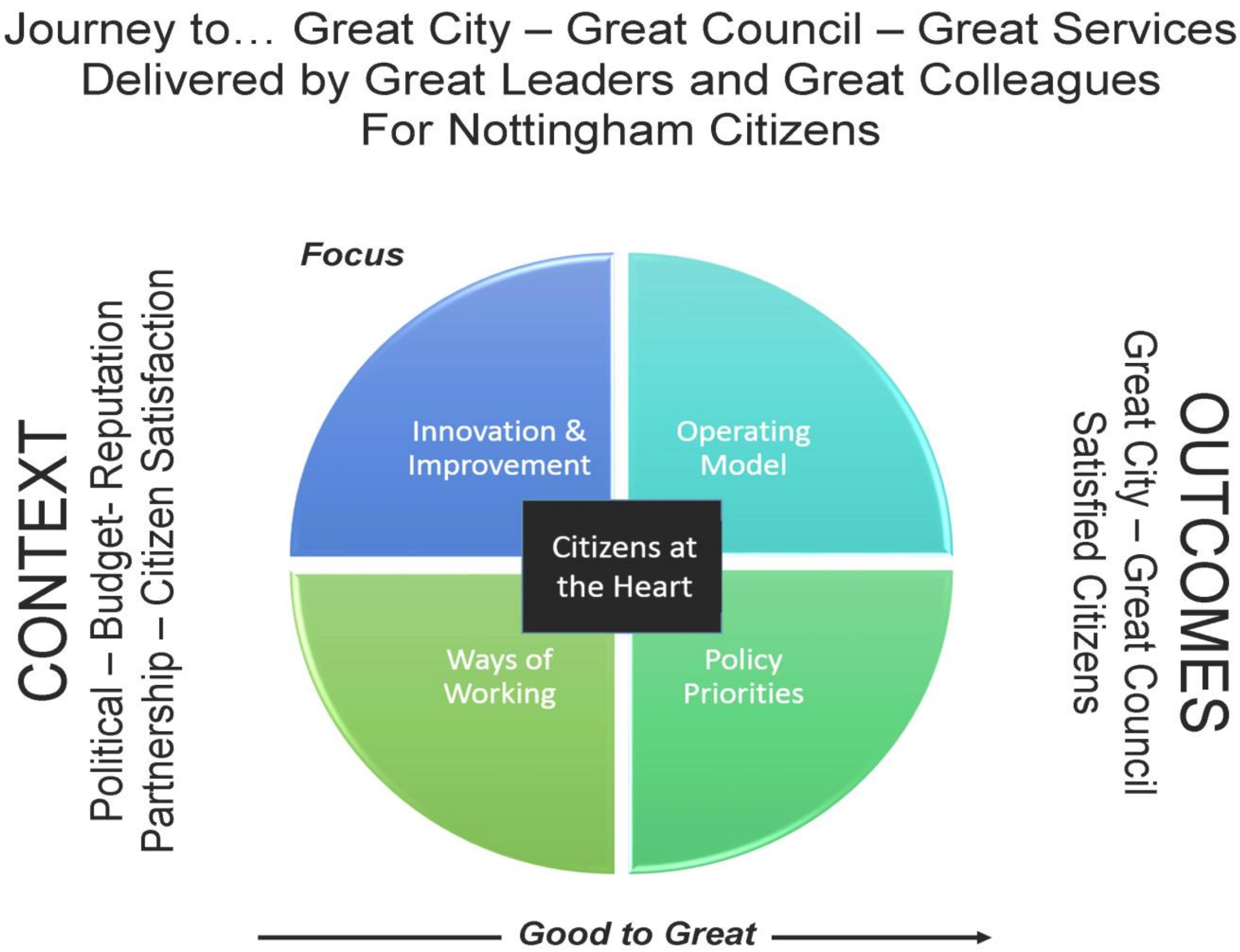
The Council's vision is wholly aligned with that of the City as set out in the 2030 vision and Nottingham Plan to 2020. Accordingly this vision and the associated Nottingham Plan Strategic Priorities are set and are not subject to annual review and change. Consequently the Nottingham Plan is a route map for organisations in the city and for our citizens and communities and sets out what it should look like in the future and details our priorities of helping people get healthier; improving neighbourhoods; making Nottingham world class; making Nottingham a safer and cleaner place and bringing jobs and training opportunities to local people.

The Council Plan, which is aligned with the municipal electoral cycle, clearly sets out the Council's objectives and highest priorities. The Nottingham Plan is the overall plan for the City, and is jointly owned by the Council and its key partners, providing clear strategic direction to 2020. The Nottingham Plan, Council Plan and other key plans such as the Children & Young People's Plan are published as appropriate and are available to all members of the public. Regular performance reports on the progress in delivering manifesto pledges are provided for councillors to review performance. Financial statements are published annually and equally the Medium Term Financial Strategy (MTFS) is a publicly accessible document.

Regular updates and reviews ensure consistency within plans and reflect national developments including the effects of reduced Government funding. Ultimately this means the Council's priorities and those of its key partners over both the short and long term, are in accord. The principles underpinning the Plan are summarised in the updated Council's 'Message Map' below, illustrating the direction and focus for the Council.

The Council Plan has clear priorities with associated performance measures supported by delivery plans containing the key milestones and measures for each Council Plan priority. Major changes are managed by a Transformation Steering Group which is responsible for managing the overall Transformation Portfolio. The Portfolio comprises all our internal transformational projects and programmes (plus the externally facing Growth Plan Programme) which together seek to ensure that the Council is well placed to lead Nottingham and optimise what it does for and on behalf of its citizens.

Message Map



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 asses their effectiveness. Where appropriate the review mechanism should enable problems to be identified and corrective action to be taken. Progress against the Council's strategic priorities is monitored and reported to the Executive Board and One Nottingham Board on an annual basis.

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, this is done in advance of decision making. Advice on legal and financial matters is taken from 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. They also represent 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 and will be presented to the appropriate meeting to facilitate discussion. Reports are circulated with the agenda where possible, to allow consideration in advance of the meeting at which a decision is to be taken. Where applicable the recommendation will be supported by appropriate external evidence or advice. Minutes of Council, Board and Committee meetings are available to the public.

