

## **AUDIT AND GOVERNANCE COMMITTEE**

Date: Wednesday 24 September 2014  
Time: 5.30 pm  
Venue: Rennes Room, Civic Centre, Paris Street, Exeter

Members are invited to attend the above meeting to consider the items of business.

If you have an enquiry regarding any items on this agenda, please contact Sharon Sissons, Democratic Services Officer (Committees) on 01392 265115 or email [sharon.sissons@exeter.gov.uk](mailto:sharon.sissons@exeter.gov.uk)

Entry to the Civic Centre can be gained through the Customer Services Centre, Paris Street.

### *Membership -*

Councillors Sheldon (Chair), Baldwin (Deputy Chair), Bowkett, Brock, Donovan, Henson, Laws, Lyons, Morris, Raybould and Williams

### Agenda

#### **Part I: Items suggested for discussion with the press and public present**

##### **1 Apologies**

To receive apologies for absence from Committee Members.

##### **2 Minutes**

To sign the Minutes of the meeting held on 25 June 2014.

##### **3 Declarations of Interest**

Councillors are reminded of the need to declare any disclosable pecuniary interest that relate to business on the agenda and which have not already been included in the register of interests, before any discussion takes place on the item. Unless the interest is sensitive, you must also disclose the nature of the interest. In accordance with the Council's Code of Conduct, you must then leave the room and must not participate in any discussion of the item. Councillors requiring clarification should seek the advice of the Monitoring Officer prior to the day of the meeting.

##### **4 Local Government (Access to Information) Act 1985 - Exclusion of Press and Public**

**RESOLVED** that, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for consideration of Appendix A of Item 13 on the grounds that it involves the likely disclosure of exempt information as

defined in Paragraph 3 of Part I, Schedule 12A of the Act.

**5 Council Tax Student Exemption Classification Update**

Laura Fricker, Housing Benefits Manager and Kevin Hughes, Service improvement Lead (Local Taxation) will attend the meeting to provide further detail of the City Council's Council Tax student exemption classification.

**6 Audit and Governance Committee Update**

To consider the report of the Council's Auditors Grant Thornton. (Pages 5 - 16)

**7 Report to those Charged with Governance (ISA 260 ) 2013/14 - Audit Findings for Exeter City Council**

To consider the report of the Council's Auditor's Grant Thornton. (Pages 17 - 50)

**8 Grant Certification Work Plan for Exeter City Council**

To consider the report of the Council's Auditors Grant Thornton. (Pages 51 - 58)

**9 Final Statement of Accounts 2013/14**

To consider the report of the Assistant Director Finance. (Pages 59 - 186)

**10 Management Representation Letter to the External Auditor in respect of the 2013/14 Statement of Accounts - (To follow)**

To consider the report of the Assistant Director Finance.

**11 Internal Audit Progress Report**

To consider the report of the Audit Managers. (Pages 187 - 196)

**12 Review of Corporate Governance Risk Register**

To consider the report of the Corporate Manager Policy, Communications and Community Engagement. (Pages 197 - 198)

**Part II: Items for consideration with the Press and Public Excluded**

**13 Review of Corporate Governance Risk Register (Appendix A)**

To consider the report of the Corporate Manager Policy, Communications and Community Engagement. (Pages 199 - 204)

## **Date of Next Meeting**

The next **Audit and Governance Committee** will be held on Wednesday 3 December 2014 at 5.30pm

Find out more about Exeter City Council by looking at our website <http://www.exeter.gov.uk> . This will give you the dates of all future Committee meetings and tell you how you can ask a question at a Scrutiny Committee meeting. Alternatively, contact the Democratic Services Officer (Committees) on 01392 265107 for further information.

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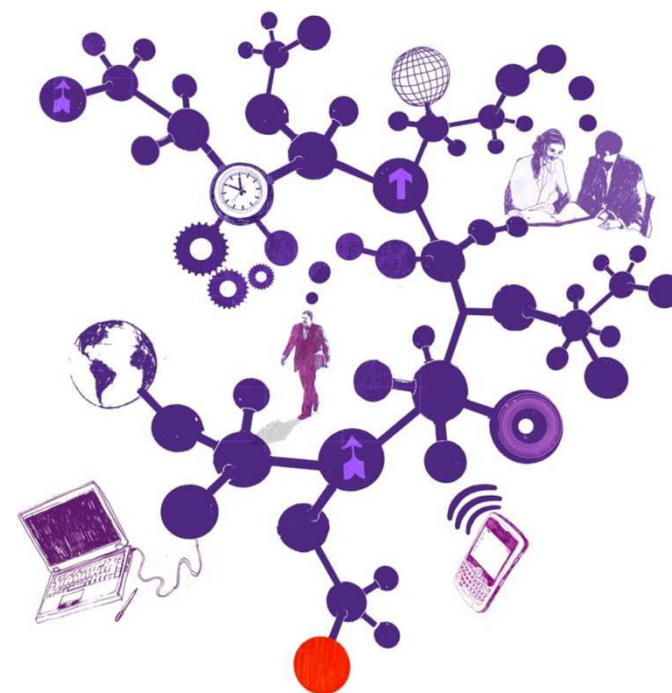
# Audit and Governance Committee Update for Exeter City Council

**Year ended 31 March 2014**

Committee Date: 24 September 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a District Council
- a number of Issue to considers in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector and where you can find copies of our publications referred to in these updates.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.



## Progress at 5 September 2014

Work	Due By	Complete	Comments
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• initial risk assessment to support the Value for Money conclusion.</li> </ul>	30 April 2014	Yes	Our interim audit work was completed in April 2014. We have reported our findings to the Audit and Governance Committee meeting on 25 June 2014 in our 2013/14 Accounts Audit Plan.
<p><b>2013-14 Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	30 June 2014	Yes	We presented our 2013/14 Accounts Audit Plan to the Audit and Governance Committee on 25 June 2014.

## Progress at 5 September 2014

Work	Due By	Complete	Comments
<p><b>2013-14 final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• detailed work to support the VFM conclusion</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• Whole of Government Accounts (WGA) opinion</li> </ul>	30 September 2014	In progress	<p>We will report the outcome of our financial statements audit to the Audit and Governance Committee on 24 September 2014 in our Audit Findings Report.</p> <p>The deadline for the WGA submission is 3 October 2014 and we will ensure that this deadline is met.</p>
<p><b>2013-14 VFM Conclusion</b></p> <p>We are required to assess whether Exeter City Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> <li>• securing financial resilience</li> <li>• challenging how it secures economy, efficiency and effectiveness</li> </ul>	30 September 2014	In progress	<p>We will report the outcome of our VFM Conclusion work to the Audit and Governance Committee on 24 September 2014 in our Audit Findings Report.</p>
<p><b>2013-14 certification work</b></p> <p>This work is expected to cover:</p> <ul style="list-style-type: none"> <li>• Housing benefits.</li> <li>• Housing capital receipts.</li> </ul>	30 November 2014	Not yet due	<p>We are not required to certify the Council's non domestic rates return for 2013/14.</p> <p>We will present our certification plan for discussion at the September 2014 Audit and Governance Committee.</p>

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# Code changes – have your say

## Accounting and audit issues

At the end of July, CIPFA released the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in remeasurement of property, plant and equipment assets that do not provide service potential for the authority. IFRS 13 also applies to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions) and will have an impact on the reporting of, for example, financial instruments and investment properties.
- Other amendments to IFRSs: including the accounting treatment of pensions' contributions
- IFRIC 21 Levies (i.e. levies imposed by governments)
- changes to UK GAAP particularly relating to Heritage Assets
- other minor and drafting amendments.

The consultation closes on Friday 10 October 2014.

CIPFA has also launched a second stage consultation on simplifying and streamlining the presentation of local authority financial statements.

This consultation closes on Friday 19 September 2014.

## Issues to consider

- Has your Assistant Director, Finance reviewed the proposed amendments and assessed the potential impact?
- Has your authority considered whether it wishes to respond to the consultations?

# Where Growth Happens

## Grant Thornton

Our national report 'Where Growth Happens' was published in early September 2014 and is available on our website.

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give Chief Executives and Heads of Finance sections of local authorities and LEPs:

- an insight into the geographic areas of high growth and dynamic growth (i.e. the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assess the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

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# New routes to housing development

## Grant Thornton

We have issued the first in a series of good practice papers on topical issues for local government.

This paper considers good practice in councils' approaches to delivering affordable housing. Until recently, local authorities have acted as an enabler of new affordable housing; increasingly they are now undertaking a direct delivery role. Delivery routes vary and must be structured with the council's objectives and capacity in mind as there is no 'one size fits all' approach. The paper considers the benefits and challenges of council owned housing companies, including:

- Setting and delivering objectives
- Identifying optimal funding routes
- Assessing viability and working with others

The paper stresses the importance of a properly developed business case and business plan to support the setting up of a housing company.

Copies of our good practice paper are available from your engagement lead or audit manager.

# Managing council property assets

## Local government guidance

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease;
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property;
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has a net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate.

The Audit Commission Chair, Jeremy Newman said:

*"we are neither advocating that local government starts a wholesale sell-off of their land and property nor are we suggesting councils shouldn't spend money on buying assets or on investment to improve their existing property. What we are highlighting is a group of assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining them. These assets have potential value for councils. While not all such land or buildings may be sellable, councils should consider how much value they gain from surplus assets and how this could be increased. I urge councils to use the data held in the Commission's 'Value for Money (VFM) Profiles Tool', such as spending on and value of land and property assets and 'surplus' assets, alongside their unique and detailed local knowledge, to regularly review if their estate is fit-for-purpose."*

## Issue to consider

- Are Members satisfied that the Council has adequate management arrangements in place to ensure its property assets are being efficiently and effectively managed?

# The National Fraud Initiative

## Local government guidance

On 12 June 2014 the Audit Commission released its national report, *The National Fraud Initiative (NFI): National Report (June 2014)*, highlighting that its data matching exercise has identified a further £229 million of fraud, overpayment or error in England, Scotland, Wales and Northern Ireland, since it last reported in May 2012.

The Chairman of the Audit Commission, Jeremy Newman said;

*"We publish a report from the NFI every two years and continue to produce great results. The national figure for identified fraud, error and overpayment, that would otherwise be lost to the taxpaying public, is down by £46 million compared to the previous report although the number of cases has increased by nearly 20 per cent. This is great news if, as we believe, it is due to improving detection rates. However, we cannot be complacent. The more participants in the exercise, the richer the data for everyone involved and the harder it is for fraudsters to hide from detection".*

The Audit Commission's National Fraud Initiative will move to the Cabinet Office in April 2015 to secure the continuation of the counter fraud data matching initiative which over its 18 year history has identified over £1.17 billion in fraud, error and overpayment .

## Issue to consider

- Are Members satisfied that the Council's support for the NFI's data matching exercise is adequate and that local data matches are being properly investigated to identify potentially fraudulent activity?



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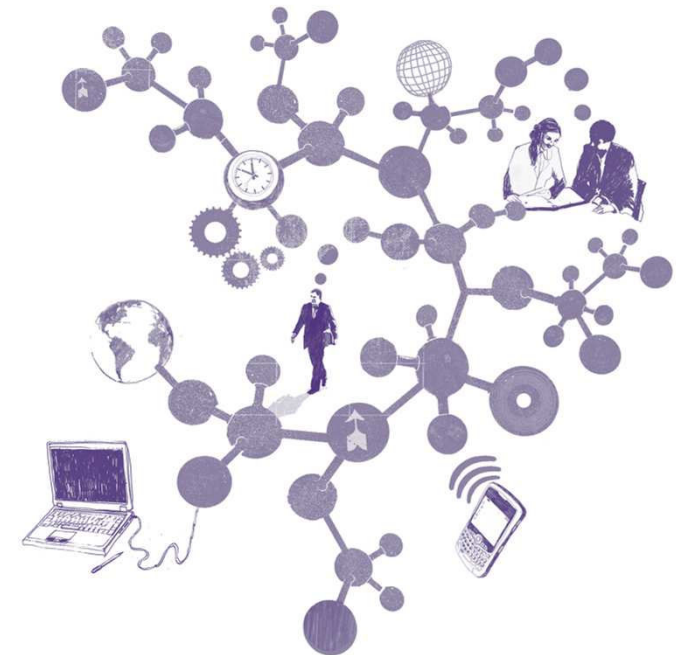
# The Audit Findings for Exeter City Council

**Year ended 31 March 2014**

4 September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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### **Appendices**

A Action plan

## Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Exeter City Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 9 June 2014.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

At the time of writing, 4 September 2014, our audit was still in progress. We are finalising our work in the following areas:

- Property, plant and equipment;
- Operating expenditure;
- Welfare benefits (i.e. Housing Benefits);

- Non domestic rates and, in particular, the Council's provision for appeals and agreeing the financial statements to Central Government Returns (NNDR1 and NNDR3);
- other revenues;
- equity and the movement in reserves statement; and
- financial instruments.

In addition to the completion of the remaining fieldwork outlined above, we need to undertake the following audit completion tasks:

- review of the final version of the financial statements and the completion of the disclosure checklist;
- obtaining and reviewing the final management letter of representation;
- review of final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts audit work.

We are awaiting the following information to enable us to complete our audit:

- assurances from the External Auditors of the Devon Pension Fund;
- a confirmation letter from one of the Council's bankers;
- a response from the auditors of the Exeter Canal and Quay Trust Limited regarding the figures used to prepare the Group Accounts; and
- responses from two of the three firms of solicitors used by the Council and who we contacted regarding potential disclosures in the financial statements.

We will update the Audit and Governance Committee regarding the completion of our work at the Committee meeting on 24 September 2014.

# Executive summary

## Key issues arising from our audit

### Financial statements opinion

The Council prepared its financial statements in accordance with the national timetable (30 June 2014) and made a full set of working papers available to us at the start of the audit.

Only a small number of adjustments to the Council's draft financial statements have been made to date. Overall, the standard of the Council's financial statements shows an improvement compared to the previous year.

We have identified a number of presentational and disclosure changes, although none of these are significant. Further details are set out in section 2 of this report.

The Council did not complete a disclosure checklist as part of its closedown process and would benefit from doing so in future years so that it can be confident its financial statements meet CIPFA's requirements.

Local Authority financial statements are lengthy, complex documents and many Councils have undertaken a 'de-cluttering' exercise whereby they reviewed the content and layout of their accounts to improve their user-friendliness and to make their production more straightforward. Exeter City Council may find such a review helpful and we would be pleased to share of experience in this respect.

### Value for Money conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

### Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable and will share our findings with you once this work has been finalised.

## **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

In our audit plan we reported to you a weakness we identified regarding journal entries as there is no authorisation process for journals prior to posting. Our IT auditors identified scope to improve the password controls in the Council's payroll system.

Further details are provided within section 2 of this report.

## **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Council's Assistant Director, Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Assistant Director, Finance.

## **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2014**

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## Section 2: *Audit findings*

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters



## Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 25 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

### **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you.

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls.</p> <p>Although we identified a weakness regarding the lack of journal authorisation, our testing of journal entries has not found any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<p>We have:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>tested key controls</li> <li>undertaken cut-off testing and searched for unrecorded liabilities</li> <li>substantively tested operating expenses incurred by the Council</li> </ul>	<p>At the time of writing, our audit work in this area has not been completed.</p> <p>However, based on the work to date we have not found any significant issues in relation to the risk identified.</p> <p>We will provide an update to the Audit and Governance Committee on 24 September 2014.</p>
<b>Employee remuneration</b>	Employee remuneration expenses not correct	<p>We have:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>tested key controls</li> <li>substantively tested payroll transactions undertaken by the Council</li> <li>performed analytical procedures, including a trend analysis</li> </ul>	<p>Our audit work has not found any significant issues in relation to the risk identified.</p>

## Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<p>We have:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>tested key controls</li> </ul>	<p>At the time of writing, our audit work in this area has not been completed.</p> <p>However, based on the work to date we have not found any significant issues in relation to the risk identified.</p> <p>We will provide an update to the Audit and Governance Committee on 24 September 2014.</p>
<b>Housing revenue account rental income</b>	Housing revenue transactions not recorded	<p>We have:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>tested key controls</li> <li>substantively tested the rental income for a number of properties</li> <li>undertaken cut-off testing</li> <li>completed analytical procedures</li> </ul>	<p>Our audit work has not found any significant issues in relation to the risk identified.</p>

## Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Property, plant &amp; equipment (PPE)</b></p>	<p>PPE activity not valid</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• tested key controls</li> <li>• reviewed the Council's policies and assessed whether these have been complied with</li> <li>• substantively tested a number of additions and disposals, making comparisons with the Council's capital programme</li> <li>• physically verified the existence of a number of assets and confirmed the ownership</li> </ul>	<p>At the time of writing, our audit work in this area has not been completed.</p> <p>However, based on the work to date we have not found any significant issues in relation to the risk identified.</p> <p>We will provide an update to the Audit and Governance Committee on 24 September 2014.</p>
<p><b>Property, plant &amp; equipment (PPE)</b></p>	<p>Revaluation measurement not correct</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• tested key controls</li> <li>• reviewed the revaluations in the year, including the qualifications of the valuer and the methodology applied</li> <li>• assessed how the Council has ensured that assets not formally revalued are fairly stated.</li> </ul>	<p>At the time of writing, our audit work in this area has not been completed.</p> <p>We refer to the accounting estimates and judgements relating to PPE valuations on pages 15 and 16 of this report.</p> <p>We will provide an update to the Audit and Governance Committee on 24 September 2014.</p>


## Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Exeter Canal and Quay Trust Ltd	Yes	Comprehensive	Classification of cash and investments at the year end	As noted in the Executive Summary, we are awaiting a response from the auditors of the Exeter Canal and Quay Trust Limited	At the time of writing, our audit work in this area has not been completed. We will provide an update to the Audit and Governance Committee on 24 September 2014.
Exeter Business Centre Ltd	No	Analytical	N/A	Analytical review only as the amounts are not material to the Group financial statements	Our audit work has not identified any issues in this respect.
Exeter Science Park	No	Analytical	N/A	Analytical review only as the amounts are not material to the Group financial statements	Our audit work has not identified any issues in this respect.

## Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	The Council's accounting policy is that customer and client receipts in the form of sales, fees, charges and rents are accrued for when it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.	The Council's revenue recognition policy is clearly set out and is consistent with that of the previous year.  The policy has been reviewed and assessed as being in accordance with CIPFA's requirements and in line with that adopted by other Local Authorities.	 <b>Green</b>
<b>Judgements and estimates</b>	In the financial statements, the Council has disclosed that the key judgements and estimates are in relation to: <ul style="list-style-type: none"> <li>• pensions liabilities</li> <li>• arrears</li> <li>• valuation of property, plant and equipment (PPE)</li> <li>• depreciation</li> </ul>	Our work is continuing in this area. We will provide an update to the Audit and Governance Committee.	


### Assessment

- Marginal accounting policy which could potentially attract attention from regulators (red)
- Accounting policy appropriate and disclosures sufficient (green)

- Accounting policy appropriate but scope for improved disclosure (amber)

## Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Other accounting policies</b>	The Council's accounting policies are clearly set out in its financial statements.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 <b>Green</b>

### Assessment

- Marginal accounting policy which could potentially attract attention from regulators (red)
- Accounting policy appropriate but scope for improved disclosure (amber)
- Accounting policy appropriate and disclosures sufficient (green)



## Adjusted misstatements

One adjustment to the draft financial statements has been identified during the audit process to date. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustment arising from the audit which has been processed by management. As noted before, at the time of writing (4 September) our audit had yet to be completed, and we will update the Audit and Governance Committee on 24 September 2014.

### Impact of adjusted misstatement

The adjusted misstatement is set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 The Council changed its principal bankers during the year and any amounts paid into the 'old' account were automatically transferred into the 'new' account. Payments into the 'old' account at the year end (totalling £218k) were not processed until 1 April 2014, meaning that short-term debtors were overstated by £218k and cash and cash equivalents were understated by the same amount.	None	Misstatement was £218,000 but there is no net effect	None
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. We will provide the Audit and Governance Committee with an update on 24 September 2014.

	Area	Adjustment Made
1	Note 32 – Officer remuneration	Two staff who had left the Council's employment were originally omitted from the disclosure note relating to staff whose remuneration was in excess of £50,000 per annum.
2	Note 32 – Officer remuneration	The Council's former Chief Executive, who left the Council in July 2013, was originally omitted from the disclosure note relating to the remuneration of the Council's Statutory Officers and the Council's Strategic Management Team.
3	Note 40 – Defined Benefits Pensions Schemes	The draft financial statements did not reflect the full disclosure requirements relating to the Local Government Pension Scheme.
4	Post Balance Sheet Events	We asked the Council to include a disclosure regarding the IT joint working arrangements with East Devon District Council and Teignbridge District Council.

## Unadjusted misstatements

At the time of writing, 4 September 2014, our audit has not identified any misstatements that management have not reflected in the Council's financial statements.



We will update the Audit and Governance Committee on 24 September 2014.

## Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue	Recommendation
1.	 <b>Red</b>	As reported in our audit plan, a material weakness has again been noted as there is no authorisation process for journals prior to their posting. This was previously reported to the Council in 2012/13.	The Council should introduce a sample-based approach to journal review and authorisation covering all journals.
2.	 <b>Amber</b>	Our IT auditors noted that security logs are not reviewed on a regular basis. Such reviews could mitigate the risk of unauthorised access through weak password controls.	Management should consider initiating a security log monitoring activity.

### Assessment

-  Significant deficiency – risk of significant misstatement (red)
-  Deficiency – risk of inconsequential misstatement (amber)

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Council's Assistant Director, Finance and with the Chair of the Audit and Governance Committee and have received written representations from them in accordance with ISA 240. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	<b>Matters in relation to laws and regulations</b>	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	<b>Written representations</b>	A letter of representation has been requested from the Council. In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates for PPE valuations.
4.	<b>Disclosures</b>	Our review found no material omissions in the financial statements.
5.	<b>Matters in relation to related parties</b>	We are not aware of any related party transactions which have not been disclosed in your financial statements.
6.	<b>Going concern</b>	Our work has not identified any reason to challenge the Council's decision to prepare its financial statements on a going concern basis.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

## Value for Money

### Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### Key findings

#### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Our work confirmed that the Council is facing a challenging financial future. The Council has low levels of reserves compared to other similar Local Authorities. The medium term financial plan originally showed plans to reduce the General Fund to the minimum acceptable level set by the Council (£2m) by 2015/16., although a recent reiteration shows that the Council plans to keep a 'buffer' of approximately £700k.. As noted overleaf, the medium term financial plan requires the Council to deliver significant savings in 2015/16 to 2017/18.

#### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council is open to new ways of working (e.g. the shared IT service with two other Councils) where it considers cost reductions and service improvements can be achieved.

The Council's current Corporate Plan covers 2012 to 2014 and needs to be updated and aligned with the medium term financial plan in order to ensure that the Council's ambitions remain affordable.

#### Overall VFM conclusion

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

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	<b>Adequate arrangements</b>
<b>Amber</b>	<b>Adequate arrangements, with areas for development</b>
<b>Red</b>	<b>Inadequate arrangements</b>

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	<p>We have previously reported that Exeter City Council has low levels of General Fund reserves and useable reserves compared to other Local Authorities and this reduces the amount of flexibility available to the Council.</p> <p>The Council has reduced the minimum level of its General Fund to £2m and its medium term financial plan originally showed that this level would be reached in 2015/16. A recent reiteration showed the Council plans to retain a 'buffer' of approximately £700k. We welcome this development, as any slippage in the Council's savings plans or additional budgetary pressures could have meant that this minimum level was breached.</p>	<b>Amber</b>
<b>Strategic financial planning</b>	<p>The Council has set a balanced budget for 2014/15. The medium term financial plan shows that savings of approximately £3.6m need to be found for 2015/16 to 2017/18.</p> <p>2016/17 is the most challenging year, with savings of £2.8m needed.</p> <p>The Council's current Corporate Plan covers 2012 to 2014 and needs to be updated and aligned with the medium term financial plan.</p>	<b>Amber</b>
<b>Financial governance</b>	<p>The Council is aware of its financial environment at both Officer and Member level. The Council has developed a medium term financial plan although, as noted above, the delivery of this will be challenging.</p> <p>Internal Audit have reported that there is a need for risk management to become more embedded, especially regarding service risk registers.</p>	<b>Green</b>
<b>Financial control</b>	<p>We have not identified any concerns regarding the Council's budgetary control arrangements. Internal Audit have not identified any weaknesses within your key financial systems that could impact on our VFM Conclusion and this accords with our own work on your financial statements.</p>	<b>Green</b>



Theme	Summary findings	RAG rating
<b>Prioritising resources</b>	As noted on the previous page, the Council has a corporate plan which will need to be updated in the near future. The Council has also developed 'Exeter Vision' in conjunction with other partner organisations. There is a need to ensure that future plans remain affordable	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	Our audit work has not identified any concerns over the Council's budgetary control and its understanding of its costs. The Council is open to new ways of working (e.g. the shared IT service with two other Councils) where it considers cost reductions and service improvements can be achieved.	<b>Green</b>

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## Section 4: Fees, non audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence**
- 05. Communication of audit matters

## Fees, non audit services and independence

We confirm below our final fees charged for the audit and the provision of non-audit services.

### Fees

	Per Audit plan £	Actual fees £
Council audit	76,283	76,283
Grant certification	13,380	TBC
<b>Total audit fees</b>	<b>89,663</b>	<b>TBC</b>

Our certification work will not be completed until November 2014. We will advise the Council's Audit and Governance Committee of the final fee for this work at that time.

There is an additional fee of £940 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NNDR3 certifications for District Councils and is subject to agreement by the Audit Commission.

### Fees for other services

Service	Fees £
Review of IT Shared Service Arrangements – Phases 1 and 2. This is a joint review for East Devon District Council, Exeter City Council and Teignbridge District Council. The total fee for these two phases of the work was £17,998, the cost of which was shared equally across the three Councils. The fee identified here represents Exeter City Council's share of the work delivered.	£5,999

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

## Section 5: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings Report
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

## Appendix A: Action plan

### Priority

**Significant deficiency** – risk of significant misstatement

**Deficiency** - risk of inconsequential misstatement

Page No.	Recommendation	Priority	Management response	Implementation date & responsibility
6	Complete a disclosure checklist as part of the financial statements closedown process.	Potential significant deficiency	Agree that completion of the checklist would be advantageous for the Council to satisfy itself that its accounts met all of the necessary requirements. However this is a lengthy document which will require additional resources during a time-pressured period of closing the accounts. We will endeavour to complete the checklist in parallel with closing the accounts, resources permitting, but will certainly use it as a guide for implementing changes to the financial statements to meet CIPFA requirements.	30 June 2015 Technical Accounting Manager
6	Undertaken a 'de-cluttering' exercise whereby the content and layout of the accounts are reviewed to improve their user-friendliness and make their production more straightforward.	Deficiency	Agree that it would be beneficial to undertake a review of the content and layout of the Council's Statement of Accounts to improve user-friendliness and make the production more straight forward. We hope to work with Grant Thornton to seek their advice and agree any changes.	28 February 2015 Technical Accounting Manager (Exeter City Council) and David Bray (Grant Thornton)

## Action plan (continued)

**Priority**

**Significant deficiency** – risk of significant misstatement

**Deficiency** - risk of inconsequential misstatement

Page No.	Recommendation	Priority	Management response	Implementation date & responsibility
20	The Council should introduce a sample-based approach to journal review and authorisation covering all journals.	Significant deficiency	Following the restructure of Accountancy Services and the appointment of an Accountant with responsibility for system development support in July, we have given priority to investigating the functionality of the financial system for journal authorisation and workflow arrangements. It is hoped that a new journal authorisation process will be implemented in order to improve internal controls.	31 December 2015 Assistant Director, Finance
20	Management should consider initiating a security log monitoring activity.	Deficiency	The Transactional Services Manager in conjunction with IT Services will be asked to consider initiating a regular review of security logs in order to help identify any unauthorised access.	31 October 2014 Transactional Services Manager

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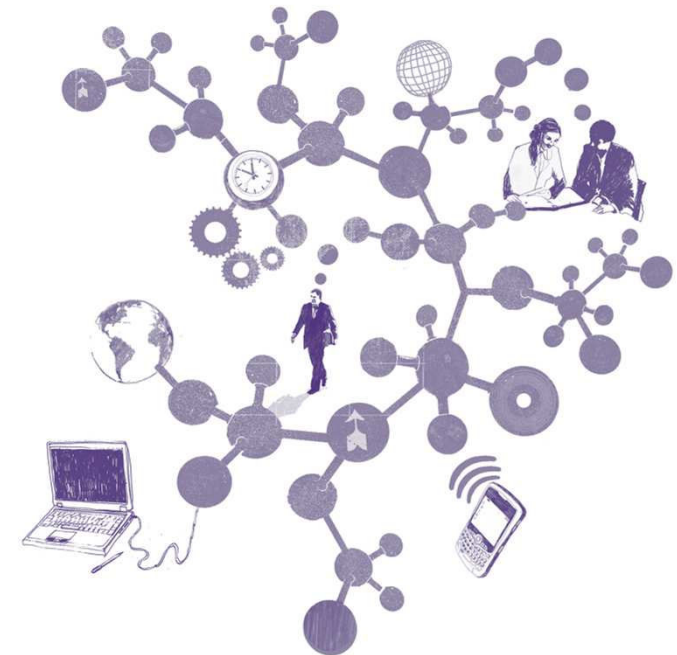
# Grant certification work plan for Exeter City Council

**Year ended 31 March 2014**

1 September 2014

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1. Our approach to grant certification work	3
Appendix A Summary of expected claims and returns for the year ended 31 March 2014	

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# Our approach to grant certification work

## Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information.

The Audit Commission makes certification arrangements with grant-paying bodies, including confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and set out the specific procedures to be applied in examining the claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

As the Council's appointed external auditor, we undertake grant certification work acting as an agent of the Audit Commission.

## Certification arrangements

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return. The arrangements for 2013/14 are:

- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions
- for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but are not required to undertake any testing of the eligibility of expenditure or data

- for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.

In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work where possible.

## Role of all parties

The table below summarises the respective roles and responsibilities of the parties involved in the certification process.

Party	Role & responsibility
Grant paying body	Sets conditions of grant and deadline for submission for pre-certified and certified claims
Audit Commission	Issues certification instructions for auditor work
Council	Submits claims for certification to the Appointed Auditor within grant paying body submission deadlines
Appointed Auditor	Certifies claims in accordance with Audit Commission certification instructions and within certification deadlines

The Council's role is set out in more detail below:

- the Assistant Director, Finance is responsible for ensuring that supporting accounting records are sufficient to document the transactions for which claims are made. These records should be maintained in accordance with proper practices and kept up to date, including records of income and expenditure in relation to claims and returns.
- the Council should ascertain the requirements of schemes at an early stage to allow those responsible for incurring eligible expenditure to assess whether it falls within the scheme rules and to advise those responsible for compiling claims and returns to confirm any entitlement.
- the Council should ensure all deadlines for interim and final claims are met to avoid sanctions and penalties from grant paying bodies.
- grant-paying bodies usually require the Council's certificate to be given by an appropriate senior officer. This is typically the Assistant Director, Finance or an officer authorised by written delegated powers; and
- the Council should monitor arrangements with any third parties involved in the certification process.

## Claims history

The most significant claims and returns in 2012/13 were:

- housing and council tax benefit claim; and
- national non-domestic rates return.

Due to changes in government funding, there are a number of schemes that either finished in 2012/13 or where funding is no longer ring-fenced. For Exeter City Council this means that there will be no certification under the Audit Commission regime of the following schemes in 2013/14:

- council tax benefit (previously part of the housing and council tax benefit claim) and
- national non-domestic rates return.

## Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification.
- without qualification but with agreed amendments incorporated by the Council or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which may impact on the certification fee.

## Certification work fees

The Audit Commission sets an indicative fee for grant claim certification based on 2011/12 actual certification fees for each council. The indicative fee for Exeter City Council is £13,380. The fee is based on the following assumptions:

- there will be no change in the scope of our work due to the control environment in place during the year;
- the Council provides adequate working papers to support each entry in the claim/return; and
- the Council's staff are available to deal with our queries in a timely manner and provide such explanations and supporting evidence necessary to support entries.

Where there is any significant variation from these assumptions, we will discuss a variation to the indicative scale fee with the Council and the Audit Commission.

The Council has identified all claims and returns requiring certification and this information is incorporated into Appendix A to this plan.

## Administration

When each expected claim or return is completed, a copy of the signed claim should be sent to David Bray, Senior Audit Manager at the following address:

### **Grant Thornton UK LLP**

Room B2.07  
Carrick House  
Pydar Street  
Truro  
Cornwall, TR1 1DP

- The original claims and returns should be retained by the Council.
- If additional claims and returns are identified by either us or the Council they will be incorporated into the appendix in this plan
- All claims and returns listed in appendix A should be sent to us, even if below the de minimis limit so that we can confirm that no certification is required. We are required to report the value of these claims to the Audit Commission in our annual certification report.

## Managing the certification process – our role

- We intend to certify all claims and returns in accordance within the deadlines set by the Audit Commission. If we receive any claims after the Council's submission deadline, we will endeavour to certify them within the Audit Commission deadline but, where this is not possible, within three months from receipt
- A copy of each certified claim or return will be sent to the relevant named contact when the certification process is complete, along with a copy of the qualification letter, where applicable
- Copies of the certification instructions can be provided on request for any new claims or returns
- We expect to complete the certification of all claims by late 2014 and will issue a grant certification report highlighting any issues that need to be brought to the Council's attention.



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## Appendix A: Summary of expected claims & returns for the year ended 31 March 2014

Claim (CI reference)	Authority deadline	Certification deadline	Claim certified in prior year?	Prior year outcome
Housing benefits subsidy (BEN01) *	30/04/14	30/11/14	Yes	Qualified
Pooling of housing capital receipts (CFB06)	28/06/14	27/09/14	Yes	Unqualified

\* No certification of council tax benefit is required in 2013/14



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**REPORT TO:** AUDIT AND GOVERNANCE COMMITTEE  
**DATE OF MEETING:** 24 SEPTEMBER 2014  
**REPORT OF:** Assistant Director Finance  
**TITLE:** Statement of Accounts 2013-14

**Is this a Key Decision?**

No

**Is this an Executive or Council Function?**

Council

**1. What is the report about?**

To seek Members' approval and adoption of the Council's Statement of Accounts for 2013-14.

**2. Recommendations:**

**It is recommended that the Audit and Governance Committee approve the audited Statement of Accounts for 2013-14.**

**3. Reasons for the recommendation:**

The publication of a Statement of Accounts is a statutory requirement. In England and Wales, each authority is required to prepare its accounts by 30 June and to approve and publish them by 30 September. Approval of the Council's financial statements and notes to the accounts is therefore in accordance with this statutory deadline.

**4. What are the resource implications including non financial resources**

The audited Statement of Accounts is intended to give a 'true and fair' view of the financial position and transactions of the Council, including group financial statements, as at 31 March 2014.

**5. Section 151 Officer Comments:**

This report sets out the final financial position of the Council. It is to be read alongside the ISA 260 Audit findings report from Grant Thornton. The key issues for Members to consider are any findings where management have not agreed to implement the recommendation and to consider any errors that management have chosen not to rectify. At the time of writing, there are no errors which have not been amended, however the audit is ongoing and a verbal report will be made at Committee along with the tabling of the final statement of accounts, if further changes are required.

**6. What are the legal aspects?**

The Statement of Accounts has been prepared in accordance with the statutory framework established for England by the Accounts and Audit (England) Regulations 2011.

The audit of the accounts has been undertaken in accordance with the statutory framework established by section 5 of the Audit Commission Act 1998 for England, by the Council's external auditors, Grant Thornton UK LLP.

## 7. **Monitoring Officer Comments:**

The Monitoring Officer has no issues to raise in respect of this report.

## 8. **Report Details:**

### **STATEMENT OF ACCOUNTS 2013-14**

The purpose of a local authority's published Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members of the authority, employees and other interested parties clear information about the authority's finances.

Information contained in the Statement of Accounts will be consolidated into the Whole of Government Accounts.

#### **8.1 Presentation of the Statement of Accounts**

The Code of Practice on Local Authority Accounting provides guidance on the format and content of the Statement of Accounts and means that they have to conform to a national standard. In presentational terms the Statement of Accounts will differ from the Council's own management accounts and budget monitoring information circulated to Members.

#### **8.2 Main Changes to the Accounts**

The key accounting changes introduced by the Code of Practice on Local Authority Accounting for 2013-14 and in response to the findings of our external auditors are as follows:

- **Local Government Pension Scheme**  
Amendments to IAS 19, Employee Benefits, resulted in changes to the accounting requirements for the defined benefit pension scheme. The information needed to prepare the financial statements, including restated comparatives for 2012-13, have been provided by our actuaries.
- **Business Rate Retention Scheme**  
In April 2013 the Government introduced a new business rate retention scheme, which allowed local authorities to voluntarily form a business rates retention pool. Exeter City Council is part of the Devon pool and changes have been made to reflect the accounting requirements associated with the localisation of business rates.
- **Officer Remuneration**  
The disclosure notes in respect of officer remuneration have been amended to reflect officers that left during the financial year including the former Chief Executive and former Assistant Director Finance, as the annualised salary should be used to determine where the employee is in relation to the disclosure thresholds.
- **Harbour Authority**

A new note to the accounts has been included in respect of the Exe Estuary Harbour. In accordance with the Harbours Act 1964 each local authority that are also harbour authorities are required to prepare an statement of accounts relating to harbour activities.

### **8.3 Audit Findings**

At the time of writing, the findings of our external auditors are as follows:

- **Change of Banking Provider**

The Council changed its banking provider with effect from 1 April 2014. The new accounts were set up in advance of the commencement date and unfortunately income was credited to the new accounts before 31 March 2014. This income was not processed until 1 April 2014, meaning that short-term debtors was overstated by £218k and cash and cash equivalents understated by the same amount, as the income held in the new account was not recognised. This has been resolved and resulted in no net effect to the Balance Sheet.

- **Disclosures**

Disclosure changes in respect of officer remuneration were identified and have been resolved, as set out in para. 8.2.

Additional disclosure requirements were required in respect of the pension scheme and these have been inserted.

A disclosure regarding the joint IT working arrangement with East Devon District Council and Teignbridge District Council was required and this has been resolved via the inclusion of a Post Balance Sheet Event.

- **Presentational**

A number of presentational issues were identified, which have been rectified. These include spelling and casting amendments.

Overall, the amendments to date have had no impact on either the General Fund balance or the Housing Revenue Account balance, which remain as reported to Council in July. The overall financial performance of the Council for 2013-14 was reported to Executive on 15 July 2014 and to Council on 29 July 2014.

### **9. How does the decision contribute to the Council's Corporate Plan?**

The Statement of Accounts set out the financial position at the end of the 2013-14 and the transactions of the Council during 2013-14, both of which help underpin delivery of the Corporate Plan.