An overview and scrutiny function is undertaken by the Overview and Scrutiny Committee, supported by standing panels. The Committee's functions contribute to policy development and help to shape major plans and strategies and publicly hold the Executive to account for the decisions it makes. 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 seek 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. An annual report on scrutiny activity is produced and reported to Full City Council, covering the vision for Overview and Scrutiny, its role and its method of working.

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 available resources to provide the appropriate quality of services for its citizens in accordance with its objectives and priorities and to operate within its means. The Council Plan contains targets to be met in achieving these priorities. These are translated into actions through strategic business plans and operational plans, and the Performance Management Framework (PMF) illustrated below is in place to monitor and review the effectiveness of the actions put in place.

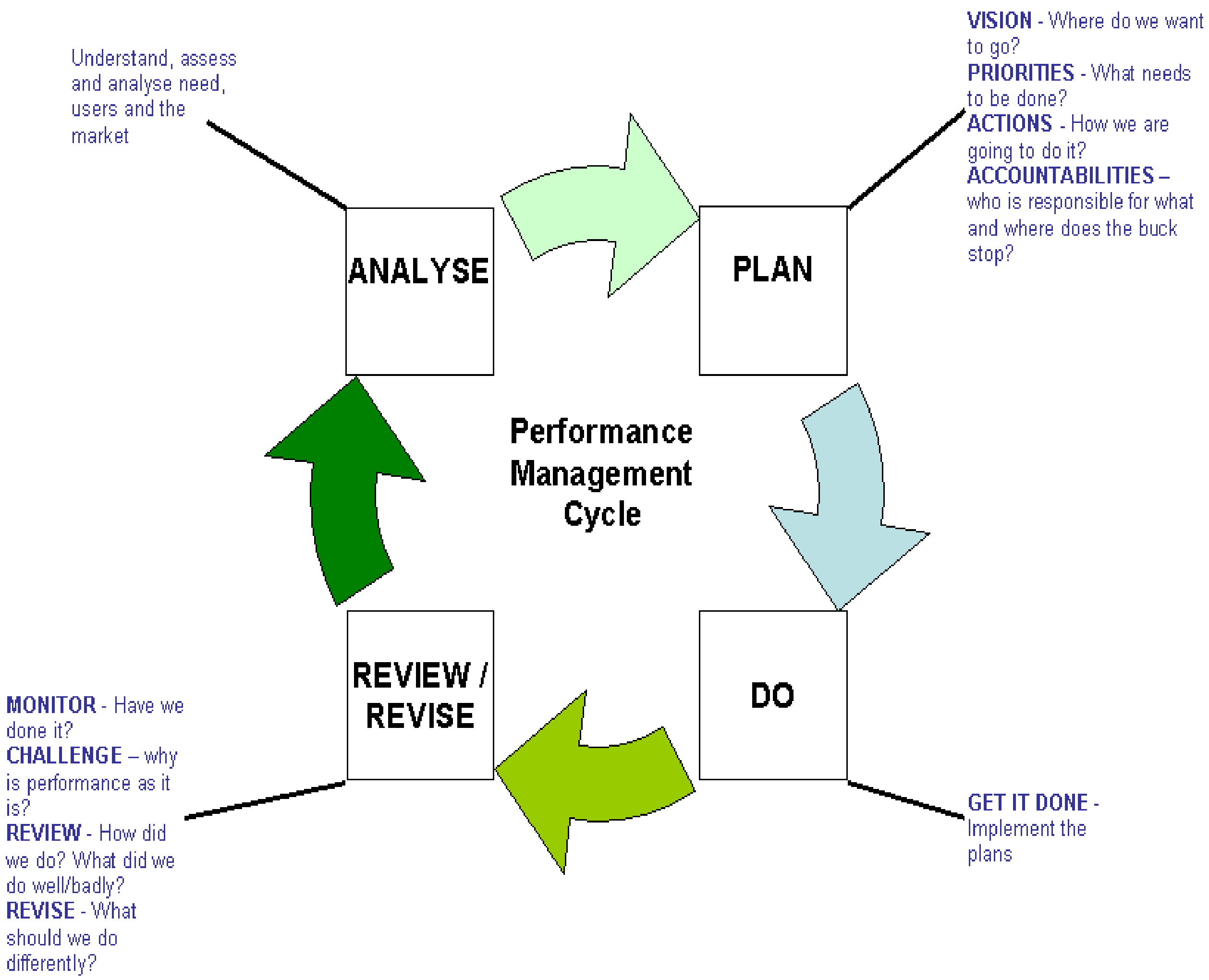
The PMF has a clear focus on outcomes. Comprehensive and effective performance management systems operate at all levels throughout the Council. Performance is managed at the City level through the Nottingham Plan performance board, at corporate level through the Corporate Delivery Board and the Corporate and Departmental Leadership Teams. The framework has been subject to positive review by both the Audit Committee and Overview and Scrutiny Committee. It establishes a clear relationship between corporate priorities and decisions taken from the top down to individual level via business planning. The framework was updated in 2013/14 so that it aligns with the Council's commissioning cycle and sits within the context of our developing 'Good to Great ' vision placing Citizens at the heart of everything we do. The PMF sets out the high level approach the Council will take to performance management, ensuring that all are:

- Clear about what to achieve, by when and by whom
- Focussing resources and action on the right outcomes
- Aware of how things are going
- Reporting on progress – to both internal and external audiences
- Able to quickly access effective support.

The Framework:

- Sets out the principles of our performance culture and how this can be sustained
- Applies to all levels of council activity
- Defines the roles, responsibilities and reporting arrangements for all involved
- Has a broad scope, which includes strategic business planning, risk management, workforce planning, performance appraisal (which has also been substantially refreshed) and performance monitoring and management at team, service, departmental and organisational levels
- Has wider links to the Council's Transformation Portfolio.

Performance Management Framework



A full performance report is taken annually to the Executive Board with highlights reported in the Nottingham Arrow. Both the Nottingham Plan and Council Plan are tracked by a set of key performance indicators and some information is provided by external agencies such as the police. The removal of the National Indicator Set in 2010 has in many respects allowed the Council to focus on those measures that are most important and relevant for its local priorities. Efforts are underway with Core Cities and regional authorities to establish a set of indicators that are measured comparably. The Council's Corporate Delivery Board arrangements continue to drive the focus on continuous improvement.