### **10. What risks are there and how can they be reduced?**

The risks relate to overspending the Council budget and are mitigated by regular reporting to the Strategic Management Team and Members. There is also a risk of failing to implement key accounting changes in accordance with approved accounting standards, but this is mitigated by the external audit of the Statement of Accounts.

### **11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?**

No impact

**12. Are there any other options?**

No

**Assistant Director Finance**

**Local Government (Access to Information) Act 1972 (as amended)**

**Background papers used in compiling this report:**

None

Contact for enquiries:  
Democratic Services (Committees)  
Room 2.3  
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# STATEMENT OF ACCOUNTS

**2013-2014**

**DRAFT**

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## EXPLANATORY FOREWORD

### 1. THE KEY ACCOUNTING STANDARDS AND STATEMENTS

The Statement of Accounts for 2013-14 have been prepared in accordance with the “Code of Practice on Local Authority Accounting in the United Kingdom” published by the Chartered Institute of Public Finance and Accountancy.

The purpose of the Statement of Accounts is to give the electors, local taxpayers, members of the authority and other interested parties clear information about the Council’s finances. They should inform readers of:

- The cost of services provided by the Council in the year 2013-14
- How the services were paid for
- The Council’s assets and liabilities at the year end

The four main statements in the accounts are the Movement in Reserves Statement, the Comprehensive Income and Expenditure Account, the Balance Sheet and the Cashflow Statement and they are shown together, with the notes to those statements following as one set. The rest of the statements follow these notes.

There have been a number of changes to the Code of Practice in 2013-14, which affect the accounts of the Council :

- The Code has been updated to reflect the accounting requirements associated with the localisation of business rates in England
- Revisions have been made as a result of the June 2011 amendments to IAS 19 Employee Benefits
- Minor amendments have been made to the HRA Income and Expenditure Statement. The Code also includes revisions to reflect changes in the statutory accounting requirements in relation to the transfers to and from the Major Repairs Reserve under the self-financing regime
- A number of other small amendments have been made to code.

#### **Business Rates Retention**

On 1 April 2013, the business rates retention scheme was introduced. Under the scheme Exeter City Council is able to keep 40% of the growth in Business Rates generated above a baseline set by Central Government. The Council is part of the Devon pool, which means that all growth generated within the Devon area is kept and spread across Devon, benefitting the local area. Conversely the pool is also responsible for protecting Council’s where the business rates are lower than the baseline. In 2013-14, the Council has made a net gain of £457,000 above the baseline set.

## EXPLANATORY FOREWORD

The main financial statements are described below, setting out the purpose of each statement. A statement of accounting policies, appropriate notes and a glossary of terms provide readers with further information to support the accounts.

### **Movement in Reserves Statement**

Shows the movement in each of the usable and unusable reserves of the Council during the year.

### **Comprehensive Income & Expenditure Statement (CIES)**

Sets out the expenditure and income for the year of all of the Council's revenue services and functions and the other unrealised gains & losses to demonstrate how the net worth shown in the Balance Sheet has moved year on year.

### **The Consolidated Balance Sheet**

Summarises the overall financial position of the Council at 31<sup>st</sup> March 2013 showing its assets, liabilities and reserves.

### **Cashflow Statement**

Summarises all of the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes.

### **Housing Revenue Account Income & Expenditure Statement**

The HRA reflects the statutory obligation to account separately for the Council's provision of housing. It shows the major elements of housing revenue expenditure and how these are met by rents and other income.

### **Movement on the Housing Revenue Account Statement**

This shows how the surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year.

### **Collection Fund**

This shows the transactions in relation to the collection Business Rates and Council Tax, indicating how the amounts collected are distributed to Central Government, the Devon Business Rates pool run by Plymouth City Council, Devon County Council, Devon and Cornwall Police Authority, Devon & Somerset Fire and Rescue Service and Exeter City Council.

## EXPLANATORY FOREWORD

### Group Accounts

These consolidate the accounts of Exeter City Council, Exeter Canal and Quay Trust Ltd and Exeter Business Centre Ltd. The Council has a 100% shareholding in both. The Council's interest in Exeter Science Park is also shown in the accounts. They set out a Group Movement in Reserves Statement, Group Comprehensive Income and Expenditure Statement, Group Balance Sheet and Group Cashflow Statement.

### Annual Governance Statement

The Annual Governance Statement provides assurance that:

- Governance arrangements are adequate and operating effectively in practice, or
- Where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in future.

## 2. PENSION FUND

To comply with IAS 19, the Actuary has reviewed the performance of the Pension Fund, managed by Devon County Council. The analysis has shown that during 2013-14, Exeter's fund deficit has increased from £73.738 million to £75.530 million, an increase of £1.792 million. This is due to a large actuarial increase in expected future liabilities. A full actuarial valuation was undertaken in 2013 to review the contribution levels of the Council. The contribution rate has been set at 14.1% of pensionable pay for future service and a varying cash figure in respect of the past service deficit (£1.286m in 2014-15). The next valuation is due during 2016.

## 3. CURRENT BORROWING AND USE OF ASSETS

The Council's long-term borrowing remains at £56.9 million, which represents the HRA self financing settlement payment, Short term and internal borrowing of £1.9 million have been used to finance capital expenditure in 2013/14. Additions to property, plant and equipment (PPE) totalled £9.9 million, £0.1 million was spent on intangible assets, £1.3 million was written off to revenue and £0.4 million was treated as long term debtors. During the year, the council disposed of PPE and assets held for sale valued at £2.0 million, the receipts from which were used in part to finance capital expenditure. Revaluation and impairment has increased the value of fixed assets by £4.0 million. Depreciation and amortisation have reduced the value of fixed assets by £5.0 million.

## 4. ICELANDIC INVESTMENTS

Glitnir - The Council has received 100% return of the investment plus interest; however £383,128 was repaid in Icelandic Krona and is held in an escrow account in Iceland earning 4.2% interest owing to currency restrictions in place in the Country. As a result of interest received and foreign exchange movements, the value of the investment has increased to £447,516.

Landsbanki – During 2013-14, the City Council successfully sold the remaining investment held in Landsbanki via an auction. All amounts relating to the investment have now been removed from the accounts with an investment gain being used to pay down the debt outstanding from the capitalisation of the impairment.

## EXPLANATORY FOREWORD

### 5. FINANCIAL OVERVIEW

The Council expected a challenging year in respect of its finances having found in excess of £2 million of savings / additional income to meet the reduction in grant. However, the reductions have been achieved as has the additional income in respect of car parking, which along with additional income from the new business rates retention scheme, has enabled the Council to add a small amount back to the General Fund balance during the year.

The City Council's revised budgeted Service net expenditure for 2013-14 was £12,248,020. Net interest payments of £140,000, income from Local Services Support Grant (£502,618) and £1,358,000 to cover the repayment of debt were added and resulted in a net budget of £13,019,737, which includes a net £223,665 transferred from reserves and balances.

The Council delivered its General Fund service plans for a total net cost of £12,225,764, an underspend of £22,256 against the revised budget of £12,248,020.

There was a large reduction in net interest paid against budget of £79,872 and an investment gain of £93,291 associated with the sale by auction of the amount held in Landsbanki.

During the year £3,419,871 has been transferred to earmarked reserves, mainly to the New Homes Bonus reserve, to cover the NNDR deficit and to set up new reserves to fund future expenditure. £366,344 was used to finance capital expenditure and a payment of £5,858 has been made to cover the payment due to the administrators of Municipal Mutual Insurance. As a consequence of all the above, General Fund Balances have increased by £6,593.

The Council's General Fund Balance has therefore increased during the year from £3,358,047 to stand at £3,364,640 as at 31<sup>st</sup> March 2014. This is equivalent to about 25.8% of the net budget for 2013-14.

#### HRA

The final position for the Housing Revenue Account, including Council Own Build, showed an overall decrease in the HRA working balance of £297,063 to £6,066,732 as at 31<sup>st</sup> March 2014. Additionally, £2,323,273 was set aside in the Major Repairs Reserve to fund future capital investment in the HRA.

## EXPLANATORY FOREWORD

A summary of the General Fund position is indicated below :

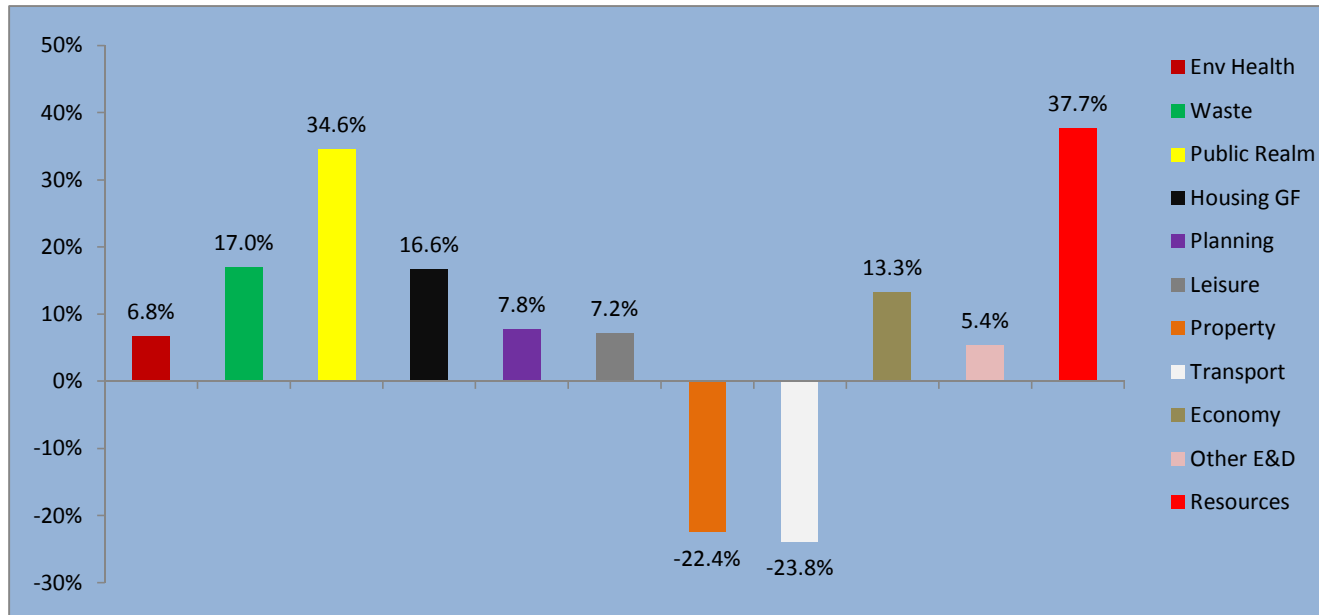
	Revised Budget £	Final Outturn £	Variance to Budget £
<b>Service Net Expenditure</b>	<b>12,248,020</b>	<b>12,225,764</b>	<b>(22,256)</b>
Net Interest	140,000	79,872	(60,128)
Provision for Repayment of Debt	1,358,000	1,437,066	79,066
Investment Gain	0	(93,291)	(93,291)
Local Services Support Grant	(502,618)	(502,618)	0
Revenue Contribution to Capital	0	366,344	366,344
Mutual Municipal Insurance Levy	0	5,858	5,858
	<b>13,243,402</b>	<b>13,518,995</b>	<b>275,593</b>
T/fr (From)/To Earmarked Reserves	2,248,865	3,419,871	1,171,006
Transfer (From)/To Working Balance	(267,700)	6,593	274,293
<b>General Fund Expenditure</b>	<b>15,224,567</b>	<b>16,945,459</b>	<b>1,720,892</b>
Formula Grant	(7,811,885)	(7,845,131)	(33,246)
Council Tax Freeze Grant	(118,420)	(118,420)	0
Council Tax Support Grant	(598,243)	(598,243)	0
Pooling of Business Rates	(100,000)	(1,787,646)	(1,687,646)
New Homes Bonus	(2,204,830)	(2,204,830)	0
<b>Council Tax Net Expenditure</b>	<b>4,391,189</b>	<b>4,391,189</b>	<b>0</b>
Opening General Fund Balance	3,358,047	3,358,047	0
Closing General Fund Balance	3,090,347	3,364,640	(274,293)

Note : This summary is based on the Council's management accounting format, not the Comprehensive Income & Expenditure Statement. In particular some reserve transactions are included within service committee net expenditure.

**EXPLANATORY FOREWORD**

The Service Committee net expenditure is broken down as follows:

**Service Net Expenditure 2013-14**

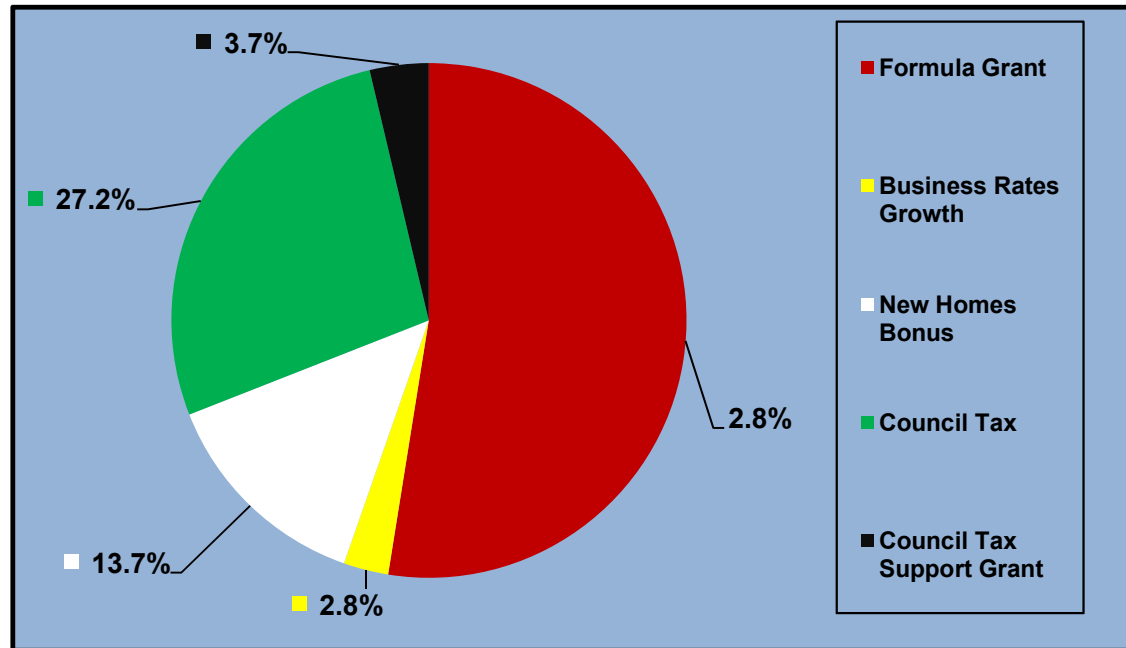


Where the figure is negative, this indicates that the income generated was higher than the cost of providing the service.

**EXPLANATORY FOREWORD**

Service net expenditure was financed as follows:

**Revenue Income 2013-14**



## EXPLANATORY FOREWORD

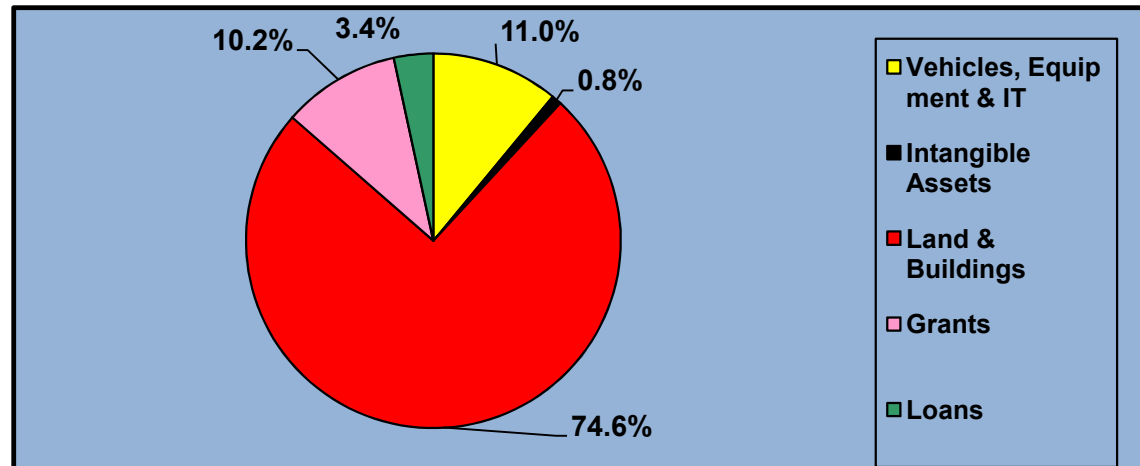
In 2013-14 the Council spent £11.8 million on capital projects and grants, compared with a revised approved programme of £14.8 million.

It has been identified that £2.5 million will need to be carried forward into future years. Included in the expenditure for the year was:

- £8.3 m - New construction, conversion and renovation
- £1.3 m - Vehicles, plant and equipment
- £1.2 m - Grants

- £0.5 m - Acquisition of land and existing buildings
- £0.4 m - Loans
- £0.1 m - Intangible fixed assets

Capital Expenditure 2013-14





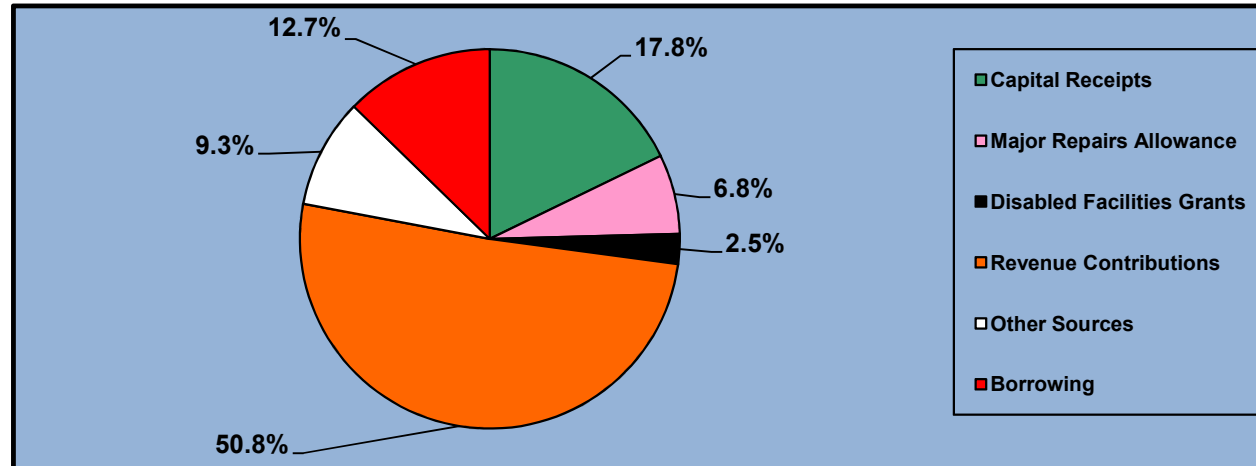
## EXPLANATORY FOREWORD

The capital programme of £11.8 million was financed as follows

£0.8 million - HRA Major Repairs Allowance,  
£0.3 million - Communities & Local Government (Disabled  
Facilities Grant).

£1.5 million - financed from borrowing  
£6.0 million - revenue and reserves,  
£2.1 million - capital receipts  
£1.1 million - other sources including contributions from  
developers.

Capital Finance 2013-14



## EXPLANATORY FOREWORD

In conclusion, the City Council has overcome another challenging financial year and has maintained its prudent financial position. However, there continue to be a number of challenges ahead, with difficult financial conditions remaining well into the future. In both organisational and financial terms, the Council is ready to meet these challenges.

**Dave Hodgson CPFA**  
**Assistant Director Finance**

**Councillor Greg Sheldon**  
**Chair – Audit and Governance Committee**

## 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 officer is the Assistant Director Finance
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the statement of accounts

### The Assistant Director Finance's Responsibilities

The Assistant Director Finance is responsible for the preparation of the authority'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').

The Statement of Accounts gives 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.



**Dave Hodgson CPFA**  
**Assistant Director Finance**  
**30 June 2014**

In preparing this Statement of Accounts, the Assistant Director Finance has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code except where stated in the Accounting Policies

The Assistant Director Finance has also:

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

## MOVEMENT IN RESERVES STATEMENT

This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different to the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The net increase / decrease before Transfers to or from Earmarked Reserves shows the statutory General Fund and Housing Revenue Account Balances before any discretionary transfers to or from Earmarked Reserves.

	General Fund Balance (£'000)	Earmarked Reserves (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Total Usable Reserves (£'000)	Unusable Reserves (£'000)	Total Authority Reserves (£'000)
<b>Balance at 31 March 2012 carried forward</b>	(4,285)	(1,892)	(5,793)	(896)	(3,149)	(1,262)	(17,277)	(207,889)	(225,166)
<b>Movement in Reserves 2012-13</b>									
(Surplus) / deficit on the provision of services	2,869	0	(1,809)	0	0	0	1,060	0	1,060
Other Comprehensive Income & Expenditure	0	0	0	0	0	0	0	(8,710)	(8,710)
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>2,869</b>	<b>0</b>	<b>(1,809)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,060</b>	<b>(8,710)</b>	<b>(7,650)</b>
Adjustments between Accounting basis and funding basis under regulations (note 7)	(3,070)	0	1,238	(727)	879	301	(1,379)	1,379	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves	<b>(201)</b>	<b>0</b>	<b>(571)</b>	<b>(727)</b>	<b>879</b>	<b>301</b>	<b>(319)</b>	<b>(7,331)</b>	<b>(7,650)</b>
Transfers to / (from) Earmarked Reserves	1,128	(1,128)	0	0	0	0	0	0	0
<b>(Increase) / Decrease in 2012-13</b>	<b>927</b>	<b>(1,128)</b>	<b>(571)</b>	<b>(727)</b>	<b>879</b>	<b>301</b>	<b>(319)</b>	<b>(7,331)</b>	<b>(7,650)</b>

## MOVEMENT IN RESERVES STATEMENT

	General Fund Balance (£'000)	Earmarked Reserves (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Total Usable Reserves (£'000)	Unusable Reserves (£'000)	Total Authority Reserves (£'000)
<b>Balance at 31 March 2013 carried forward</b>	(3,358)	(3,020)	(6,364)	(1,623)	(2,270)	(961)	<b>(17,596)</b>	(215,220)	<b>(232,816)</b>
<b><i>Movement in Reserves 2013-14</i></b>									
(Surplus) / deficit on the provision of services	2,615	0	(3,804)	0	0	0	(1,189)	0	(1,189)
Other Comprehensive Income & Expenditure	0	0	0	0	0	0	0	(8,661)	(8,661)
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>2,615</b>	<b>0</b>	<b>(3,804)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,189)</b>	<b>(8,661)</b>	<b>(9,850)</b>
Adjustments between Accounting basis and funding basis under regulations (note 7)	(6,042)	0	4,101	(683)	(1,524)	278	(3,870)	3,870	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves	<b>(3,427)</b>	<b>0</b>	<b>297</b>	<b>(683)</b>	<b>(1,524)</b>	<b>278</b>	<b>(5,059)</b>	<b>(4,791)</b>	<b>(9,850)</b>
Transfers to / (from) Earmarked Reserves	3,420	(3,420)	0	0	0	0	0	0	0
<b>(Increase) / Decrease in 2013-14</b>	<b>(7)</b>	<b>(3,420)</b>	<b>297</b>	<b>(683)</b>	<b>(1,524)</b>	<b>278</b>	<b>(5,059)</b>	<b>(4,791)</b>	<b>(9,850)</b>
<b>Balance at 31 March 2014 carried forward</b>	<b>(3,365)</b>	<b>(6,440)</b>	<b>(6,067)</b>	<b>(2,306)</b>	<b>(3,794)</b>	<b>(683)</b>	<b>(22,655)</b>	<b>(220,011)</b>	<b>(242,666)</b>

## COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

	2012-2013			Service	2013-2014			Notes
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditur £'000	Gross Income £'000	Net Expenditure £'000	
	10,908	(8,386)	2,522	Central Services to the Public	2,976	(936)	2,040	
	11,463	(2,769)	8,694	Cultural and Related Services	9,982	(3,903)	6,079	
	7,586	(1,058)	6,528	Environmental and Regulatory Services	10,013	(3,671)	6,342	
	3,827	(1,253)	2,574	Planning Services	3,721	(1,069)	2,652	
	49,500	(45,572)	3,928	Housing Services	49,459	(46,114)	3,345	
	3,783	(6,309)	(2,526)	Highways and Transport Services	3,731	(6,876)	(3,145)	
	2,403	(130)	2,273	Corporate and Democratic Core	2,727	(655)	2,072	
	166	0	166	Non Distributed Cost	211	0	211	
	19,541	(22,876)	(3,335)	Housing Revenue Account - Other	14,366	(19,738)	(5,372)	
	<b>109,177</b>	<b>(88,353)</b>	<b>20,824</b>	<b>Cost of Services</b>	<b>97,186</b>	<b>(82,962)</b>	<b>14,224</b>	
			(96)	Other operating expenditure			(542)	9
			(4,281)	Financing and investment income and expenditure			1,607	10
			(15,387)	Taxation and non-specific grant income			(16,478)	11
			<b>1,060</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>(1,189)</b>	

## COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

2012-2013			2013-2014			Notes
Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure	
£'000	£'000	£'000	£'000	£'000	£'000	
		(9,319)			(6,731)	
		609			(1,930)	
		<u>(8,710)</u>			<u>(8,661)</u>	
		<b><u>(7,650)</u></b>			<b><u>(9,850)</u></b>	

The 2012-2013 Comprehensive Income and Expenditure Statement has been restated to reflect the change to accounting requirements for the local government pension scheme, in accordance with IAS 19, Employee Benefits. The main changes are:

- The expected return on assets and the interest cost has been replaced with a single net interest cost, comprising interest income on the assets and interest expense on the liabilities
- A re-allocation of amounts charged in the comprehensive income and expenditure statement
- Actuarial (gains) / losses on pension assets / liabilities renamed re-measurement of the net defined benefit liability

The effect on the Comprehensive Income and Expenditure Statement is set out in Note 40, please refer to page. 83.

## BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves of the authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the Capital Receipts Reserve can only be used to finance capital expenditure or repay debt). The second category of reserves is those that are not able to be used to provide services. This includes reserves that hold unrealised gains and losses (the Revaluation Reserve) where amounts would only become available if the asset was sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

2012-2013 £'000	2013-2014 £'000	Notes
300,930	319,012	12
41,265	31,965	13
22,436	22,615	14
627	477	16
1,499	0	17
12,231	12,456	17
<b>378,988</b>	<b>386,525</b>	
194	209	18
6,972	8,164	20
239	448	17
1,635	609	22
3,969	12,284	21
<b>13,009</b>	<b>21,714</b>	



**BALANCE SHEET**

2012-2013 £'000	2013-2014 £'000	Notes
(15,015) Short-Term Borrowing	(18,033)	17
(12,320) Short-Term Creditors	(12,438)	23
<b>(27,335) Total Current Liabilities</b>	<b>(30,471)</b>	
(56,906) Long term borrowing	(56,906)	17
(1,151) Capital Grants Receipts in Advance	(2,614)	
(51) Long-Term Creditors	(52)	
(73,738) Pension Scheme Liability	(75,530)	40
<b>(131,846) Total Long-Term Liabilities</b>	<b>(135,102)</b>	
<b>232,816 Net Assets</b>	<b>242,666</b>	
Financed by:		
17,596 Usable Reserves	22,655	25
215,220 Unusable Reserves	220,011	26
<b>232,816 Total Reserves</b>	<b>242,666</b>	



**DAVE HODGSON CPFA  
ASSISTANT DIRECTOR FINANCE**

## CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents 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 the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future services delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

2012-2013		2013-2014	
£'000		£'000	Notes :
1,060	Net (surplus) or deficit on the provision of services	(1,189)	
(13,159)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(11,683)	
1,841	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	3,052	
<b>(10,258)</b>	<b>Net cashflows from Operating Activities</b>	<b>(9,820)</b>	27
14,108	Investing Activities	5,874	28
(6,730)	Financing Activities	(4,369)	29
<b>(2,880)</b>	<b>Net (Increase) or decrease in cash and cash equivalents</b>	<b>(8,315)</b>	
1,089	Cash and cash equivalents at the beginning of the reporting period	3,969	
<b>3,969</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>12,284</b>	

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Account and Audit Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance.

The accounts are compiled primarily on an historical cost basis modified by the revaluation of certain category of non-current assets and financial instruments.

#### ACCOUNTING POLICIES

##### **ACCRUALS OF INCOME AND EXPENDITURE**

The revenue accounts of the Council are maintained on an accruals basis, that is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

##### **Customer and client receipts**

Customer and client receipts in the form of sales, fees, charges and rents are accrued for when it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.

##### **Supplies**

Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date received and consumption, they are carried forward as inventories on the Balance Sheet.

##### **Expenses in relation to services received (including services provided by employees)**

Expenses in relation to services received are recorded as expenditure when the services are received rather than the payments made.

##### **Interest**

Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

## NOTES TO THE FINANCIAL STATEMENTS

### **Creditors / Debtors**

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. 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.

### **CAPITAL RECEIPTS**

Capital receipts are sums received by the Authority from the sale of assets. Receipts arising from Housing Right to Buy sales may be retained providing the local authority has signed an agreement to re-invest the receipts in the provision of replacement homes within 3 years. Exeter City Council entered into such an agreement on 27 June 2012.

A de minimis level of £10,000 has been agreed in respect of all capital receipts and any receipts for the sale of an asset which total less are accounted for as income in the income & expenditure account.

### **CASH AND CASH EQUIVALENTS**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty or notice of not more than 24 hours. Cash equivalents are investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### **CONTINGENT ASSETS / LIABILITIES**

Contingent assets / liabilities arise where an event has taken place, but the potential asset / obligation will only be confirmed by future, uncertain events not wholly within the control of the authority.

They are not recognised in the accounting statements, and are disclosed by way of a note to the Balance Sheet.

### **EMPLOYEE BENEFITS**

#### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end, including wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. They are recognised as an expense in the year in which the employees render service. An accrual is made for the cost of holiday entitlements earned but not taken. The accrual is charged to the relevant service but reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the absence occurs.

#### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision to terminate an officer's employment or for the officer to take voluntary redundancy before the normal retirement date. They are charged to the Comprehensive Income and Expenditure Statement when the Authority is committed to the termination of employment.

## NOTES TO THE FINANCIAL STATEMENTS

Where the provisions involve enhancement of pensions, statutory provisions require the General Fund to be charged with the amount payable by the Authority in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, the notional debits and credits are replaced with the debits for the cash paid to the Pension Fund and pensioners.

### Post employment Benefits

Exeter City Council participates in the Local Government Pension Scheme, which is administered by Devon County Council. The Local Government Pension Scheme is a defined benefit scheme (retirement lump sums and pensions) earned as employees worked for the Authority.

The Pensions Fund's Actuary has provided updated figures for the year based on the last valuation in 2013.

The liabilities of the pension fund attributable to the Authority have been measured on an actuarial basis using the projected unit method – an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of future earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate based on the annualised yield at the 18 year point on the Merrill Lynch AA rated corporate bond.

The assets attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities - current bid price
- property – market value

The change in the net pensions liability is analysed into the following components:

### Service cost

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – charged to the Comprehensive Income and Expenditure Statement
- Net interest on the defined benefit liability (asset) – the change during the year in the net defined benefit liability (asset) that arises from the passage of time charged to the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset), both at the beginning of the year, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments

## NOTES TO THE FINANCIAL STATEMENTS

### Re-measurements

- The return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset)
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions

### Contributions paid to the pension fund

- Cash paid as employer's contributions in settlement of liabilities

The treatment of the above has been mirrored in the Housing Revenue Account where full disclosure has been included.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund (or directly to pensioners) in the year. In the Movement in Reserves Statement, the debits and credits for retirement benefits are removed and replaced with the debits for cash paid (or due to be paid at year end). These movements are appropriated to the Pension Reserve.

### Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities are accrued in the year of the decision and accounted for using the same policies applied to the Local Government Pension Scheme.

### EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but disclosure of the nature and an estimate of the financial impact is disclosed in the notes to the accounts, if material

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Account or in the notes to the accounts, depending on how significant the items are to the understanding of the Authority's financial performance.

## NOTES TO THE FINANCIAL STATEMENTS

### FINANCIAL LIABILITIES

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. For all the Council's borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable in the year.

### FINANCIAL ASSETS

Financial Assets are classified into two types:

#### Loans and Receivables

Assets that have fixed or determinable payments but are not quoted in an active market. They are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable in the year.

However, the council has made a number of loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a higher effective rate of interest than the rate receivable. Statutory provisions require that the impact on the General Fund Balance is the interest receivable and is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payment due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. In respect of sundry debtors, assets are considered to be impaired when they are six months old.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Comprehensive Income and Expenditure Statement.

#### Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

## NOTES TO THE FINANCIAL STATEMENTS

Assets are maintained in the Balance Sheet at fair value, which for the investments held is the quoted market price.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of likelihood arising from a past event that payment due under the contract will not be made or fair value falls below cost, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement along with any accumulated gains / losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be reliably measured, the instrument is carried at cost.

### FOREIGN CURRENCY TRANSACTION

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date of the transaction. Where amounts are outstanding at the year-end, they are converted at the spot exchange rate at 31 March.

Resulting gains and losses are recognised in the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

### GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments and the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential are required to be consumed by the Council as specified or they must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been met are held as creditors on the Balance Sheet. When the conditions have been met, the grant or contribution is either credited to the relevant service line or to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the movement in Reserves Statement. If the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve.



## NOTES TO THE FINANCIAL STATEMENTS

Where it has been used it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account when they have been applied to fund capital expenditure.

### **Local Services Support Grant (LSSG)**

LSSG is a general grant allocated by central government as additional revenue funding. It is non-ringfenced and is credited to taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

### **Council Tax Income**

The City Council is a Billing Authority. In this capacity, it acts as an agent for the major precepting authorities. The amount included in the Council's income & expenditure account for the year is the accrued income relating to the Council's share of the Council Tax income for the year. The difference between the income included within the Comprehensive Income and Expenditure Statement and the amount required by legislation to be credited to the General Fund is taken to the Council Tax Adjustment Account and included as a reconciling item in the Statement of Movement in General Fund Balance.

The Balance Sheet includes only those parts of the Council Tax debtor and creditor balances relating to the Council's share of the Council Tax income.

The Cashflow Statement includes on the Council's share of net cash received plus the net cash paid to major preceptors.

### **POOL OF AUTHORITIES FOR NATIONAL NON DOMESTIC RATES**

The Local Government Finance Act 2012 permits the Secretary of State to designate two or more relevant authorities as a pool of authorities. Exeter City Council are party to such a pool and need to recognise their share of the income and expenditure (and debtors and creditors) in accordance with the agreed arrangements for distribution of the pool together with accounting requirements.

### **HERITAGE ASSETS**

The Council has a number of Heritage Assets. Heritage Assets are recognised and measured at cost in line with the policies on property, plant and equipment. However, some of the measurement rules are relaxed.

The Council's Heritage Assets are accounted for as follows:  
Property / Infrastructure / Statues – the Council owns a range of assets around the City which are of historic value. The Council does not believe that reliable cost or valuation information can be obtained for these items because of the diverse nature of the assets and lack of comparable market values, therefore they have been entered at nil value into the accounts.

Museum exhibits / Art / Civic Regalia – A non-electronic register of the Assets is held by the Museum and Guildhall and from this an insurance valuation has been produced. The Council will use the insurance valuation as a measurement of the valuation of the assets. The assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. Impairments and disposals are treated as per the policy on Property, Plant and Equipment.

## NOTES TO THE FINANCIAL STATEMENTS

### INTANGIBLE ASSETS

#### Recognition

Purchased intangible assets (e.g. software licences) have been capitalised as intangible assets when it is expected that future economic benefits or service potential will flow to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and intended to be completed and it will generate future economic benefits or service potential by selling or using the asset.

#### Measurement

Purchased intangible assets have been capitalised at cost. Only those costs that are directly attributable to bringing the asset into working condition for its intended use are included in its measurement.

#### Valuations

Intangible assets are only revalued where the fair value of the assets can be determined by reference to an active market. Intangible assets have not been revalued and are carried at amortised cost.

#### Amortisation

Intangible assets are amortised over their useful economic lives and charged to the relevant service in the Comprehensive Income and Expenditure Statement. A straight-line method has been chosen over five years with a nil residual value.

#### Disposals

The gain or loss on disposal of an intangible asset is the amount by which the disposal proceeds are more (gain) or less (loss) than the carrying amount of the asset. The gain / loss is charged to the Comprehensive Income and Expenditure Statement.

#### Impairment

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses are charged to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where expenditure qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are reversed out in the Movement in Reserves Statement and posted to either the Capital Adjustment Account or Capital Receipts Reserve.

### INVENTORIES AND LONG TERM CONTRACTS

Inventories are valued at cost on a first in, first out (FIFO) basis. Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

## NOTES TO THE FINANCIAL STATEMENTS

### INVESTMENT PROPERTIES

#### Recognition

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way for the delivery of services, or is held for sale.

#### Measurement

Investment properties are initially measured at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length.

#### Valuations / Disposals

Investment properties are revalued annually with gains and losses on revaluation posted to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement. The gain or loss on disposal of an investment property is treated in the same way as revaluation gains and losses.

#### Depreciation

Investment properties are not depreciated.

#### Income

Rental income is credited to the Financing and Investment Income line and results in a gain to the General Fund balance. However, revaluation and disposal gains and losses are reversed out in the Movement in Reserves Statement and posted to either the Capital Adjustment Account or Capital Receipts Reserve.

### LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers land and buildings these are considered separately.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### The Council as Lessee

##### *Finance leases*

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value at inception (or the present value of minimum payments if lower). The asset is matched by a liability for the obligation to pay the lessor.

Initial direct costs are added to the carrying amount and any initial premium paid is applied to write down the lease liability. Contingent rents are charged as expenses in the period incurred.

## NOTES TO THE FINANCIAL STATEMENTS

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the asset – applied to write down the lease liability
- A finance charge debited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement

Property, plant and equipment recognised under finance leases are accounted for using the policies applied generally to such assets. However, depreciation is charged over the term of the lease where this is lower than the useful life.

The Council is not required to raise council tax to fund these charges; however it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, amortisation, revaluation and impairment losses are therefore replaced by this contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference.

### ***Operating Leases***

Rentals are charged to the relevant service in the Comprehensive Income and Expenditure Statement on a straight line basis regardless of the pattern of payments (e.g. a rent free period at the commencement of the lease).