Relative performance for a number of the Council's highest priorities remains in place. Although external assurance from bodies such as the Care and Quality Commission (CQC) and Ofsted currently remains in place, this is specific to certain service areas only. Further assurance is being sought, for example a Local Government Association Peer Challenge is planned for September 2015 following the local elections in May 2015, focussing on governance and practice in a range of key issues.

The Council has recently developed and implemented Covalent - a software tool for performance management and risk management used across the Council. Covalent is increasingly being used to monitor and manage performance at all levels and will help develop and improve the way performance information is collected, presented and used to improve service delivery. The quality of services provided is also monitored by seeking the views and experiences of citizens, service users and colleagues. This is achieved through surveys, consultation and focus groups, analysis of complaints and comments received.

The Council's budget process establishes the resources required to deliver its services and objectives, it also involves a review of the overall use of resources. Appropriate limits have been approved in line with the Prudential Code for Capital Accounting. Budget performance is monitored regularly and senior management and councillors receive financial information which is relevant, understandable and consistent with underlying financial records.

Colleagues responsible for financial resources are required to sign Personal Accountability Statements in recognition of their responsibilities to use these resources effectively, and their success is monitored as part of the performance appraisal process. 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. The Council's accounts have been successfully subjected to a rigorous external audit.

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, which has overall responsibility for directing and controlling all the work undertaken in its name. The Constitution, approved by City Council, sets out how it operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Nottingham City Council has adopted the 'Strong Leader' and Cabinet model of Executive Governance as set out in the provisions of the Local Government Act 2000 (as amended), and this is reflected throughout the Constitution.

Responsibility for decision making, the role of the City Council, Executive Board, Committees and the process for determining Key Decisions are well documented and defined in the Constitution, and may be viewed by following the following link

http://www.nottinghamcity.gov.uk/article/24275/Nottingham-City-Councils-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 City Council comprises 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 Executive Councillors hold decision-making powers through the Executive Board, each Executive Councillor including the Leader, holds 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 all committees.

There is a clear distinction between the Executive and Scrutiny functions within the Council and clearly defined roles for these functions which are understood by both bodies. The Council has protocols in place to ensure communication between councillors and colleagues in their respective roles and which govern their relationship. 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.

Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behaviour for councillors 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 colleagues. These are in addition to compliance with legal requirements, for example on 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 relating to councillors would be considered by the Standards Committee. Colleagues 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. Citizens are encouraged to report concerns through any of the routes included in the Confidential Reporting Code or via the Council's “Have Your Say” procedure. Colleagues can report non conformity with appropriate ethical standards via the Confidential Reporting Code. The Council’s People Management Handbook includes sections relating to raising concerns, performance improvement and discipline.

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 Council's Code of Conduct for Members. Under the Code councillors are also required to register interests. All councillors have signed and agreed to adhere to the Members Code of Conduct and training on the Code is provided as part of an induction programme. Support staff also had briefings about the Code.

The Council's Monitoring Officer maintains the Register of Councillors' 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, and councillors are regularly reminded of this responsibility. A councillor's failure to register interests can be the subject of a complaint. Most councillors have received training relating to the Code of Conduct.

In addition to their specific portfolio responsibilities all Portfolio Holders 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 colleagues, councillors and the councillor/colleague protocol. 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 the associated procedures and operations are designed in conformity with appropriate ethical standards.

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 Monitoring Officer. Reports making changes to the Constitution including those to Financial Regulations are made to the Full Council for approval. Most reports are available for public inspection as are the results of deliberations recorded in meeting minutes.

Councillors and colleagues making decisions require the support of appropriate systems to help ensure that good decisions are made / implemented and that resources are most effectively deployed. Risk management plays an important role in supporting decision making processes and ensuring there are effective delivery mechanisms that underpin service provision. The Risk Management Framework (RMF) sets out the way in which the Council identifies, monitors and manages its strategic, operational and project/partnership risks. The RMF is regularly updated and is endorsed by the Corporate Leadership Team (CLT) and approved by Audit Committee annually. The RMF comprises a Risk Policy, Strategy, and a Process Guide covers risk management in terms of:

- Purpose, principles and benefits
- Decision making, projects and partnerships
- Appetite, escalation and delegation
- Roles and responsibilities
- Detailed practical guide

. The Risk Management Framework

Risk Management (RM) arrangements are integrated to other key documents including the MTFS, Financial Regulations and Corporate Financial Procedures. The Deputy Chief Executive plays a lead role in risk management, championing its development and implementation. The Corporate Leadership Team takes an active role in reviewing strategic risks along with the Audit Committee through quarterly updates of the Strategic Risk Register (SRR). Work takes place to review the composition of the SRR and test alignment of risks to the Council's strategic priorities. Similarly a significant commitment is made to supporting effective risk management of the Transformation/Big Ticket programmes through the work of the Portfolio Office and the Corporate Risk Specialist.

RM training has been provided to the Audit Committee as part of the councillor induction process and has been well received. Wider training for colleagues is also now available supported by e-learning and revised guidance, consistent with the updated RMF. Risk workshops run by a Corporate Risk Specialist include basic risk management training to increase understanding and encourage active participation of attendees.

The Strategic Risk Strategy provides practical guidance on the management of the SRR and the risks within it, including escalation/delegation of risks, reporting arrangements and responsibilities. Risk strategies are developed for all risk registers, maintaining a rigorous risk and opportunity management approach while enabling flexibility in how risks are managed at different levels of the organisation. This reflects for example, departmental priorities, ways of working and activities, while complying with requirements of higher level risk strategies. The framework is available to colleagues through the Council's intranet site.

It is acknowledged that more work is required to embed understanding of operational risk management. The implementation of the Performance Management Framework seeks to explicitly link planning, performance and risk within the Service Planning process. Further more, Covalent provides a software environment in which to capture and link related performance planning and risk information aligned to organisational objectives.

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 Chief Finance Officer (CFO) is a professionally qualified accountant. The CFO sits on the CLT and is able to contribute positively to decision making affecting the delivery of the Council's objectives. The CFO is able to promote good financial management and in so doing makes sure effective use is made of City Council resources. The CFO has led a Finance Change process designed to ensure that the finance function continually develops and remains fit for purpose. The following illustrates the Financial Framework put in operation to support the delivery of the Council's objectives.

The Financial Framework

CATEGORY	OVERALL	REVENUE	CAPITAL	TREASURY MANAGEMENT	PROCUREMENT	RISK MANAGEMENT
Strategies	**MTFS**					
		Income Generation Strategy	Capital Strategy & AMP	Treasury Management Strategy	Procurement Strategy	Risk Management Framework
Guidance	CIPFA & technical guidance	Budget Guidelines	Capital Guidelines	CIPFA Code of Practice for TM	CIPS & Procurement Toolkit	Risk Management Policy and Guidance
Plans	MTFP	Annual Budget	Capital Programme & AMP	Treasury Policy Statement	Procurement Checklist	Risk Responses
Governance	Constitution	Budget Management & Control statements & Annual Governance Statement		Prudential Indicators & Annual Report	Contract & Finance Procedure Rules	Risk Register reporting and regular review
	Financial Regulations and Standing Orders					Audit Committee Reports & annual report
	Internal & External Audit Plans and our response to inspection and audit reports					

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. The Audit Committee was established in 2008/09 and annual reports of its achievements are sent to Full Council. The role of the Committee is developing and regular interaction with similar Committees in other Core Cities is undertaken to share best practice.

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 Council is transparent, falls within legal powers and is in 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. In England, the Local Government Act 2000 outlined ten principles of conduct for use in local government bodies built on the seven principles for the conduct of people in public life established by the Committee on Standards in Public Life (the Nolan principles). These principles are enshrined in the Council's Codes of Conduct and are summarised in the following table:

Local Government Act 2000 Ten Principles of Conduct

Principle	Holders of public office:-
Selflessness	Should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends
Integrity	Should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.
Objectivity	Should make choices on merit in carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits.
Accountability	Are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
Openness	Should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and actions and restrict information only when the wider public interest clearly demands.
Honesty	Have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
Leadership	Should promote and support these principles by leadership and example.
Respect for others	Should promote equality by not discriminating unlawfully against any person and by treating people with respect, regardless of their age, religion, gender, sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers and its other employees.
Duty to uphold the law	Should uphold the law, and on all occasions, act in accordance with the trust that the public is entitled to place in them.
Stewardship	Should do whatever they are able to do to ensure that their authorities use their resources prudently and in accordance with the law.

The Council's establishment incorporates all posts required by statute. These key roles are performed by the Council's Head of Paid Services, Monitoring Officer and Section 151/114 Officer. The roles of these officers are laid down in the Council's Constitution and are defined clearly in the associated job descriptions. As Head of Paid Service, the Chief Executive is ultimately responsible and accountable to the Council for all aspects of operational management.

The CFO undertakes the responsibilities of the Section 151 Officer including 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 role of the Monitoring Officer includes 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 allowing them access and the right of complaint is well publicised.

Service areas use professional networks to keep abreast of developments. The central policy function has been enhanced and works well in applying a Nottingham perspective to emerging policy trends and prospective legislation. Increasing use is made of web-based resources from specialist legal firms for legislative updates. Professional advice is offered and taken in advance of decision making when decisions have legal or financial implications. Advice on legal and financial matters is taken from internal and, where necessary, external sources. The advice given will usually be contained within the board papers.

The Council has Budget and Policy Framework Procedure rules in place, which set out how budget and policy decisions are made. Key roles are performed by the Council's Head of Paid Services, 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 councillors and senior colleagues 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 resources 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.

A comprehensive induction programme, developed in conjunction with the Councillor Development Steering Group (CDSG) and Corporate Directors, is delivered to councillors to enable them to function quickly and effectively in their roles. Evaluation information is assessed and good practice is reviewed as part of the planning for future induction training. An induction plan has been agreed by CDSG for the 2015 intake of councillors and the programme of development is now being prepared.

CDSG, aided by Councillor Support colleagues and the Overview and Scrutiny Team, identify suitable learning opportunities for councillors. There are also councillor development and policy briefings on current topics. In addition, a Councillor Resource Centre provides easy access for councillors to key documents and development materials. Councillors' learning and development needs are reviewed by CDSG and there is greater emphasis now on the political groups being able to tailor and drive their own development programmes.

The Council has a policy of recruitment and promotion on merit (People Plus and Project People), and recruits outside the Council where necessary. Induction programmes for both councillors and colleagues are in place. The Constitution contains clear details of the roles and responsibilities for councillors including the Leader and Portfolio Holders. All colleagues have detailed job descriptions and person specifications, and individual development requirements for colleagues are identified using a Performance Appraisal process. This process has recently been refreshed. Consultation with key customers is also used to understand the development needs for the Council.

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. Councillor Development Provision is designed to help councillors to continually improve their performance, with councillors receiving 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, casework, overview and scrutiny, public speaking and IT skills. Both the Executive Board and Overview and Scrutiny Committee take external advice when considered appropriate.

The role of senior colleagues is to support councillors and this includes offering training courses to them via Councillor Services, which commissions, or advertises training and records development activity undertaken.

Corporate Directors are experienced in their respective fields and are assessed by the Chief Executive as part of their PA. Most hold relevant professional qualifications which impose the requirement for continuing professional development. Corporate Directors organise their own training within the context of PA 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 PA and service planning process.

Arrangements for establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

In order to understand the needs and demands of the community it is essential that appropriate procedures and processes are in place to ensure the relationships between the council, its partners and its citizens are clear so that each knows what is expected of the other.

The Council is accountable in a number of ways. 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. The Council is subject to external review through the external audit of its financial statements and some inspection regimes. Similarly the Council budget is subject to significant influence and overview by government, which has powers to intervene. The Council is required to publish its financial statements and to prepare an annual report.

Councillors and the most senior managers are clearly identified on the Council's internet site and periodically in the Arrow. The Council is committed to the creation of sustainable and democratic communities, encouraging active citizenship and democratic engagement by developing 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. 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.

Councillors and colleagues are both 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. The Executive Board meets in public (except for exempt items).

The Council has committed itself to wide consultation on matters of local concern. It 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.

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 that shared goals are achieved and resources controlled and used effectively.

The Council engages with all sections of the community whilst working with partnerships. A variety of mechanisms are used to ensure the engagement is appropriate to the diverse communities. The Council and partners in One Nottingham and other significant partnerships, have an excellent understanding of its diverse communities and their needs (see Nottingham Insight, Citizens Survey 2013, Joint Strategic Needs Assessment, State of Nottingham Report, Crime & Disorder Needs Assessment, Ward Report 2013 and wealth of ward and mosaic data) which is used to shape our engagement.