### **The Council as Lessor**

#### ***Finance leases***

Where the Authority grants a finance lease over a property or an item of plant and equipment, the asset is written out of the Balance Sheet as a disposal. The carrying amount of the asset is written off to the Other Operating Expenditure in the Comprehensive Income and Expenditure Statement and offset against the Council's net investment in the lease, with a matching long-term debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the asset – applied to write down the lease debtor
- Finance income credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement

The Council is not allowed to increase the General Fund balance by this income and is required to treat the income as a capital receipt. Premiums are posted to the Capital Receipts Reserve via the Movement in Reserves Statement. Where the amount due is to be settled by rentals in future financial years, the amount is credited to the Deferred Capital Receipts Reserve and released to the Capital Receipts Reserve when the payments are made, with the actual payment used to write down the long-term debtor.

The written-off values of the assets do not form a charge against council tax and is appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## NOTES TO THE FINANCIAL STATEMENTS

### ***Operating Leases***

Where the Council grants an operating lease, the asset remains on the Council's Balance Sheet and rental income is credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement on a straight line basis regardless of the pattern of payments (e.g. a premium paid at the commencement of the lease). Initial costs are charged to the carrying amount of the asset and charged as an expense on the same basis as rental income.

### **OVERHEADS AND SUPPORT SERVICES**

The costs of overheads and support services are charged to clients on a fixed fee, time or unit rate basis, with their full costs shared between users in proportion to the benefits received.

The costs of Corporate and Democratic Core and Non Distributed costs are shown separately on the Comprehensive Income and Expenditure Statement and not recharged to Services.

### **PROVISIONS**

The Council sets aside provisions for future expenses. These are charged to the service in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation and held on the Balance Sheet.

Provisions are required to be recognised in the accounts when :

- the Council has a present obligation (legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation and
- a reliable estimate can be made of the amount of the obligation.

### **PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in estimates are accounted for in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information in respect of the Authority's financial position or performance. Where a change is made, it is applied retrospectively by adjusting the opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior periods are corrected retrospectively by amending the opening balances and comparative amounts for the prior period.

### **PROPERTY, PLANT AND EQUIPMENT**

#### **Recognition**

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts. Expenditure is capitalised, provided that the property, plant and equipment yields benefits to the authority and the services it provides, for a period of more than one year. Repairs and maintenance is charged as an expense when it is incurred.

## NOTES TO THE FINANCIAL STATEMENTS

### Measurement

Assets are initially measured at cost. Only those costs that are directly attributable to bringing the asset into working condition for its intended use are included in its measurement.

A de minimis level of £10,000 has been agreed for capital expenditure. Any costs below this are charged to revenue.

The costs of assets acquired other than by purchase is deemed to be its fair value or in the case of an exchange, the carrying amount of the asset given up by the authority.

Donated assets are measured initially at fair value and the difference to the consideration paid is credited to Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement, unless there are conditions. Until the conditions are satisfied, the gain is held in a Donated Assets Account. When credited to the Comprehensive Income and Expenditure Statement, they are reversed out in the Movement in Reserves Statement to the Capital Adjustment Account.

Assets are carried in the Balance Sheet using the following measurements:

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- All other assets – fair value of the asset in its existing use (EUV). Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used
- Where non-property assets with short useful lives / low values, depreciated historical cost is used as a proxy for fair value

### Valuations

When an asset is included in the balance sheet at fair value, it is formally revalued at intervals of not more than five years and the revised amount is included in the balance sheet. This full valuation is performed on a rolling basis to cover all relevant fair value assets over a five-year cycle. Interim valuations are undertaken in order to ensure that carrying amounts are not materially different to fair values at the year-end. Increases in valuations are matched by credits to the Revaluation Reserve to recognised unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to services.

A decrease in value is accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or there is insufficient balance, the carrying amount of the asset is written down against the relevant service in the Comprehensive Income and Expenditure Statement

## NOTES TO THE FINANCIAL STATEMENTS

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.

### Disposals

The gain or loss on disposal of a non-current asset is the amount by which the disposal proceeds are more (gain) or less (loss) than the carrying amount of the fixed asset. The gain / loss is charged to the Comprehensive Income and Expenditure Statement. Any revaluation gains in the Revaluation Reserve relating to the disposed assets are transferred to the Capital Adjustment Account.

Statutory regulations require that the gain or loss on the disposal of assets is reversed out in the Movement in Reserves Statement.

### Non-current Assets held for sale

When it becomes probable that the carrying value will be recovered principally through a sale transaction, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Losses in fair value are charged to the Comprehensive Income and Expenditure Statement. Gains are recognised only up to the amount of any previous losses. Depreciation is not charged.

If an asset no longer meets the criteria, they are re-classified as non-current assets and valued at the lower of the previous carrying amount adjusted for depreciation or revaluations that would have been recognised during that time and their recoverable amount of the date of the decision not to sell.

Assets to be abandoned or scrapped are not reclassified as Assets Held for Sale.

### Depreciation

The following policies are used for depreciation:

- Freehold land and Community Assets are not depreciated
- Newly acquired assets are depreciated from 1 April following their purchase.
- Full year depreciation is charged in the year an asset is disposed of.
- A reducing balance method of depreciation is used for vehicles and assumes the following life expectancies:

<u>Acquisition value</u>	
£10,000 - £14,999	6 years
£15,000 - £19,999	7 years
£20,000 - £49,999	6 years
Over £50,000	7 years

- A straight-line method of depreciation is used for the assets below and assumes the following life expectancies:

Plant and equipment	5 to 10 years
Infrastructure assets	20 years
Operational properties	up to 60 years (unless otherwise specified by the Head of Estates)



## NOTES TO THE FINANCIAL STATEMENTS

In calculating the depreciation of assets, the value depreciated is the difference between the value of the asset and its residual value. The residual value is calculated along the following lines:

Vehicles (cost £10,000 - £14,999)	12%
Vehicles (cost £15,000 - £19,999)	11%
Vehicles (cost £20,000 - £49,999)	12%
Vehicles (cost over £50,000)	4%
Plant and Equipment	Nil
Infrastructure assets	Nil
Operational properties	Specified by the Head of Estates

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. For example, key components of council dwellings are depreciated on a straight line basis and assume the following life expectancies:

Kitchens and Bathrooms	30 years
Windows	30 years
Roofs	60 years

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### Impairment

Impairment reviews are undertaken each year to assess whether there is evidence of a reduction in an asset's value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or there is insufficient balance, the carrying amount of the asset is written down against the relevant service in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, it is credited to the relevant service in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation.



## NOTES TO THE FINANCIAL STATEMENTS

### REVENUE CHARGES FOR NON-CURRENT ASSETS

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

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible assets attributable to the service

The Council is not required to raise council tax to fund these charges; however it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, amortisation, revaluation and impairment losses are therefore replaced by this contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference.

Since the introduction of self-financing for the Housing Revenue Account (HRA) a new statutory framework has been established to allow depreciation to be a real charge. The HRA is required to set aside an amount equal to depreciation into the Major Repairs Reserve.

### REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Revenue expenditure funded from capital under statute (REFCUS) represents payments that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset. REFCUS has been charged to the relevant service account in the Comprehensive Income and Expenditure Statement. Where it is funded by capital resources or borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account is made so that there is no impact on the level of Council Tax.

### RESERVES

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service and the reserve appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority.

The usable Capital Receipts Reserve can be used to meet expenditure designated as expenditure for capital purposes; the Revenue Reserves can be used to meet capital and revenue expenditure.

## NOTES TO THE FINANCIAL STATEMENTS

The Major Repairs Reserve for the Housing Revenue Account (HRA) can only be used for HRA capital expenditure, the repayment of HRA debt or meeting liabilities under credit arrangements.

### RELATED COMPANIES

The City Council's interest in and financial relationship with, related companies are explained in the Group Accounts. The Accounting Code of Practice requires local authorities with material interests in subsidiary and associated companies to prepare group accounts. A local authority group comprises the local authority and its interests in companies, which would be regarded as its subsidiaries or associates if the local authority were subject to The Companies Act. Further information on the accounting policies is contained in the Group Account Section of the Accounts.

### VAT

VAT payable is included as an expense only to the extent that it is irrecoverable. VAT receivable is excluded from income.

## 2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

Local authorities are required to report the impact of accounting changes that will be required by a new standard that has been issued but not yet adopted. For 2013/14, they comprise:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IAS 32 Financial Instruments
- Annual improvements to IFRSs 2009 – 2011 cycle

The 2014/15 Code of Practice on Local Authority Accounting has adopted these new or amended standards, any accounting changes will therefore be implemented from 1 April 2014.

IFRS10, IFRS 11, IFRS 12, IAS 27 and IAS 28 will apply to the Council's Group Accounts. IAS 32 relates to offsetting financial assets and liabilities, where applicable.

The annual improvements to IFRS 2009-2011 cycle resulted in an amendment to IAS 1, which relates to the presentation of financial statements.

The impact of the accounting changes is not yet known or reasonably estimable.

## NOTES TO THE FINANCIAL STATEMENTS

### 3. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made are:

- There is a high degree of uncertainty over the future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication of impairment as a result of the need to close facilities.
- The Council is the main trustee of the Exeter Canal and Quay Trust and the sole shareholder of Exeter Business Centre. It has been determined that the Council has control of both organisations and they are included in the Council's Group Accounts. Additionally, the Council holds a 21% stake in the Exeter Science Park Company, along with Devon County Council, Exeter University and East Devon District Council. The Science Park is included in the Group Accounts as well.

## NOTES TO THE FINANCIAL STATEMENTS

### 4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contain estimates based on assumptions made about the future or that are otherwise uncertain. Estimates take into account historical experience, current trends and other relevant factors. However as there is uncertainty, material results could emerge. The items in the Council's Balance Sheet, for which there is a significant risk of material adjustment are as follows:

Item	Uncertainties	Effect if actual result differs from Assumptions
<b>Pensions Liabilities</b>	Estimates 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 the Council with expert advice about the assumptions to be applied.	The effects of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate would result in a decrease of £3.021m in the pension liability and £0.082m in the Projected Service Cost. However the assumptions interact in a complex way. During the year the actuaries have amended the liability by £1.509m as a result of assumptions being corrected.
<b>Arrears</b>	At the Balance Sheet date, the Council had a balance of £8.382m for sundry debtors. Impairment of doubtful debts totalling £2.185m has been made, but in the current economic climate it is not certain that this will be sufficient.	If collection rates were to deteriorate a doubling of the amount of impairment would lead to an additional £2.185m being set aside.
<b>Valuation of Property, Plant and Equipment and Depreciation</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance (R&M) that will be incurred. The economic climate makes it uncertain that the Council can sustain its current spending on R&M bringing into doubt the useful lives assigned.	If the useful life is reduced depreciation will increase and the carrying value of asset will fall. It is estimated that the depreciation charge for other land and building will increase by £22,000 for every year that the useful life is reduced by.

## NOTES TO THE FINANCIAL STATEMENTS

### 5. EVENTS AFTER THE BALANCE SHEET DATE

The 2013/14 Statement of Accounts was authorised for issue by the Assistant Director Finance, D Hodgson CPFA, on 30 June 2014. Events after this date have not been recognised in the 2013/14 Statement of Accounts. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and/or notes have been adjusted in all material respects to reflect the impact of this information.

### 6. NON- ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

Changes to the LGPS came into effect from 1 April 2014 and any benefits accrued from this date will be based on career average re-valued salary, with various protections in place for those members in the scheme before the changes take effect.

Exeter City Council jointly with East Devon District Council and Teignbridge District Council is forming a new entity called STRATA. STRATA will provide IT services for the three councils and will be wholly owned by the three councils. As all IT staff will be transferred to the new entity along with existing terms and conditions, there will be no change to the pension liability for Exeter City Council, however the Council along with East Devon and Teignbridge will be required to give a guarantee to the Pension Fund that they will jointly fund any deficit on the Pension Fund should the Company cease trading. The guarantee is estimated to be a maximum of £705,000 over the next three years, of which Exeter's contribution would be approximately £244,000.

**NOTES TO THE FINANCIAL STATEMENTS****7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

This note details the adjustments made to the total comprehensive income and expenditure statement (CIES) recognised by the Council in accordance with proper accounting practice to the resources specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

	2012-2013						2013-2014					
	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)
<b>Adjustments involving the Capital Adjustment Account</b>												
<b>Reversal of items debited or credited to the CIES</b>												
Charges for depreciation and impairment of non-current assets	(6,605)	(5,021)	0	0	0	11,626	(3,548)	(1,992)	0	0	0	5,540
Revaluation losses on Property, Plant and Equipment	0	0	0	0	0	0	0	0	0	0	0	0
Movements in the market value of Investment Properties	(100)	0	0	0	0	100	1,039	0	0	0	0	(1,039)
Amortisation of intangible Assets	(413)	(1)	0	0	0	414	(284)	0	0	0	0	284
Capital Grants and contributions applied	175	84	0	0	0	(259)	214	122	0	0	0	(336)
Movement in the Donated Assets Account	659	0	0	0	0	(659)	131	0	0	0	0	(131)
Revenue expenditure funded from capital under statute	(723)	0	0	0	0	723	(568)	0	0	0	0	568
Amounts of non-current assets written-off on disposal or sale as part of the gain/loss on disposal	(25)	(936)	0	0	0	961	(696)	(1,344)	0	0	0	2,040
<b>Insertion of items not debited or credited to the CIES</b>												
Statutory provision for the financing of capital investment	1,107	0	0	0	0	(1,107)	1,327	0	0	0	0	(1,327)
Voluntary provision for the financing of capital investment	0	0	0	0	0	0	110	0	0	0	0	(110)
Capital expenditure charged against the General Fund and HRA balances	282	4,254	0	0	0	(4,536)	366	5,608	0	0	0	(5,974)

**NOTES TO THE FINANCIAL STATEMENTS**

	2012-2013						2013-2014					
	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)
<b>Adjustments involving the Capital Grants Unapplied</b>												
Capital grants and contributions unapplied credited to the CIES	17	0	0	0	(17)	0	(41)	0	0	0	41	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	318	(318)	0	0	0	0	226	(226)
<b>Adjustments involving the Capital Receipts Reserve</b>												
Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the CIES	234	1,637	(1,871)	0	0	0	1,060	1,992	(3,052)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	997	0	0	(997)	0	0	2,126	0	0	(2,126)
Contribution from the Capital Receipts Reserve towards admin costs of disposals	0	(30)	30	0	0	0	0	(40)	40	0	0	0
Contribution from the Capital Receipts Reserve towards the payment to the Government capital receipts pool	(317)	0	317	0	0	0	(364)	0	364	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	(200)	0	0	200	0	0	(161)	0	11	150
<b>Adjustments involving the Deferred Capital Receipts Reserve</b>												
Transfer of Finance Lease Premium to I&E account	5,839	0	0	0	0	(5,839)	(4)	0	0	0	0	4



## NOTES TO THE FINANCIAL STATEMENTS

	2012-2013						2013-2014					
	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)
<b>Adjustments involving the Financial Instruments Adjustment Account</b>												
Amount by which finance costs charged to the CIES are different from the finance costs chargeable in year in accordance with statutory requirements	(10)	0	0	0	0	10	(7)	0	0	0	0	7
<b>Adjustments involving the Pension Reserve</b>												
Reversal of retirement benefits debited or credited to CIES	(6,591)	(424)	0	0	0	7,015	(6,962)	(461)	0	0	0	7,423
Employers pension contributions and direct payments to pensioners in the year	3,308	183	0	0	0	(3,491)	3,509	191	0	0	0	(3,700)
<b>Adjustments involving the Collection Fund Adjustment Account</b>												
Amount by which council tax and NNDR income credited to the CIES is different from that calculated for the year in accordance with statutory requirements	31	0	0	0	0	(31)	(1,265)	0	0	0	0	1,265
<b>Adjustments involving the Accumulated Absences Account</b>												
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in accordance with statutory requirements	62	(18)	0	0	0	(44)	(59)	25	0	0	0	34
<b>Adjustments involving the Major Repairs Reserve</b>												
Reversal of Major Repairs Allowance credited to the HRA	0	1,510	0	(3,674)	0	2,164	0	0	0	0	0	0
Amount equal to full depreciation charges set aside in the Major Repairs Reserve	0	0	0	0	0	0	0	0	(2,333)	0	0	2,333
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	4,553	0	(4,553)	0	0	0	809	0	(809)
<b>Total Adjustments</b>	<b>(3,070)</b>	<b>1,238</b>	<b>(727)</b>	<b>879</b>	<b>301</b>	<b>1,379</b>	<b>(6,042)</b>	<b>4,101</b>	<b>(683)</b>	<b>(1,524)</b>	<b>278</b>	<b>3,870</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 8. TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balances to provide funding for future expenditure plans and the amounts posted back from earmarked reserves to meet expenditure in the year. There are no HRA earmarked reserves.