The Nottingham Plan to 2020 (One Nottingham Sustainable Community Strategy) provides the overarching vision, objectives and priorities for the Council and the One Nottingham family of partnerships. The Nottingham Plan to 2020 has full commitment across the Council, partners and community. Given the significant political and economic changes since the plan's launch, the One Nottingham Board and the leadership of Nottingham City Council requested a refresh of the Nottingham Plan targets in 2013/14, to ensure that the right areas of work are prioritised, partnership resources are targeted in the most efficient way and the best target measures are used to ensure the plan is effectively delivering for the citizens of Nottingham. The refresh of the Nottingham Plan to 2020 is not a full revision. Targets were revisited to make sure they are appropriate, credible, robust and measurable going forward, whilst maintaining the ambition that was established when the plan was launched in 2009 as a contract with citizens. It also considered possible areas within the plan which would most benefit from dedicated partnership focus. Recommendations were developed by Nottingham Plan lead officers and have been through a challenge process with peers and performance colleagues, taking account of performance to date.

The Research, Engagement and Consultation function within the Chief Executive's Policy Team supports all services across the Council to effectively consult and engage with citizens and make the best use of the findings. This includes providing advice and support on planning, designing and undertaking consultations (including surveys, event evaluations, focus groups, polling, internal focus groups) and engagement activity. As part of this, the team advises colleagues as to the most appropriate ways of consulting and engaging, depending upon the intended audience. It also ensures that colleagues think about using alternative formats and interpretation services when necessary. The Research, Engagement and Consultation Team also manage large-scale corporate research projects (e.g. Citizen's Survey, budget consultation) and the recently recruited Citizens' Panel, which consists of 1,000 citizens from across the city, and has been designed to be broadly representative of the city on a range of demographic and geographical factors. Members receive regular surveys, but can also be called upon to be part of discussion groups or to test new services.

The Council and partners in One Nottingham, in addition to other significant partnerships, have an excellent understanding of its diverse communities and their needs. The Register of Significant Partnership states the status of each significant partnership and is updated annually.

Council colleagues and councillors are nominated as Council representatives within or when dealing with significant partner organisations and group companies. Councillors are aware of their roles and responsibilities both individually and collectively in relation to the partnership and to the authority. Induction sessions for new Councillors, following the May 2011 elections, included an overview of which partnerships the Council works with. Party groups undertake their own development regarding partnerships as needed and Councillors' individual appraisals include descriptions of their role in relevant partnerships. Group companies, charities and trusts are required, where appropriate, to align their objectives with the Council's policies and deliver high quality, efficient and effective services which are in accordance with their agreements with the Council. Examples are:

- The Nottingham Plan to 2020 provides the overarching vision, objectives and priorities for the One Nottingham family of partnerships. The Nottingham Plan to 2020 has full commitment across the Council, partners and community.
- The Derby, Derbyshire, Nottingham, Nottinghamshire Local Enterprise Partnership (D2N2 LEP) has agreed a common vision and priorities which will be developed and refined. This is understood and agreed by all parties.
- Joint Leadership Board (JLB) and Core City Board (CCB) have common vision and mutually interdependent objectives related to promotion of economic prosperity for the sub-regional area. The JLB and CCB are linked with the LEP ensuring a common vision across the areas they cover.
- Nottingham Regeneration Ltd (NRL), Nottingham Development Enterprise (NDE) and Experience Nottinghamshire. Their visions and objectives are set out in their governance documents and they are working closely together to deliver the objectives of the JLB and CCB.

- The Core City area partnerships have visions and objectives related to their purpose and funding.

The Council's Partnership Governance Framework (PGF) sets out the approach to managing work with significant partnerships and provides the mechanism for significant partnerships to ensure that Councillors and lead officers are clear about their roles and responsibilities in relation to the partnership. The mechanism is the annual health checks which includes a section to assess that the governance of the partnership is clear and appropriate. The health checks enable the partnership to assess that it has a clear set of values and guiding principles against which decision making and actions can be judged. These are often set out in the partnerships' constitutions including codes of conduct. The PGF includes the health check, which is a self-assessment of the partnerships deemed significant in terms of whether they are strategically, reputationally or financially significant to the Council through its membership of the partnership. The health check includes an assessment of the aims and objectives of the partnerships, including alignment between the partnership and the Nottingham Plan, and also a section to enable the partnerships to assess the robustness and clarity of their decision making, delegated powers and accountability. The Partnership Governance Framework, via the health checks, provides the mechanism for significant partnerships to assess the extent to which their aims and objectives align to The Nottingham Plan to 2020 and the vision for 2030.

In 2013/14 two additions were included in the health checks for partnerships to confirm that the Council lead officer is actively engaged and that, where applicable, for the most recent financial year, the partnership had an 'unqualified audit opinion' and that recommendations are actioned. The annual health checks have previously been updated to ensure that the partnerships were able to assess whether those making decisions are provided with information that is fit for the purpose, relevant, timely and give clear explanations of technical issues and their implications. This contributes to the assessment for the 'decision making and accountability' capability. The checks also enable each partnership to assess that it has a clear set of values and guiding principles against which decision making and actions can be judged. These are set out in the partnerships' constitution, policies and procedures. The register of significant partnerships includes the status of the partnerships, its membership, and a summary of how its aims and roles are aligned with the Council's strategic plans. Each year a random sample of health checks are scrutinised to verify the quality and accuracy of response. The register, and an overview of the health check results, including proposed actions where remedial work is needed, are reported to the Audit Committee. The checks include a section for lead officers and chairs to self-assess the governance of partnership risk management (called "partnership risk management") and a section for "overall headline risks". The contents of these are shared with the Corporate Risk Specialist. The most recent health checks found no significant issues.

Other organisations where the Council holds a substantial interest, include its group companies, charities and trusts. In every such interest the Council endeavours to ensure they are set up with appropriate governance arrangements and are expected to comply with all relevant laws and regulations, and their financial statements and other published information are expected to be accurate and reliable.

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 Corporate Directors within the Council who have responsibility for the development and maintenance of the governance environment, Statutory Officers, key colleagues, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review also looks at governance arrangements undertaken within its significant partnerships and within its group members.

Process that has been applied in maintaining and reviewing the effectiveness of the governance framework

The purpose of the Constitution is to set out how the Council conducts its business, how decisions are made and the procedures that are followed to ensure that these decisions are effective, efficient and transparent so that the Council remains accountable to citizens.

Some of these procedures are required by law while others are a matter for the Council to determine. The Council exercises all its powers and duties in accordance with the law and its approved Constitution.

Nottingham City Council has adopted the 'Strong Leader' and Cabinet model of Executive Governance as set out in the provisions of the Local Government Act 2000 (as amended), and this is reflected throughout the Constitution. Portfolio Holders share responsibility with the Leader, Deputy Leader and other members of the Executive for the Executive business of the Council.

The principle bodies with responsibility for governance and their terms of reference are included in the Constitution and are summarised below, together with some of the topics considered during the year. All the associated reports and agendas are publicly available and may be found at the following website:
http://www.nottinghamcity.gov.uk/article/23479/Council-Meetings-and-Decisions

Principle Constitutional Bodies Dealing With Governance

<table>
<tr><th>Body</th><th>Summary of Governance role</th></tr>
<tr><td>City Council</td><td>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.

Topics Considered by the Council
• Petitions from Councillors on behalf of Citizens
• Proposed amendments to the Constitution
• Executive appointments, remits and first meetings
• Appointments and first meetings of Committees, Boards, Panels, Joint Bodies, Etc
• Decisions taken under the Urgency Procedures
• Appointments Corporate Directors
• Overview and Scrutiny Annual Report 2012/13
• Executive Scheme of Delegation
• Proposed amendments to the Constitution
• Audit Committee Annual Report 2012/13
• General amendments to the Constitution
• The Treasury Management 2014/15 Strategy
• The Budget 2014/15</td></tr>
<tr><td>Executive Board</td><td>The role of the Executive Board is to take key decisions as delegated by the City Council. The work also encompasses receiving performance and financial information which determines the strategic direction of the Council. Additionally constituted sub Committees of the Board are listed below.

• East Midlands Shared Services Joint Committee
• Executive Board
• Executive Board City Centre Committee
• Executive Board Commissioning Sub-Committee
• Leader's Key Decision - Notice
• Leader's Key Decision Meeting
• The City of Nottingham and Nottinghamshire Economic Prosperity

Topics Considered by the Board
• Key decisions
• Record of transactions with a value of £25,000 or greater and Portfolio Holder decisions
• Reports of Portfolio Holders
• Risk Management: Strategic Risk Register - quarterly updates
• Treasury Management Strategy, annual report and half yearly update</td></tr>
</table>

<table>
<tr><th>Body</th><th>Summary of Governance role</th></tr>
<tr><td></td><td>Pre-Audit Corporate Financial Outturn 2012/13
Nottingham Plan to 2020 Annual Report 2012/13 Year 3
Risk Management - Strategic Risk Register quarterly updates and
Annual review
Engagement and consultation on the Council's budget 2014/15
Nottingham City Council Procurement Strategy
Medium Term Financial Plan 2014/15 - 2016/17
Refreshed Nottingham Plan</td></tr>
<tr><td>Overview and Scrutiny Committee</td><td>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.

The Committee consists of Councillors who are not on the Executive, who 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.

Additionally constituted Panels and Sub Committees of the Board are listed below.
Health Scrutiny Panel
Call In Panel
Personal Budgets
Rehabilitation and Resettlement Of Offenders
Allotments
Ash Die Back
Changing Educational Landscape
Communication and Enforcement - Wheelie Bins on Pavements
Congestion Around Educational Establishments
Flood Management and Gully Cleansing
Homelessness Prevention Strategy Consultation
Irresponsible Dog Ownership
Responsibility and Management of Local Public Waterways
Tree Management</td></tr>
</table>

<table>
<tr><th>Body</th><th>Summary of Governance role</th></tr>
<tr><td></td><td>Topics Considered by the Committee
Establishment of Committees and appointment of Co-optees
Nottingham Plan Year 3 performance
Nottingham Growth Plan
The state of the Voluntary and Community Sector and streamlining investment to the Voluntary Community Sector
Have Your Say, Citizen First and the Customer Access
Programme for Scrutiny
Panels and Sub-Committees
Joint City and County Health Scrutiny Committee
Joint Health Emas Sub Committee
Health Scrutiny Panel
Call In Panel
Personal Budgets
Rehabilitation and Resettlement Of Offenders
Allotments
Ash Die Back
Changing Educational Landscape
Communication and Enforcement - Wheelie Bins on Pavements
Congestion Around Educational Establishments
Flood Management and Gully Cleansing
Homelessness Prevention Strategy Consultation
Irresponsible Dog Ownership
Responsibility and Management of Local Public Waterways
Tree Management</td></tr>
<tr><td>Standards Committee</td><td>The Council has a Standards Committee constituted in accordance with the Standards Committee (England) Regulations 2008 that oversees the Code of Conduct and other governance matters. The Committee meets as and when required and there was no meeting called in the year.</td></tr>
<tr><td>Audit Committee</td><td>The Audit Committee has responsibility for the development of risk within the Council and is 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.

Topics Considered
External Audit Plan 2013/14
Counter Fraud Strategy and Protecting the Public Purse 2013
Audit Committee member's training
A revised Performance Management Framework for Nottingham City</td></tr>
</table>

Body	Summary of Governance role
	Council • Treasury Management Strategy, Annual Report and half yearly update • Internal quarterly reports 2013/14 • Audit Committee Terms of Reference and Annual Work Plan • Review of accounting policies • Internal and external audit protocol • External audit - Audit Committee progress reports • Internal Audit Annual Work Plan 2013/14 and Three Year Strategic Plan • Strategic Risk Register quarterly updates and annual review • Annual Governance Statement, progress reports reported and process for producing statement • Statement of Accounts and report to those charged with governance • Annual Audit Letter • Audit Committee Annual Report 2012/13 • Internal Audit Annual Report 2012/13 and Internal Audit Charter • Ombudsman Annual Letter • Partnership governance, Health Checks and update to Register Of Significant Partnerships • Internal Audit Work Plan for East Midlands Shared Services

Head of Internal Audit (HoIA)

Internal Audit is an independent, objective assurance and consulting activity aiding the Council in accomplishing its objectives by bringing a systematic, disciplined approach directed to evaluate and improve the Council's control and governance processes. Using information and evidence collected during the year the HoIA produces an annual audit report and opinion summarising the effectiveness of the governance arrangements in place.