	Balance 31 March 2012 £'000s	Transfers in £'000s	Transfers out £'000s	Balance 31 March 2013 £'000s	Transfers in £'000s	Transfers out £'000s	Balance 31 March 2014 £'000s
<b>General Fund</b>							
New Homes Bonus	389	1,323	(335)	1,377	2,205	(635)	2,947
Strategic Review	42	0	(42)	0	140	(15)	125
Planning Delivery	16	0	(16)	0	0	0	0
Other Planning Reserves	292	0	(12)	280	94	(156)	218
Leisure Reserves	245	0	(30)	215	0	0	215
Economic Development	56	10	(22)	44	9	0	53
Housing GF Reserves	146	0	0	146	33	(67)	112
Redundancy Reserve	400	0	(400)	0	250	0	250
Museum Reserves	0	600	0	600	0	(52)	548
NNDR Deficit	0	0	0	0	1,331	0	1,331
Other Earmarked Reserves	306	104	(52)	358	311	(28)	641
<b>Total</b>	<b>1,892</b>	<b>2,037</b>	<b>(909)</b>	<b>3,020</b>	<b>4,373</b>	<b>(953)</b>	<b>6,440</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 9. OTHER OPERATING EXPENDITURE

	2012-13	2013-14
	£'000	£'000
Trading Account (surplus) / deficit	424	14
Pension Fund Administration Expenses	43	53
Payment to the Government's Housing Capital Receipt Pool	317	363
Gain / (losses) on the disposal of non-current assets	(880)	(972)
	<b>(96)</b>	<b>(542)</b>

### 11. TAXATION AND NON-SPECIFIC GRANT INCOME

	2012-13	2013-14
	£'000	£'000
Council tax income	(4,788)	(4,457)
Non-domestic rates	(8,217)	(4,039)
Non-ringfenced government grants	(2,106)	(7,687)
Capital grants and contributions	(276)	(295)
	<b>(15,387)</b>	<b>(16,478)</b>

### 10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2012-13	2013-14
	£'000	£'000
Interest payable and similar charges	2,041	2,125
Net interest on the net defined benefit liability (asset) *	3,130	3,251
Interest receivable	(62)	(109)
Income and expenditure in relation to investment properties and changes in their fair value	(2,802)	(3,824)
Other investment income	(6,588)	164
	<b>(4,281)</b>	<b>1,607</b>

\* Restated had the revised IAS 19 standard applied. Interest on obligation and expected return on fund assets has been replaced with a single net interest cost

## NOTES TO THE FINANCIAL STATEMENTS

### 12. PROPERTY, PLANT AND EQUIPMENT

#### Movement on balances

	Council Dwellings £'000s	Other Land and Buildings £'000s	Vehicles, Plant & Equipment £'000s	Infrastructure Assets £'000s	Community Assets £'000s	Surplus Assets £'000s	Assets under Construction £'000s	Total Property, Plant and Equipment £'000s
<b>Cost or valuation</b>								
As at 1 April 2013	191,049	96,192	14,241	6,491	4,260	0	862	<b>313,095</b>
Additions	6,893	421	1,218	508	281		628	<b>9,949</b>
Donations	81	50						<b>131</b>
Revaluations - Revaluation Reserve	6,735							<b>6,735</b>
Revaluations - CIES								<b>0</b>
Derecognition - disposals	(820)		(474)					<b>(1,294)</b>
Derecognition - other								<b>0</b>
Reclassifications - held for sale	(609)							<b>(609)</b>
Other movements	51	10,336	(16)		19			<b>10,390</b>
At 31 March 2014	<b>203,380</b>	<b>106,999</b>	<b>14,969</b>	<b>6,999</b>	<b>4,560</b>	<b>0</b>	<b>1,490</b>	<b>338,397</b>
<b>Depreciation and impairments</b>								
At 1 April 2013	0	0	(9,817)	(2,348)	0	0	0	<b>(12,165)</b>
Depreciation Charge	(2,301)	(1,320)	(1,030)	(330)				<b>(4,981)</b>
Depreciation written out to Revaluation Reserve	2,004	0						<b>2,004</b>
Depreciation written out to CIES	287	0						<b>287</b>
Impairment - Revaluation Reserve	(2,188)	0						<b>(2,188)</b>
Impairment - CIES	(2,278)	(516)						<b>(2,794)</b>
Derecognition - disposals	10		450					<b>460</b>
Derecognition - other							(8)	<b>(8)</b>
Other movements								
At 31 March 2014	<b>(4,466)</b>	<b>(1,836)</b>	<b>(10,397)</b>	<b>(2,678)</b>	<b>0</b>	<b>0</b>	<b>(8)</b>	<b>(19,385)</b>
Balance Sheet amount at 31 March 2014	<b>198,914</b>	<b>105,163</b>	<b>4,572</b>	<b>4,321</b>	<b>4,560</b>	<b>0</b>	<b>1,482</b>	<b>319,012</b>
Balance Sheet amount at 1 April 2013	<b>191,049</b>	<b>96,192</b>	<b>4,424</b>	<b>4,143</b>	<b>4,260</b>	<b>0</b>	<b>862</b>	<b>300,930</b>

**NOTES TO THE FINANCIAL STATEMENTS**

	Council Dwellings £'000s	Other Land and Buildings £'000s	Vehicles, Plant & Equipment £'000s	Infrastructure Assets £'000s	Community Assets £'000s	Surplus Assets £'000s	Assets under Construction £'000s	Total Property, Plant and Equipment £'000s
<b>Cost or valuation</b>								
As at 1 April 2012	191,167	90,816	13,679	5,653	4,107	0	716	<b>306,138</b>
Additions	8,781	3,203	857	838	153		146	<b>13,978</b>
Donations	659							<b>659</b>
Revaluations - Revaluation Reserve	1,444	9,738						<b>11,182</b>
Revaluations - CIES								<b>0</b>
Derecognition - disposals	(946)		(295)					<b>(1,241)</b>
Derecognition - other								<b>0</b>
Reclassifications - held for sale	(543)	(688)						<b>(1,231)</b>
Other movements		751						<b>751</b>
At 31 March 2013	<b>200,562</b>	<b>103,820</b>	<b>14,241</b>	<b>6,491</b>	<b>4,260</b>	<b>0</b>	<b>862</b>	<b>330,236</b>
<b>Depreciation and impairments</b>								
At 1 April 2012		(2,477)	(8,972)	(2,060)	0	0	0	<b>(13,509)</b>
Depreciation Charge	(2,192)	(1,295)	(1,114)	(288)				<b>(4,889)</b>
Depreciation written out to Revaluation Reserve	1,149	3,404						<b>4,553</b>
Depreciation written out to CIES	1,032	368						<b>1,400</b>
Impairment - Revaluation Reserve	(3,806)	(2,973)						<b>(6,779)</b>
Impairment - CIES	(5,706)	(4,655)						<b>(10,361)</b>
Derecognition - disposals	10		269					<b>279</b>
Derecognition - other								<b>0</b>
Other movements								
At 31 March 2013	<b>(9,513)</b>	<b>(7,628)</b>	<b>(9,817)</b>	<b>(2,348)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(29,306)</b>
Balance Sheet amount at 31 March 2013	<b>191,049</b>	<b>96,192</b>	<b>4,424</b>	<b>4,143</b>	<b>4,260</b>	<b>0</b>	<b>862</b>	<b>300,930</b>
Balance Sheet amount at 1 April 2012	<b>191,167</b>	<b>88,339</b>	<b>4,707</b>	<b>3,593</b>	<b>4,107</b>	<b>0</b>	<b>716</b>	<b>292,629</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Depreciation

The following useful lives have been used in the calculation of depreciation:

- A reducing balance method of depreciation is used for vehicles and assumes the following life expectancies:

Acquisition value

£10,000 - £14,999	6 years
£15,000 - £19,999	7 years
£20,000 - £49,999	6 years
Over £50,000	7 years

- A straight-line method of depreciation is used for the assets below and assumes the following life expectancies:

Plant and equipment	5 to 10 years
Infrastructure assets	20 years
Operational properties	up to 60 years (unless otherwise specified by the Property Manager)

- Key components of council dwellings are depreciated on a straight line basis and assume the following life expectancies:

Kitchens and Bathrooms	30 years
Windows	30 years
Roofs	60 years

### Capital Commitments

At 31 March 2014, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2014/15 at a cost of £7.103m. Similar commitments at 31 March 2013 were £5.624m. The major commitments are:

	£'000
Property refurbishment and improvement	2,036
New Construction	4,020
Infrastructure	31
Information Technology	10
Vehicles and equipment	<u>1,006</u>
	<u>7,103</u>

### Revaluations

The Council carries out a rolling programme for the revaluation of Property, Plant and Equipment's fair value at least every five years. The valuations have been carried out by the City Council's Property Manager, M Carson MRICS in accordance with the professional standards of RICS. Vehicles, plant and equipment valuations are based on current prices adjusted for the condition of the asset. The effective date of the valuation is 1 April 2013.

## NOTES TO THE FINANCIAL STATEMENTS

The significant assumptions applied in estimating fair value are set out in the statement of accounting policies

	Council Dwellings £'000s	Other Land and Buildings £'000s	Vehicles, Plant & Equipment £'000s	Surplus Assets £'000s	Total £'000s
<b>Carried at historical cost</b>	-	-	-	-	-
<b>Valued at fair value in:</b>					
2013-14	198,914	-	-	-	198,914
2012-13	-	91,542	-	-	91,542
2011-12	191,167	-	-	-	191,167
2010-11	-	-	-	-	-
2009-10	-	-	-	-	-
2008-09	-	71,743	-	-	71,743
2007-08	292,846	-	-	-	292,846

## NOTES TO THE FINANCIAL STATEMENTS

### 13. INVESTMENT PROPERTIES

The following items of income and expenditure have been accounted for in the Financing and Investment income and expenditure line in the CIES.

	2012-13	2013-14
	£'000	£'000
Rental income from investment property	3,713	3,443
Direct operating expenditure arising from investment property	(811)	(657)
<b>Net gain / (loss)</b>	<b>2,902</b>	<b>2,786</b>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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

	2012-13	2013-14
	£000s	£000s
Balance at 1 April	42,093	41,265
Additions :		
Purchases		
Construction		
Subsequent expenditure	23	0
Disposals		
Net gains / losses from fair value adjustments	(100)	1,039
Transfers:		
to/from Inventories		
to/from Property, Plant & Equipment	(751)	(10,339)
Other changes		
<b>Balance at 31 March</b>	<b>41,265</b>	<b>31,965</b>



**NOTES TO THE FINANCIAL STATEMENTS**

**14. HERITAGE ASSETS – Reconciliation of the Carrying Value of Heritage Assets**

	2012-13	2013-14
	£'000	£'000
<b>Opening Balance</b>	22,436	22,436
<b>Cost of Acquisitions</b>		
Museum Exhibits	0	0
Guildhall	0	0
St Nicholas Priory	0	0
<b>Total</b>	0	0
<b>Donated Assets</b>		
Museum Exhibits	0	0
Guildhall	0	0
St Nicholas Priory	0	0
<b>Total</b>	0	0
<b>Disposals</b>		
Museum Exhibits	0	0
Guildhall	0	0
St Nicholas Priory	0	0
<b>Total</b>	0	0
<b>Revaluation</b>		
Museum Exhibits	0	196
Guildhall	0	26
St Nicholas Priory	0	0
<b>Total</b>	0	222
<b>Impairment Recognised in the Revaluation Reserve</b>		
Museum Exhibits	0	0
Guildhall	0	0
St Nicholas Priory	0	(43)
<b>Total</b>	0	(43)
<b>Closing Balance</b>	22,436	22,615

## NOTES TO THE FINANCIAL STATEMENTS

### 15. FURTHER INFORMATION ON THE COLLECTIONS

#### **St Nicholas Priory**

St Nicholas Priory is the 900 year old guest wing of a former Benedictine Priory in Exeter City Centre. Adorned with quality replica furniture and painted in the bright colours of the period, the Priory is presented as the 1602 home of the wealthy Hurst family. The display of Elizabethan items is from the city's collection.

#### **Guildhall**

The Guildhall is home to a number of fine art portraits painted between the 17<sup>th</sup> and 19<sup>th</sup> Century. They include a portrait of Princess Henrietta Anne, daughter of King Charles I, who was born in Exeter and a number of other prominent local people. There are a number of portraits by Thomas Hudson including one of George II as Prince of Wales.

#### **Royal Albert Memorial Museum**

RAMM cares for a wonderful and diverse collection consisting of approximately one and a half million individual objects and specimens from all over the globe. They are divided into the following curatorial departments: antiquities; ethnography; natural history, decorative and fine arts. The collections contain items of local, national and international importance, and many are of outstanding historical or cultural significance.

#### **Other Heritage Assets**

The Council owns a range of assets around the City which are of historic value. These include the Roman Wall, the Underground Passages, Catacombs and a number of statues. These have not been valued and do not form part of the figure held in the Balance Sheet.

## NOTES TO THE FINANCIAL STATEMENTS

### 16. INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that it is not an integral part of a particular IT system and accounted for as part of Property, Plant and Equipment. The intangible assets include both purchased licences and internally developed software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. All intangible assets have been given a five year useful life, with a nil residual value.

The carrying amount of intangible assets is amortised on a straight line basis and charged to either the relevant service or to IT Services and absorbed as an overhead across all service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service.

The movement on Intangible Asset balances during the year is as follows:

	2012-13 £000s	2013-14 £000s
Balance at 1 April		
Gross carrying amounts	7,213	7,338
Accumulated amortisation	(6,298)	(6,711)
Net carrying amount at 1 April	915	627
Additions :		
Internal development	40	63
Purchases	85	70
Assets reclassified as held for sale		
Other disposals		
Revaluations - increases / decreases		
Impairment - Revaluation Reserve		
Impairment - CIES		
Impairment reversals - CIES		
Amortisation charge	(413)	(283)
Other changes		
<b>Balance at 31 March</b>	<b>627</b>	<b>477</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 17. FINANCIAL INSTRUMENTS

#### Categories of financial instruments

The borrowing and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-term		Current	
	31 March 2013 £'000s	31 March 2014 £'000s	31 March 2013 £'000s	31 March 2014 £'000s
Financial liabilities at amortised cost	58,108	59,572	27,335	30,471
Financial liabilities at fair value through profit and loss	-	-	-	-
<b>Total borrowings</b>	<b><u>58,108</u></b>	<b><u>59,572</u></b>	<b><u>27,335</u></b>	<b><u>30,471</u></b>
Loans and Receivables	13,730	12,456	11,180	20,896
Available-for-sale financial assets	-	-	-	-
<b>Total investments</b>	<b><u>13,730</u></b>	<b><u>12,456</u></b>	<b><u>11,180</u></b>	<b><u>20,896</u></b>

#### Reclassification of Financial Instruments

During the year the Council has not reclassified any financial instruments, or transferred any financial instruments that would require a change in the recognition of that instrument. The Council has not pledged any financial assets as collateral for liabilities or contingent liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

### Financial Instruments gains / losses

The gains and losses in the Comprehensive Income and Expenditure Account in relation to Financial Instruments for Investments and Borrowing are made up as follows.

	2012-2013			2013-2014		
	Financial Liabilities	Financial Assets		Financial Liabilities	Financial Assets	
	Measured at Amortised Cost	Loans and Receivables	Total	Measured at Amortised Cost	Loans and Receivables	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Interest Expenses	2,041	0	2,041	2,125	0	2,125
Loss on Derecognition	0	0	0	0	0	0
Reduction in fair value	0	0	0	0	0	0
Impairment Losses	0	0	0	0	0	0
<b>Total Expense</b>	<b>2,041</b>	<b>0</b>	<b>2,041</b>	<b>2,125</b>	<b>0</b>	<b>2,125</b>
Interest Income	0	(62)	(62)	0	(109)	(109)
Interest income on impaired assets	0	0	0	0	0	0
Increase in fair value	0	(30)	(30)	0	(2)	(2)
Gains on Derecognition	0	0	0	0	(91)	(91)
<b>Total income</b>	<b>0</b>	<b>(92)</b>	<b>(92)</b>	<b>0</b>	<b>(202)</b>	<b>(202)</b>
Gains on Revaluation	0	0	0	0	0	0
Losses on Revaluation	0	0	0	0	0	0
Amounts recycled after impairment	0	(62)	(62)	0	0	0
<b>Surplus/Deficit on Revaluation</b>	<b>0</b>	<b>(62)</b>	<b>(62)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net (Gain)/Loss for the year</b>	<b>2,041</b>	<b>(154)</b>	<b>1,887</b>	<b>2,125</b>	<b>(202)</b>	<b>1,923</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Fair value of assets and liabilities carried at amortised cost

The main measurement bases used by the Council in preparing the treatment of Financial Instruments within its financial statement are as follows:

Financial Instrument	Basis of measurement	Note
Investments – fixed rate	Carrying value adjusted for interest owed at year end	Investments have both fixed term and fixed interest rates
Soft Loans	Where material soft loans have been measured using an assumed effective interest rate of 8% for company loans and 6% for homeowner loans.	The only loans deemed material are the loans for private sector renewal.
Contractual Debt/payables	Held at invoiced or billed amount less an estimate of Impairment for the uncollectability of that debt.	
Long-term creditors / Capital Grants in Advance	Held at carrying value as it is considered highly unlikely, owing to historical experience, that they will require repayment.	

The Council in compiling its accounts assessed all its financial instruments and there were a number that were not considered material to make adjustment to the carrying value of the asset or liability. These include car loans to staff, and some other small soft loans.

## NOTES TO THE FINANCIAL STATEMENTS

Financial Liabilities and assets represented by loans and receivables are carried in the Balance Sheet at amortised cost.

Comparison of the fair value of these instruments compared to the carrying value (amortised cost) can be assessed by calculating the present value of the cash flows that will take place over remaining term of the instruments, using the following assumptions:

- For Investments, such as fixed term deposits where the rate is fixed, the fair value has been assessed by using a discount rate for deposits of similar length with a comparable lender as at 31<sup>st</sup> March 2014;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The carrying amount and fair values for the Financial Instruments carried at amortised cost are shown in the table below.

	31 <sup>st</sup> March 2013		31 <sup>st</sup> March 2014	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial Assets				
- Investments	0	0	0	0
- Fixed Term Investments	1,738	1,738	448	448
<b>Sub Total - Note 1</b>	<b>1,738</b>	<b>1,738</b>	<b>448</b>	<b>448</b>
- Trade and other receivables	6,972	6,972	8,382	8,382
Financial Liabilities				
- Long term Creditors	(51)	(51)	(52)	(52)
- Capital Grants Received in Advance	(1,151)	(1,151)	(2,614)	(2,614)
- Trade and other payables	(12,320)	(12,320)	(12,438)	(12,438)
- Short-term Borrowing	(15,015)	(15,015)	(18,033)	(18,033)
- Long-term Borrowing	(56,906)	(62,176)	(56,906)	(58,384)

Note 1: The fair value of the investments is the same as the carrying amount.

## NOTES TO THE FINANCIAL STATEMENTS

### 18. INVENTORIES

	Tourism		Corn Exchange		Exton Road		Other Stock		Total	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Balance at 1 April	23	15	5	7	115	163	13	7	156	192
Purchases	17	17	64	65	167	172	8	46	256	300
Expense in year	(25)	(10)	(62)	(65)	(119)	(161)	(14)	(47)	(220)	(283)
Written off balances	0	0	0	0	0	0	0	0	0	0
Reversals of write-offs in previous years	0	0	0	0	0	0	0	0	0	0
<b>Balance at 31 March</b>	<b>15</b>	<b>22</b>	<b>7</b>	<b>7</b>	<b>163</b>	<b>174</b>	<b>7</b>	<b>6</b>	<b>192</b>	<b>209</b>

### 19. CONSTRUCTION CONTRACTS

The Council has no construction contracts in respect of building assets for a third party in place at 31 March 2014.



## NOTES TO THE FINANCIAL STATEMENTS

### 20. SHORT TERM DEBTORS

	2012-13	2013-14
	£'000	£'000
Government Departments	2,737	2,978
Other Local Authorities	330	1,272
NHS Bodies	5	0
Public Bodies	0	0
Sundry Debtors	5,672	6,099
	<u>8,744</u>	<u>10,349</u>
Provision for bad debts	(1,772)	(2,185)
<b>Total Debtors</b>	<b>6,972</b>	<b>8,164</b>

### 21. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	2012-13	2013-14
	£'000	£'000
Cash held by the Council	11	9
Bank current accounts	(986)	230
Short-term investments	0	3,001
Short-term call accounts	4,944	9,044
<b>Total cash and cash equivalents</b>	<b>3,969</b>	<b>12,284</b>

### 22. ASSETS HELD FOR SALE

	Current		Non-Current	
	2012-13	2013-14	2012-13	2013-14
	£'000s	£'000s	£'000s	£'000s
Balance at 1 April	45	1,635	0	0
Assets newly classified:				
Property, plant and equipment	1,230	609	0	0
Intangible assets	0	0	0	0
Other assets / liabilities	0	0	0	0
Revaluation losses	(7)	0	0	0
Revaluation gains	367	0	0	0
Impairment losses	0	(384)	0	0
Assets declassified:				
Property, plant and equipment	0	(52)	0	0
Intangible assets	0	0	0	0
Other assets / liabilities	0	0	0	0
Assets sold	0	(1,199)	0	0
Transfers between current and non-current	0	0	0	0
Other movements	0	0	0	0
<b>Balance at 31 March</b>	<b>1,635</b>	<b>609</b>	<b>0</b>	<b>0</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 23. SHORT TERM CREDITORS

	2012-13	2013-14
	£'000	£'000
Government Departments	3,481	2,350
Other Local Authorities	980	2,290
NHS Bodies	0	0
Public bodies	5	302
Sundry Creditors	7,854	7,496
	<b>12,320</b>	<b>12,438</b>

### 24. PROVISIONS

The Council has an excess of £2,500 for public liability claims.

	Injury and Damage Compensation claims 2012-13 £'000	Injury and Damage Compensation claims 2013-14 £'000
Balance at 1 April	50	83
Additional provisions made	83	87
Amounts used	(50)	(83)
Unused amounts reversed	0	0
<b>Balance at 31 March</b>	<b>83</b>	<b>87</b>

### 25. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and note 7.

	2012-13	2013-14
	£'000	£'000
General Fund Balance	3,358	3,365
Housing Revenue Account	6,364	6,067
Capital Receipts Reserve	1,623	2,306
Major Repairs Reserve	2,270	3,794
Earmarked Reserves	3,020	6,440
Capital Grants Unapplied	961	683
<b>Balance at 31 March</b>	<b>17,596</b>	<b>22,655</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 26. UNUSABLE RESERVES

	2012-13	2013-14
	£'000	£'000
Revaluation Reserve	61,929	67,552
Capital Adjustment Account	215,888	218,181
Financial Instrument Adjustment Account	(51)	(58)
Deferred Capital Receipts Reserve	11,602	11,574
Pensions Reserve	(73,738)	(75,530)
Collection Fund Adjustment Account	24	(1,240)
Accumulated Absences Account	(434)	(468)
<b>Total Unusable Reserves</b>	<b>215,220</b>	<b>220,011</b>

#### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). 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		2013-14
£'000		£'000    £'000
53,154	Balance at 1 April	61,929
14,212	Upward revaluation of assets	8,346
	Downward revaluation of assets and impairment losses not charged	
(4,925)	to CIES	(1,615)
9,287	Surplus / deficit on revaluation	6,731
	Difference between fair value depreciation and historical cost	
(512)	depreciation	(629)
0	Prior year adjustment	(454)
0	Accumulated gains on assets sold	(25)
(512)	Amount written off to CAA	(1,108)
<b>61,929</b>	<b>Balance at 31 March</b>	<b>67,552</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 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 Comprehensive Income and Expenditure Statement (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 Authority 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 Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2012-13 £'000	2013-14	
	£'000	£'000
219,061	Balance at 1 April	215,888
(13,789)	Charges for depreciation and impairment of non-current assets	(7,874)
(413)	Amortisation of intangible Assets	(284)
(723)	Revenue expenditure funded from capital under statute	(568)
(930)	Amounts of non-current assets written-off on disposal or sale as part of the gain/loss on disposal	(2,040)
(15,855)		(10,766)
513	Adjusting amounts to Revaluation reserve	1,108
203,719	Net amount written out of the cost of non-current assets in year	206,230

**NOTES TO THE FINANCIAL STATEMENTS**

2012-13 £'000	2013-14 £'000    £'000	
Capital finance applied in year:		
998 Use of Capital receipts reserve	2,126	
4,553 Use of the Major Repairs Reserve	809	
Capital Grants and contributions		
258 applied - CIES	336	
Capital Grants and contributions		
317 applied - CGU Account	226	
Statutory provision for financing		
1,107 capital	1,437	
Capital Expenditure charged		
directly to the General Fund and		
4,536 HRA	<u>5,974</u>	
<u>11,769</u>		10,908
Movements in the market value of		
(100) Investment Properties		1,039
Movement in the Donated Assets		
658 Account		130
(158) Repayment of Long Term Debtors		(126)
<b><u>215,888</u></b> Balance at 31 March		<b><u>218,181</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenditure relating to certain financial instruments and for bearing losses or benefiting from gains per statute.

	2012-13	2013-14	
	£'000	£'000	£'000
(41) Balance at 1 April			(51)
Premiums incurred in year and 0 charged to CIES		0	
Proportion of premiums incurred in previous years to be charged to 0 General Fund		0	
	0		0
Amount by which finance costs charged to CIES differ from finance (10) costs charged in year under statute		(7)	
	(10)		(7)
<b>(51) Balance at 31 March</b>			<b>(58)</b>

### 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. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Account 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 the Authority makes employer's contributions 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 Authority has 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	2013-14	
	£'000	£'000	£'000
(69,606) Balance at 1 April			(73,738)
Remeasurements of the net (609) defined benefit liability/(asset)			1,931
Reversal of items relating to (7,015) retirement benefits in the CIES			(7,423)
Employers pension contributions 3,492 and direct payments to pensioners			3,700
<b>(73,738) Balance at 31 March</b>			<b>(75,530)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 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 Authority 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 £'000	2013-14	
	£'000	£'000
5,806 Balance at 1 April		11,602
Transfer of Finance Lease		
5,839 Premium to CIES	(4)	
Transfer to Capital Receipts		
(43) Reserve upon receipt of cash	(24)	(28)
<b>11,602 Balance at 31 March</b>		<b>11,574</b>

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2012-13 £'000	2013-14	
	£'000	£'000
(7) Balance at 1 April		24
Amount by which council tax and NNDR income credited to CIES differs from that calculated for the 31 year under statute	(1,264)	(1,264)
<b>24 Balance at 31 March</b>		<b>(1,240)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 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 require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2012-13	2013-14	
	£'000	£'000	£'000
(478) Balance at 1 April			(434)
Settlement / cancellation of 478 previous year's accrual		434	
(434) Amounts accrued at the end of Amount by which remuneration charged to CIES differs from remuneration charged for the year		<u>(468)</u>	
44 under statute			(34)
<b>(434) Balance at 31 March</b>			<b>(468)</b>

### 27. CASHFLOW STATEMENT – OPERATING ACTIVITIES

	2012-13	2013-14
	£'000	£'000
Net (surplus) / deficit on provision of Services	1,060	(1,189)
Depreciation	(6,349)	(4,982)
Impairment	(8,901)	(2,892)
Amortisation	(414)	(284)
Investment (losses) / gains	90	93
Donated assets	659	131
Pension liability	(3,523)	(3,723)
Carrying amount of non-current assets sold	(961)	(2,040)
Movement in investment properties	(100)	1,039
Capital grants applied	259	0
Finance lease income	5,839	4
Other	1,172	(1,306)
Movement in inventories	38	15
Movement in debtors	(610)	1,557
Movement in creditors	(358)	705
less		
Items classified elsewhere	<u>1,841</u>	<u>3,052</u>
	<b>(10,258)</b>	<b>(9,820)</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 28. CASHFLOW STATEMENT – INVESTING ACTIVITIES

	2012-13	2013-14
	£'000	£'000
Purchase of non-current assets	17,503	12,301
Purchase of short and long-term investments	33,100	135,000
Other payments for investing activities	0	0
Proceeds from the sale of non-current assets	(1,841)	(3,052)
Proceeds of short and long-term investments	(33,676)	(136,421)
Other receipts for investing activities	(978)	(1,954)
<b>Net cash flows from investing activities</b>	<b>14,108</b>	<b>5,874</b>

### 29. CASHFLOW STATEMENT – FINANCING ACTIVITIES

	2012-13	2013-14
	£'000	£'000
Cash receipts of short and long-term borrowing	(15,000)	(18,000)
Other receipts for financing activities	270	(1,369)
Cash payments for the reduction of liabilities relating to finance leases	0	0
Repayments of short and long-term borrowing	8,000	15,000
Other payments for financing activities	0	0
<b>Net cash flows from financing activities</b>	<b>(6,730)</b>	<b>(4,369)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 30. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Council's Executive on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- not all charges are made in relation to capital expenditure (revaluation and impairment losses in excess of the balance on the Revaluation Reserve are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year

The income and expenditure of the Council's Directorates recorded in the budget reports for the year are as follows:

	2012-13	2013-14
Directorate Net Expenditure	£'000	£'000
Community & Environment	13,842	10,168
Economy & Development	(3,240)	(690)
Corporate Services	5,883	5,679
HRA	0	0
less		
Notional Capital Charges	(3,081)	(2,931)
IAS Pension Adjustment	0	0
<b>Net Expenditure</b>	<b>13,404</b>	<b>12,226</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2012-13 £'000	2013-14 £'000
Net expenditure in the Directorate analysis	13,404	12,226
Net expenditure of services not included in the analysis	3,431	3,891
Amounts in the CIES not reported to management in the analysis	9,570	1,134
Amounts included in the analysis not included in the CIES cost of services	(5,581)	(3,027)
<b>Cost of Services in CIES</b>	<b>20,824</b>	<b>14,224</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

	Directorate Analysis	Services & Support Services not in analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of recharges	Cost of services	Corporate Amounts	Total
2013-14	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees & charges	(19,780)			2,808		(16,972)		(16,972)
Interest & Investment income						0	(4,157)	(4,157)
Income from Council Tax						0	(4,457)	(4,457)
Government grants & contributions	(46,860)					(46,860)	(12,021)	(58,881)
<b>Total Income</b>	<b>(66,640)</b>	<b>0</b>	<b>0</b>	<b>2,808</b>	<b>0</b>	<b>(63,832)</b>	<b>(20,635)</b>	<b>(84,467)</b>
Employees	21,153	960		(541)		21,572		21,572
Other expenses	57,713		618	(5,294)		53,037	67	53,104
Support Service recharges						0		0
Depreciation, amortisation & impairment	0	2,931	516			3,447	384	3,831
Interest payments						0	5,380	5,380
Payments to Housing Pool						0	363	363
Gain / loss of disposal of assets						0	(972)	(972)
<b>Total Expenditure</b>	<b>78,866</b>	<b>3,891</b>	<b>1,134</b>	<b>(5,835)</b>	<b>0</b>	<b>78,056</b>	<b>5,222</b>	<b>83,278</b>
<b>Surplus / deficit on the provision of services</b>	<b>12,226</b>	<b>3,891</b>	<b>1,134</b>	<b>(3,027)</b>	<b>0</b>	<b>14,224</b>	<b>(15,413)</b>	<b>(1,189)</b>

**NOTES TO THE FINANCIAL STATEMENTS**

	Directorate Analysis	Services & Support Services not in analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of recharges	Cost of services	Corporate Amounts	Total
2012-13	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees & charges	(39,273)			2,884		(36,389)		(36,389)
Interest & Investment income						0	(9,554)	(9,554)
Income from Council Tax						0	(4,788)	(4,788)
Government grants & contributions	(51,041)					(51,041)	(10,599)	(61,640)
<b>Total Income</b>	<b>(90,314)</b>	<b>0</b>	<b>0</b>	<b>2,884</b>	<b>0</b>	<b>(87,430)</b>	<b>(24,941)</b>	<b>(112,371)</b>
Employees	19,203	350		(393)		19,160		19,160
Other expenses	82,351		609	(8,072)		74,888	467	75,355
Support Service recharges						0		0
Depreciation, amortisation & impairment	2,164	3,081	8,961			14,206		14,206
Interest payments						0	5,273	5,273
Payments to Housing Pool						0	317	317
Gain / loss of disposal of assets						0	(880)	(880)
<b>Total Expenditure</b>	<b>103,718</b>	<b>3,431</b>	<b>9,570</b>	<b>(8,465)</b>	<b>0</b>	<b>108,254</b>	<b>5,177</b>	<b>113,431</b>
<b>Surplus / deficit on the provision of services</b>	<b>13,404</b>	<b>3,431</b>	<b>9,570</b>	<b>(5,581)</b>	<b>0</b>	<b>20,824</b>	<b>(19,764)</b>	<b>1,060</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**31. MEMBERS ALLOWANCES**

The Council paid the following amounts to members of the council during the year:

	2012-13	2013-14
	£'000	£'000
Salaries	17	18
Allowances	248	252
Expenses	1	2
<b>Total</b>	<b>266</b>	<b>272</b>

**32. OFFICERS REMUNERATION**

The number of employees whose remuneration (excluding employer's pension contributions), was £50,000 or more in bands of £5,000 were:

Remuneration Band	Number of Employees	
	2012-13	2013-14
£50,000 - £54,999	1	0
£55,000 - £59,999	3	3
£60,000 - £64,999	6	8
£65,000 - £69,999	0	0
£70,000 - £74,999	0	0
£75,999 - £79,999	0	0
£80,000 - £84,999	2	0
£85,000 - £89,999	0	1
£90,000 - £94,999	1	0
£95,000 - £99,999	0	0
£100,000 - £104,999	0	0
£105,000 - £109,999	0	1
£110,000 - £114,999	0	0
£115,000 - £119,999	0	0
£120,000 - £124,999	0	0
£125,000 - £129,999	0	1

## NOTES TO THE FINANCIAL STATEMENTS

The table below sets out the remuneration of Statutory Officers and the Council's Strategic Management Team.

2013-14

Post	Remuneration	Expenses	Taxable Benefits	Compensation for Loss of Office	Total Remuneration	Employers Pension Contributions	Total
Chief Executive (left 31/07/14)	28,875	0	0	99,680	<b>128,555</b>	5,919	<b>134,474</b>
Chief Executive & Growth Director	105,500	202	0	0	<b>105,702</b>	21,627	<b>127,329</b>
Deputy Chief Executive	87,166	202	0	0	<b>87,368</b>	17,869	<b>105,237</b>
Assistant Director Economy	64,000	618	0	0	<b>64,618</b>	13,120	<b>77,738</b>
Assistant Director Environment	64,028	0	0	0	<b>64,028</b>	13,126	<b>77,154</b>
Assistant Director Customer Access	64,000	16	0	0	<b>64,016</b>	13,120	<b>77,136</b>
Assistant Director Finance (left 31/05/14)	10,167	0	497	0	<b>10,664</b>	2,084	<b>12,748</b>
Assistant Director Finance	60,928	0	0	0	<b>60,928</b>	12,490	<b>73,418</b>
Assistant Director City Development	64,000	59	0	0	<b>64,059</b>	13,120	<b>77,179</b>
Assistant Director Housing	64,000	0	0	0	<b>64,000</b>	13,120	<b>77,120</b>
Assistant Director Public Realm	64,000	363	0	0	<b>64,363</b>	13,120	<b>77,483</b>
Corporate Manager - Legal	58,745	202	0	0	<b>58,947</b>	12,020	<b>70,967</b>

2012-13

Post	Remuneration	Expenses	Taxable Benefits	Compensation for Loss of Office	Total Remuneration	Employers Pension Contributions	Total
Chief Executive	93,776	308	0	0	<b>94,083</b>	17,438	<b>111,521</b>
Strategic Director	83,000	258	0	0	<b>83,258</b>	17,015	<b>100,273</b>
Strategic Director	83,000	176	0	0	<b>83,176</b>	17,015	<b>100,191</b>
Assistant Director Economy	64,000	982	0	0	<b>64,982</b>	13,120	<b>78,102</b>
Assistant Director Environment	64,000	289	0	0	<b>64,289</b>	13,120	<b>77,409</b>
Assistant Director Business Transformation	64,000	41	0	0	<b>64,041</b>	13,120	<b>77,161</b>
Assistant Director Finance	60,999	240	3,143	0	<b>64,382</b>	12,505	<b>76,887</b>
Assistant Director City Development	64,000	0	0	0	<b>64,000</b>	13,120	<b>77,120</b>
Assistant Director Housing	54,021	428	0	0	<b>54,449</b>	11,074	<b>65,524</b>
Assistant Director Public Realm	64,000	0	0	0	<b>64,000</b>	13,120	<b>77,120</b>
Corporate Manager - Legal	58,745	61	0	0	<b>58,806</b>	12,020	<b>70,826</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 33. EXTERNAL AUDIT COSTS

In 2013-14 Exeter City Council incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors:

	2012-13	2013-14
	£'000	£'000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	76	76
Audit Commission rebate	(5)	(10)
Fees payable to Grant Thornton for the certification of grant claims and returns	15	15
Fees payable in respect of other services provided by the appointed auditor**	5	6
	<b>91</b>	<b>87</b>

\*\* Charge for submission of a VAT claim in respect of canal mooring fees (£5,000 - 2012/13) and advice in respect of IT (£5,999 – 2013/14)

### 34. GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2012-13	2013-14
	£'000	£'000
<b>Credited to Taxation and non-specific grant income</b>		
Council taxpayers	(4,788)	(4,457)
Revenue Support Grant	(159)	(4,860)
New Homes Bonus	(1,323)	(2,205)
Council Tax Freeze Grant	(119)	(119)
Local Services Support Grant	(505)	(503)
NNDR	(8,217)	(4,039)
Other Capital Grants	(160)	0
Other Capital Contributions	(116)	(295)
<b>Total</b>	<b>(15,387)</b>	<b>(16,478)</b>
<b>Credited to Services</b>		
Benefit Subsidy *	(47,587)	(39,676)
NNDR Cost of Collection	(226)	(224)
Supporting People	(269)	(274)
CT/HB Admin Grant	(849)	(811)
Other Grants	(2,110)	(1,370)
<b>Total</b>	<b>(51,041)</b>	<b>(42,355)</b>



## NOTES TO THE FINANCIAL STATEMENTS

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 to the giver. The balances at the year-end are as follows:

	2012-13	2013-14
	£'000	£'000
<b>Capital Grants receipts in advance</b>		
Crossmead Public Open Space	(103)	0
Land at Beacon Avenue	(97)	(97)
Environmental Cont - Rydon Lane	(13)	(13)
Leisure Contribution - Cowick St	(13)	0
Affordable Housing - Cowick St	(714)	(581)
Community Facility - Western Way	(45)	(37)
Leisure Contribution - Hill Barton	0	(91)
Local Energy Networks	0	(152)
Leisure Contribution - Newcourt	0	(352)
Community Facility - Newcourt	0	(130)
Extracare - St Loyes	0	(1,006)
Other Grants	(166)	(155)
<b>Total</b>	<b>(1,151)</b>	<b>(2,614)</b>

### 35. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence or to be controlled or influence 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** – has significant influence over the general operations of the Council, providing the statutory framework, the majority of the funding, and prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits).

**Council Members** – have direct control over the council's financial and operating policies. The total of member allowances paid in 2013/14 is shown in Note 31. During the financial year, the Council paid grants totalling £26,300 in which members had positions on the governing body.

**Officers** – no disclosures

**Other public bodies** – Exeter City Council is part of a designated pool for the retention of business rates, which allows local authorities to be treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments.

**Companies** – details can be found in the Group Accounts.

## NOTES TO THE FINANCIAL STATEMENTS

### 36. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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 PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	<b>2012-13</b>	<b>2013-14</b>
	<b>£'000</b>	<b>£'000</b>
<b>Opening Capital Financing Requirement</b>	86,503	89,826
Capital Investment		
Intangible Assets	125	133
Property, Plant and Equipment	13,978	9,950
Investment Properties	23	0
Long Term Debtors	344	392
REFCUS	1,389	1,355
Sources of Finance		
Capital Receipts	(998)	(2,126)
Government grants and other contributions	(1,176)	(1,349)
Sums set aside from revenue	(9,089)	(6,784)
Minimum Revenue Provision	(1,107)	(1,437)
Repayment of Long Term Debtors	(166)	0
<b>Closing Capital Financing Requirement</b>	<b>89,826</b>	<b>89,960</b>

**NOTES TO THE FINANCIAL STATEMENTS**

	2012-13 £'000	2013-14 £'000
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (support by Government financial assistance)	0	0
Increase in underlying need to borrow (unsupported by Government financial assistance)	3,323	134
Assets acquired under finance leases		
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>3,323</b>	<b>134</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 37. LEASES

#### Council as a Lessee

##### *Finance Leases*

The Council has acquired a number of its investment properties and some small items of equipment under finance leases. However the items of equipment are below the Council's de minimis for treatment as capital expenditure and they have therefore been treated at operating leases, with the rental charge being charged to the relevant service within the net cost of services.

In respect of investment properties, there are fifteen assets, which have been leased in under finance leases, owing to the length of the lease. However, none of the fifteen leases attracted a lease premium payment, nor is there an annual lease payment due. The assets therefore have been initially recognised in the accounts at zero, being the lower of the net present value of the lease payments or the fair value of the asset. Where appropriate the assets have been revalued to reflect the value to the Council of the lease, were the Council to sell it at market value.

The Council therefore has no minimum lease payments in respect of finance leases.