In 2013/14 The HoIA maintained processes complying with the governance requirements set down in the CIPFA Statement on the role of the Head of Internal Audit. The service substantially complied with the principles contained in the Public Sector Internal Audit Standards (PSIAS) and met the requirements of the Account and Audit Regulations 2011 and associated regulations.

The HoIA reported that Corporate Directors are responsible for ensuring that proper standards of internal control operate within their departments. Internal Audit reviews these controls and gives an opinion in respect of the systems and processes put in place. The 2013/14 Audit Plan, as agreed by the Audit Committee and Corporate Directors, was completed in accordance with the professional standards. 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. Each report issued included a level of assurance that could be assessed from its findings. Each quarter, a list of reports was sent to the Audit Committee for scrutiny and a number of audits were selected for in depth review at the Committee.

HoIA Overall Opinion

2013/14 saw significant change, challenges and risks experienced by the Council, including the operational commencement of its significant partnership for the delivery of HR and financial services with Leicestershire County Council (EMSS). The HoIA has continuously reviewed the risks associated with the Council's operations and has allocated the necessary resources, via the Audit Plan, to form his opinion on the Council's governance arrangements.

In forming his opinion the HoIA has reviewed all the IA reports issued in 2013/14 and drawn upon external sources of assurance from independent review bodies and internal assurance mechanisms to identify and assess the key control risks to the Council's objectives. Consequently the HoIA has concluded that although no systems of control can provide absolute assurance, nor can IA give that assurance, he is satisfied that, on the basis of the audit work undertaken during the 2013/14 financial year, there have been no significant issues (as defined in the CIPFA Code of Practice) reported by IA. Furthermore, on the basis of the audit work undertaken during the 2013/14 financial year, covering financial systems, risk and governance, the HoIA is able to conclude that a reasonable level of assurance can be given that internal control systems are operating effectively within the Council, its significant partners and associated groups.

Other assurance mechanisms

All Corporate Directors and statutory officers provided a signed assurance statement supporting the AGS for 2013/14. These statements have been supplemented by assurance gathered from key colleagues responsible for Internal Audit, Risk, Human Resources and partnerships, and have also been informed by independent external reviews, including the external auditor. The assurance is based around a questionnaire developed from the CIPFA/SOLACE Framework for Corporate Governance.

In summary, the Council has reviewed its systems of internal control and taken a comprehensive approach to considering and obtaining assurance from many different sources. The Council has been informed on the implications of the result of the review of the effectiveness of the governance framework, and the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed, and those to be specifically addressed with new actions planned, are outlined below.

Issues reported

Part of the AGS report reflects the position on significant control issues affecting the Council and the action plans put in place to address them. In ascertaining the significance of the control issues reported, the Council has used CIPFA guidance on the factors involved. These factors are summarised as follows:

- The issue has seriously prejudiced or prevented achievement of a principal objective.
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
- The issue has led to a material impact on the accounts.
- The Audit Committee, or equivalent, has advised that it should be considered significant for this purpose.
- The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
- The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

Issues worthy of note are issues that are not categorised as significant but which require attention to ensure continuous improvement of the system of internal control. 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 schools based support staff is in progress. "Single Status", a new harmonised set of terms and conditions and pay and grade structure, was introduced for the majority of centrally based employees in November 2010 and the current exercise is designed to bring schools staff in line with this. There is a prospect of potential disruption and legal challenge to the decisions made to implement the new pay structure in schools (grading appeals and backdating of awards).

Updated Position

The issue has now been resolved. Single Status has now been implemented for all Nottingham City Council schools based staff, including casual workers in schools. This means that central and school based NCC employees on Local Government Service (LGS) terms and conditions are now on one harmonised set of terms and conditions and one pay and grade structure.

Central Government Review of Local Government Funding & Balancing the Council's Budget)

The coalition Government has undertaken a fundamental review of public spending which has reduced the level of funding available to the Council from 2010/11 onwards.
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

The Council responded to consultation documents highlighting concerns that a disproportionate share of the financial risk is being passed to local authorities and that the mechanisms create a questionable link between growth in businesses in an area and the need to fund demand led services such as social care.

The Medium Term Financial Plan has been reviewed to reassess pressures in future years as part of this process and reflects the culmination of the extensive work of Councillors, colleagues and other stakeholders to fulfil a legal obligation to enable the setting of a balanced budget. Resources have been redirected by Identifying cost reductions arising from both efficiencies and policy issues, especially:

- Reviewing priorities and services and restructuring accordingly;
- Optimising external funding;
- Reviewing income streams;
- Implementing new ways of working and providing services

Children in Care

The Children in Care service exists primarily to ensure that children have permanent plans for where they live. Nottingham's priority for its children in care is to ensure that where possible, children live with their birth families. If that is not achievable then adoption and fostering are the next preferred options.

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 two years.

Updated Position

A plan is in place to reduce the numbers of children who remain in care over the forthcoming year. Part of this work involves systematic use of tools to help return young people to their birth families, having detailed exit plans for each young person, benchmarking all data against our statistical neighbours and ensuring a full complement of staff to deliver the business. Work is underway to match children and young people to adopters at an earlier point in the adoption process to ensure a stable and permanent family home for all our children in care. The renewed focus is the subject of a Big Ticket Project regarding reducing the numbers of children in care and speeding up the adoption process by tackling delay. Work in 2012 was undertaken to realign the children in care placements budget and to ensure that the use of a regional framework for all care registered and 16 plus accommodation was robust. This has resulted in some continued net savings on placement costs. Performance against placement stability and recording the wishes and feelings of children and young people continues to be strong.

There is strong collaboration between partners in Nottingham city, most notably between Health, LA, Police, Foster Carers and providers of residential accommodation. The Council has created a 'permanence team' which is the Children in Care Team. This became operational in April 2012. Further resources have since been agreed to support the effectiveness of the team to place children in permanency placements in a more timely way, and ensure delays are kept to a minimum. This is central to the strategy of ensuring better outcomes for our children in care population.

Performance against children in care targets is strongly monitored and in some areas out performs against statistical neighbours. An area for growth and development against key performance targets is in ensuring the health of children in care is robustly monitored and action taken where appropriate. Speeding up adoptions and tackling delay is the second priority area. NCC does better than its statistical neighbours (with the exception of Middlesbrough) in the recently published adoption scorecard. There was a significant increase in the number of adoptions in 2012/13 compared with the previous year. Resources have been realigned to build on that progress, based on evidence of what works well. The authority secured 43 adoptions and 43 Special Guardianship Orders for the financial year 2013/2014.

The Targeted Support Team continues to offer the effective delivery of services to children, young people and their families/carers. The reconfiguration of Nottingham City Council's Residential Services into Small Group Homes has served to support children and young people to be better placed, have improved outcomes in a cost effective manner and ensure young people receive a quality service that keeps them safe. All homes have met and exceeded minimum standards with one home receiving an OFSTED rating of outstanding and two homes receiving good with outstanding features.

The Council has embarked on a further strategy to reduce the numbers of children coming into care. The Edge of Care Intervention Hub was launched in September 2013 which was for an initial 6 month pilot project, located and managed within the Targeted Support Team that has now been extended. To date, the Hub has supported 18 families that include 53 children. Of those 53, the Hub has worked directly with 46, of which it is felt that 36 have been directly at risk of being accommodated. 6 children have been accommodated. This amounts to an estimated budget relief of between £276k and £549k (based on placement type) over the 8 month period.

East Midlands Shared Service (EMSS)

In September 2010, both Nottingham City Council and Leicestershire County Council agreed to the establishment of a shared services entity (EMSS) that would deliver transactional activities for Finance, Human Resources and Payroll. Agreement was also given to the implementation of the Oracle e-Business Suite as the new Enterprise Resource Planning (ERP) system for NCC.

Latest Position

Both the EMSS organisation and the new Oracle system have been progressing through a period of stabilisation and this has required significant changes in both system and processes. In turn, this has necessitated the review of the overall development plan and, as is usual with this type of extensive system implementation, a great deal of focus has been applied to the financial control processes. Reporting tools are being reimplemented and this will improve internal control processes, both in terms of effectiveness and efficiency. Much of the risk associated with this implementation has been mitigated by the fact that the Council was migrating to an existing LCC platform.

Nottingham Express Transit (NET)

Nottingham City Council entered into a 22 year Private Finance Initiative concession contract with Tramlink Nottingham Limited ("Tramlink") in December 2011 to extend and operate Nottingham's tram network. The concession contract passes the key design, build and construction risks to Tramlink, the private sector concession company.

Latest Position

Construction of NET Phase Two is underway with an anticipated date for the operation of the extended network of December 2014. The NET concession contract, including project risks remaining with the City Council, is being managed by an experienced in-house project team and overseen by a dedicated Project Board.

Workplace Parking Levy (WPL)

The WPL is a levy which applies to all employers within the Nottingham City Council administrative boundary. Employers that provide any workplace parking places are required to get a WPL licence and those with 11 or more chargeable places, to pay a charge, from 1 April 2012. An important issue focuses on the ability of WPL to raise revenue to meet the Council's contribution to the NET Phase 2, the HUB and Link Bus network. The scheme was introduced on 1st October 2011 and charging commenced in April 2012.

Latest Position

There has been concern regarding the ability of WPL to meet funding requirements. The WPL income projections will be continually updated to reflect the latest information available from the WPL team as the income collection is still in its infancy. In the event that over the 23 year life of the NET Phase 2 contract, insufficient WPL income is generated, decisions may be made in respect of the ongoing contributions to the Link Bus network and/or extending the WPL scheme beyond the life of the NET Phase 2 contract.

SIGNIFICANT ISSUES REPORTED

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 deposited with three of the banks involved (Heritable, Landsbanki and Glitnir), at the time of the collapse.

Recovery of monies

More than 120 local authorities had similar deposits with Icelandic banks at that time, totalling some £920m. All these authorities joined forces through the Local Government Association to co-ordinate the recovery of the monies. In particular, lawyers were appointed to represent UK local authorities in the Icelandic Courts, whose role was to decide whether UK local authority deposits were treated as priority creditors in the administration process of Glitnir and Landsbanki banks.

Following a series of court cases in Iceland, the Council was confirmed as a priority creditor, with sufficient funds being identified within Glitnir and Landsbanki banks to enable, in principle, full repayment, albeit over a number of years and subject to foreign currency exchange rate fluctuations and future legislation changes.

Separately, the administration of the London-based Heritable Bank has been managed within the UK, with regular dividend payments to all creditors being made over the last 5 years.

Latest position

Since the banks went into administration in 2008, the Council has received a series of dividends from the administrators of the individual banks. The latest position in respect of the Council's deposits with each bank is:

a) *Heritable Bank*: *original deposit £15.600m*. Dividend payments to date total £14.982m, including interest. The administrators are not anticipating any further payments to be made.

b) *Glitnir Bank*: *original deposit £11.000m*. Dividend payments received to date total £9.210m, including interest. The balance of the monies paid was made in Icelandic krone and is currently in an interest-bearing escrow bank account in Iceland, pending the relaxation of currency controls by the Icelandic government. The final sum to be recovered, including interest is currently estimated as £11.324m.

c) *Landsbanki Bank: original deposit £15.000m*. The banks administrators have made dividend payments totalling £8.197m to date, including interest. The balance of the monies is scheduled to be paid to all priority creditors over the next 5-6 years, although uncertainties exist regarding actual timing, currency exchange rate fluctuations and future Icelandic legislation. To mitigate these risks, the Council participated in a group auction of UK local authority creditor claims in January 2014 which resulted in the sale of the balance of its creditor claim. The payment received was £6.127m, giving a total receipt of £14.324m, including interest.

The following table details the amount of the Council's funds that have been returned to date, plus the current forecasted total recovery figure:

BANK	**ORIGINAL DEPOSIT**	**TOTAL RECOVERED TO DATE**			**ESTIMATED FINAL RECOVERY**		
		PRINCIPAL	**INTEREST**	**TOTAL**	**PRINCIPAL**	**INTEREST**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Heritable	15.600	14.667	0.315	14.982	14.667	0.315	14.982
Landsbanki	15.000	13.689	0.635	14.324	13.689	0.635	14.324
Glitnir	11.000	8.694	0.516	9.210	10.690	0.635	11.324
	41.600	**37.049**	**1.466**	**38.515**	**39.026**	**1.583**	**40.610**

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 we will monitor their implementation and operation as part of our next annual review.

Signed: ………....................…………………………………………………………
Leader of the Council

Signed: ………....................…………………………………………………………
Chief Executive

This page is intentionally left blank