##### *Operating Leases*

The Council holds some capital assets, principally property, plant and equipment under operating lease agreements. The majority of the lease payments represent rent payments to property owners who have provided property on short term lease arrangements (3-5 years) for temporary accommodation. Rental payments made in the year amounted to £785,185 (2012/13 £812,939). Rental Payments due in 2014/15 can be broken down as follows:

Due to expire in 2014/15 (or on 1 year rolling agreements)	£28,869
2 – 5 Years	£756,316
5+ Years	0

## NOTES TO THE FINANCIAL STATEMENTS

### Council as a Lessor

#### Finance Leases

The Authority has thirty two leases, which would be classified as finance leases under IFRS. The asset valuation in the Balance Sheet is therefore based on the freehold interest in the asset.

Twenty six of the leases were entered into prior to 2010 and therefore the Council has taken advantage of the statutory regulations allowing the income received to be retained as revenue income.

The gross investment is made up of the following amounts

	2012/13 £'000	2013/14 £'000
Finance Lease Debtor		
• Current	112	113
• Non-current	11,420	11,416
Unearned finance income	11,532	11,529
Unguaranteed Residual Value	15,036	15,356
<b>Gross investment in Lease</b>	<b>26,568</b>	<b>26,885</b>

#### Operating Leases

The Council leases out approximately 730 Commercial Premises. Investment income totalling £2,785,811 has been received in respect of these properties, during 2013-14 (£2,902,343 2012/13).

Note 13 sets out the value of the investment properties in the accounts. As they are investment properties, they are carried at their fair value and no depreciation is charged.

Due to expire in 2013-14 (or on 1 year rolling agreements)	£277,770
2 – 5 Years	£473,816
5+ Years	£2,034,225

## NOTES TO THE FINANCIAL STATEMENTS

### 38. IMPAIRMENT LOSSES

During 2013/14, the Council has recognised impairment losses of £1.992 million and £0.516 million in relation to its Council dwellings and operational land and buildings respectively.

### 39. TERMINATION BENEFITS

The Authority terminated the contracts of a number of employees in 2013/14, incurring liabilities of £578,481 in redundancy payments (£489,840 – 2012/13) and £270,515 in pension strain payments (£99,939 – 2012/13).

These are broken down as follows:

Band	Number of Employees	
	2012-13	2013-14
<b>Compulsory Redundancy</b>		
Less than £20,000	2	2
£20,000 - £39,999	2	1
£40,000 - £59,999	2	1
£60,000 - £79,999	0	0
£80,000 - £99,999	0	0
<b>Voluntary Redundancy</b>		
Less than £20,000	12	13
£20,000 - £39,999	5	5
£40,000 - £59,999	2	3
£60,000 - £79,999	0	0
£80,000 - £99,999	0	1
£100,000 - £149,999	0	1
£150,000 - £199,999	0	0
£200,000 - £249,999	0	0

## NOTES TO THE FINANCIAL STATEMENTS

### 40. DEFINED BENEFIT PENSION SCHEMES

- Exeter City Council participates in the Local Government Pension Scheme, which is administered by Devon County Council. The Local Government Pension Scheme is a defined benefit scheme and benefits accrued up to 31 March 2014 are based on final salary and length of service on retirement.
- Although the Council only participates in the Local Government Pension Scheme, a number of early retirements mean that there is an element of unfunded liabilities for the Council to cover.
- The Pension Reserve shows the City Council's current deficit in the Devon County Council Pension Fund. The figure has been derived from an actuarial valuation as at 31 March 2013 rolled forward to take into account changes in the intervening period.

The most recent valuation was carried out as at 31 March 2013, and has been updated by independent actuaries to the Devon County Council Pension Fund to take account of the requirements of IAS 19 in order to assess the liabilities of the Fund as at 31 March 2014. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

Exeter City Council's contribution rate over the accounting period was 20.5% of pensionable pay. The contribution rates certified for Exeter City Council at 31 March 2013 valuation are as follows:

#### Future Service Pay

April 2014 to March 2015	14.1% of pensionable pay
April 2015 to March 2016	14.1% of pensionable pay
April 2016 to March 2017	14.1% of pensionable pay

#### Past Service Deficit

April 2014 to March 2015	£1.286 million
April 2015 to March 2016	£1.332 million
April 2016 to March 2017	£1.393 million

The estimated value of employer contributions for 2014-15 is £3.279m.

The estimated asset allocation as at 31 March 2014 is as follows:

Asset Share	2012-13		2013-14	
	£'000	%	£'000	%
Equities	57,858	61	25,315	26
Overseas Equities	-	-	33,104	34
Infrastructure	-	-	1,947	2
Gilts	12,330	13	6,816	7
Other Bonds	-	-	4,868	5
Property	7,588	8	8,763	9
Cash	2,845	3	1,947	2
Target Return Portfolio	14,227	15	14,605	15
<b>Total</b>	<b>94,848</b>	<b>100</b>	<b>97,365</b>	<b>100</b>

## NOTES TO THE FINANCIAL STATEMENTS

The main assumptions used for the purposes of IAS 19 are as follows:

	2012-13	2013-14
Discount rate for scheme liabilities	4.5% pa	4.4% pa
Discount rate for pension cost	4.5% pa	4.4% pa
Rate of increase in salaries	4.8% pa	4.6% pa
Rate of increase in pensions in payment	2.6% pa	2.8% pa
Rate of increase in deferred pensions	2.6% pa	2.8% pa
Rate of inflation - RPI	3.4% pa	3.6% pa
- CPI	2.6% pa	2.8% pa
<i>Mortality assumptions</i>		
Longevity at 65 – current pensioners		
Men	20.6	22.7
Women	24.6	26.0
Longevity at 65 – future pensioners		
Men	22.6	24.9
Women	26.5	28.3
Avg long term expected rate of return	5.4% pa	
Conversion of pension into lump sum		
Pre April 2008 permitted amount	50%	50%
Post April 2008 permitted amount	50%	50%

The expected rate of return and the interest cost has been replaced with a single net interest cost, which effectively sets the expected return equal to the discount rate.

### Actual Return on Fund Assets

Actual return on fund assets for 2013-14 was £4.374m (£10.745m 2012-13).

### Transactions Relating to Post-employment Benefits

The cost of retirement benefits is reported in the cost of services when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out via the Movement in Reserves Statement as follows:

<b>CIES</b>	2012-13 £m	2013-14 £m
<i>Net Services Cost</i>		
Current Service Cost	3.676	3.908
Loss / (gain) on curtailment	0.166	0.211
<i>Other Operating Expenditure</i>		
Administration expenses	0.043	0.053
<i>Financing and Investment Income and Expenditure</i>		
Net interest on the defined liability (asset)	<u>3.130</u>	<u>3.251</u>
	<b>7.015</b>	<b>7.423</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges	(7.015)	(7.423)
Employers contributions	3.492	3.700



## NOTES TO THE FINANCIAL STATEMENTS

### Reconciliation of the Movements in the Fair Value of Scheme Assets:

	2012-13	2013-14
	(£m)	(£m)
Opening fair value of assets	85.901	94.848
Interest income	3.912	4.221
Remeasurement gains / (loss)	6.832	0.491
Administration expenses	(0.042)	(0.053)
Contributions by the employer	3.325	3.293
Contributions by participants	0.926	0.907
Net benefits paid out	<u>(6.006)</u>	<u>(6.342)</u>
<b>Closing fair value of assets</b>	<b><u>94.848</u></b>	<b><u>97.365</u></b>

### Reconciliation of the Present Value of Scheme Liabilities (Defined Benefit Obligation):

	2012-13	2013-14
	(£m)	(£m)
Opening present value of liabilities	155.507	168.586
Current service cost	3.676	3.908
Interest cost	7.042	7.472
Contributions by participants	0.926	0.907
<i>Remeasurement (gains) and losses:</i>		
Change in demographic assumptions	-	0.995
Change in financial assumptions	7.130	6.206
Experience loss(gain)	0.145	(9.048)
Benefits paid out	(5.722)	(6.059)
Past service cost, including curtailments	0.166	0.211
Unfunded pension payments	<u>(0.284)</u>	<u>(0.283)</u>
<b>Closing present value of liabilities</b>	<b><u>168.586</u></b>	<b><u>172.895</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

Pension Assets and Liabilities Recognised in the Balance Sheet:

	2012-13	2013-14
	(£m)	(£m)
Present value of defined benefit obligations	168.586	172.895
Fair Value of Scheme Assets	<u>(94.848)</u>	<u>(97.365)</u>
<b>Net Liability in Balance Sheet</b>	<b>73.738</b>	<b>75.530</b>

The sensitivity analysis below sets out the impact on the defined benefit obligations for each change while all other assumptions remain constant:

	Increase in assumption	Decrease in assumption
	(£m)	(£m)
Longevity +/- 1 year	166.828	179.017
Salaries +/- 1%	173.328	172.465
Pensions +/- 1%	175.584	170.255
Discount rate +/- 1%	169.874	175.972

### Prior Year Adjustment

For the 2013-14 Statement of Accounts the Council has implemented changes to the accounting requirements for the defined benefit pension scheme, in accordance with IAS 19, that impact on the comparative figures for 2012-13 in the Comprehensive Income and Expenditure Statement (CIES). The effect on the CIES is set out below:

	2012-13 CIES £'000	Restatements				2012-13 Restated CIES £'000
		Pension administration expenses £'000	Expected Return on Fund Assets £'000	Interest Cost £'000	Net Interest on the Defined Liability £'000	
Other operating expenditure	(139)	43				(96)
Financing and investment income and expenditure	(4,983)		4,614	(7,042)	3,130	(4,281)
Remeasurement of the net defined benefit liability	1,354	(43)	(4,614)	7,042	(3,130)	609

## NOTES TO THE FINANCIAL STATEMENTS

### 41. CHARITABLE AND TRUST FUNDS

The Council administers 5 charitable/trust funds related to Leisure and Museum services, principally from legacies left by individual Exeter inhabitants over a period of years. The funds do not represent assets of the Council and are not included in the Consolidated Balance Sheet.

The funds are:

	Value of fund at 1.4.13	Expenditure	Income	Value of fund at 31.3.14
	£'000	£'000	£'000	£'000
Reynolds Chard Bequest	362	(14)	13	361
Veitch Bequest	21	0	0	21
Dorothy Holman Trust	40	0	0	40
Bowling Green Marshes	(1)	(3)	3	(1)
Topsham Recreation Ground	17	0	0	17
	<b>439</b>	<b>(17)</b>	<b>16</b>	<b>438</b>

### 42. FINANCIAL INSTRUMENTS – INVESTMENTS IN ICELANDIC BANKS

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed. The authority had £5m deposited across 2 of these institutions, with varying maturity dates and interest rates as follows:

Amount Invested (£m)	Carry Value 01/04/13 (£m)	Repayment 2012-13 (£m)	Carry Value 31/03/14 (£m)	Impairment (£m)
£3.0	£1.286	£1.379	£0	(£0.093)
£2.0	£0	£0	£0	£0

The current situation is set out below:

#### *Glitnir Bank hf*

Glitnir has been repaid in full. An investment of £0.447m is held in escrow in the new Glitnir bank, which represents funds repaid in Krona that cannot be recovered yet due to ongoing currency controls.

#### *Landsbanki Islands hf*

The Council sold at auction the remaining balance of funds held in Landsbanki during the year, including the amount held in Escrow. A small investment gain was used to write off the capitalised impairment.

**43. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

The Council's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the authority
- liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock movements

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Council's finance team, under policies approved by full Council as set out in the Treasury Management Strategy. The Council provides 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.

**Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. As a result of the Council's exposure to Icelandic Banks, the Council's in-house criteria have been significantly tightened. The latest Strategy was approved on 25 February 2014.

Deposits are not made with banks and financial institutions unless they are rated independently (by both Fitch and Moody's credit rating agencies) and based in the UK or are a local authority. There are a range of investment limits relating to both value and length of deposit depending on rating. For example UK institutions with the highest rating of rates F1+ have a maximum investment of £3 million for up to 364 days, Foreign institutions that deal in Sterling and are rated F1+ have a maximum investment of £2 million for up to 180 days, whilst the lowest rating the Council will accept (F1 and P1) have a maximum investment of £1 million for up to 90 days. For the two major UK clearing banks Barclays and Lloyds Group and Nationwide, which are rated F1 and P1 (£3 million can be invested for up to 90 days). Up to £5 million can be invested in a money market fund.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Amount at 31/03/2014</b>	<b>Historical experience of default</b>	<b>Historic experience adjusted for market conditions at 31/03/2013</b>	<b>Estimated maximum exposure to default and uncollectability</b>
	<b>£'000</b>	<b>%</b>	<b>%</b>	<b>£'000</b>
Deposits with banks and other financial institutions	448	4.3	5	22
Trade and other Receivables – Sundry Debt	8,126	10	15	1,219
Other statutory debts	256	10	15	38
<b>Total</b>	<b>8,830</b>			<b>1,279</b>

## NOTES TO THE FINANCIAL STATEMENTS

The Council has varying credit terms for customers. In reviewing the Council's sundry debt (which does not include Council Tax, Business Rates or money owed by the Government in respect of Business Rates etc): Out of the £6.099m sundry debt in note 20, some £3.8 million is invoiced debt. £2.4 m of this invoiced debt is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than 3 months	660
Three to six months	101
Six months to one year	588
More than one year	1,059
<b>Total</b>	<b>2,408</b>

### Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The Council has one long-term loan, taken out on 28 March 2012 to cover the HRA self-financing payment. This loan is due for repayment in 2062. There is a risk of having to replenish this loan at unfavourable interest rates.

All trade and other payables are due to be paid in less than one year.

### Market risk

#### *Interest rate risk*

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

- borrowings at variable rates – the interest expenses charged to the Income and Expenditure will rise
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Income and Expenditure 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 CIES. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the CIES and affect the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the Other Comprehensive Income & Expenditure.

## NOTES TO THE FINANCIAL STATEMENTS

The Council has a number of strategies for managing interest rate risk; however it has not borrowed using variable rate loans for many years.

If on the 31 March 2014 the interest rates are 1% higher than the actual interest rates the financial impact would be:

### **Borrowing:**

The Council's short term fixed rate borrowing as at 31/03/2014 was taken out over a maximum of one year. A 1% increase in interest rates would increase the cost by £150,000 over a year. The Council's long-term borrowing has been taken out over a period of 50 years and matures in 2062. A 1% increase in interest rates would increase the cost of borrowing by £568,840 a year.

### **Investments:**

It is reasonable to assume that the Council's investments in "cash" accounts should increase by the change in interest rates. A 1% increase would generate an additional £105,000 over a year. In respect of the fixed term deposits of £3m an increase of 1% would have decreased the fair value by £30,000.

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. The Council does have an interest in three companies but these do not lead to a share of profits or consist of an equity value on the Balance Sheet.

### *Foreign Exchange Risk*

The Council has received a substantial recovery of the money it placed in Iceland. The repayments were made in a basket of currencies, based on foreign exchange rates at 22 April 2009. Most of the funds have been converted to Sterling; however some repayments were made in Icelandic Kroner. Currency restrictions in Iceland mean that the funds must remain in Iceland and are held in escrow. The funds have been revalued at 31 March 2014 and a foreign currency gain has been charged against the Comprehensive Income and Expenditure Statement. A 1% reduction in the value of the Kroner will mean a reduction of £4,700 in the value of the investments.

## NOTES TO THE FINANCIAL STATEMENTS

### 44. CONTINGENT ASSET

The Council has an outstanding insurance claim, which may result in the Council receiving a cash settlement in the future. The timing and value of the potential settlement is at this stage uncertain and no provision has therefore been made in the accounts. The value of any claim is in the region of £598,000. A part payment of £88,830 was received in April 2014 in respect of this claim.

### 45. CONTINGENT LIABILITY

The Council is obliged to keep information on Environmental Information regulations and, where possible, to make that information freely available. Case law has indicated that local authorities may have charged for information that should have been provided free of charge, but the situation is still evolving. The Council may be subject to claims for refunds of fees incorrectly paid. It is not possible to accurately estimate an amount but it is not considered to be material.

### 46. STATUTORY HARBOUR AUTHORITY

Exeter City Council is the harbour authority for the Exe Estuary.

An annual Statement of Account relating to harbour activities is required to be prepared, in accordance with the 1964 Harbours Act.

	2012/13	2013/14
	£'000	£'000
<b>Income</b>		
Fees and Charges	(61)	(76)
	<b>(61)</b>	<b>(76)</b>
<b>Expenditure</b>		
Employees	26	30
Premises	61	52
Supplies and Services	32	37
Transport	17	11
Support Services	21	22
Capital Charges	5	5
	<b>162</b>	<b>157</b>
<b>Net cost of Harbour Activities as included in the Comprehensive Income and Expenditure Statement</b>	<b>101</b>	<b>81</b>



## HRA INCOME & EXPENDITURE ACCOUNT

2012-2013		2013-2014
£'000	<b>Income</b>	£'000
(17,568)	Dwelling rents	(18,177)
(489)	Non dwelling rents	(466)
(738)	Charges for services and facilities	(685)
(126)	Supporting People Subsidy	(129)
<b>(18,921)</b>	<b>Total Income</b>	<b>(19,457)</b>
	<b>Expenditure</b>	
4,863	Repairs and maintenance	6,171
3,491	Supervision and management	3,548
12	Rents, rates, taxes and other charges	22
7,186	Depreciation and impairment of non-current assets	4,326
8	Debt management costs	8
26	Increase/(decrease) in bad debt provision	10
<b>15,586</b>	<b>Total Expenditure</b>	<b>14,085</b>
<b>(3,335)</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>	<b>(5,372)</b>
151	HRA share of Corporate and Democratic Core	163
<b>(3,184)</b>	<b>Net Cost of HRA Services</b>	<b>(5,209)</b>

## HRA INCOME & EXPENDITURE ACCOUNT

2012-2013		2013-2014
£'000		£'000
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</b>	
(672)	(Gain) or loss on sale of HRA non-current assets	(608)
1,988	Interest payable and similar charges	1,984
(44)	Interest and investment income	(48)
187	Net interest on the net defined benefit liability (asset) and administration expenses	199
(84)	Capital grants and contributions receivable	(122)
<b>(1,809)</b>	<b>(Surplus )or deficit for the year on HRA services</b>	<b>(3,804)</b>

### Movement on the HRA Statement

2012-2013		2013-2014
£'000		£'000
(5,793)	Housing Revenue Account surplus brought forward	(6,364)
(1,809)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(3,804)
1,238	Net additional amount required by statute to be debited or (credited) to the HRA balance for the year	4,101
<b>(571)</b>	(Increase) or decrease in the HRA Balance	<b>297</b>
<b>(6,364)</b>	<b>Housing Revenue Account surplus carried forward</b>	<b>(6,067)</b>

## HRA – NOTES TO THE ACCOUNT

### 1. HRA DWELLINGS

	Flats	Houses and Bungalows	Total
At 31 March 2013	2,619	2,422	5,041
At 31 March 2014	2,603	2,409	5,012

### 2. VACANT POSSESSION VALUE OF DWELLINGS

At 1 April 2014 the vacant possession value of the dwellings was £637.800 million, this compares to the tenanted market value in the Balance Sheet of £197.718 million. The difference of £440.082 million represents the economic cost to the Government of providing council housing at less than open market rents.

### 3. COUNCIL'S OWN BUILD SCHEME

The Council's Own Build scheme involves the development of 21 homes at Sivell Place and Merlin Crescent. Whilst this development remains within the overall umbrella of the Housing Revenue Account, nevertheless the costs and incomes arising from the development are not part of the HRA subsidy system but are required to be financed and accounted for separately. The cost of servicing the borrowing will therefore be met from the rent income received from the completed dwellings.

### 4. MAJOR REPAIRS RESERVE

This is a reserve for the financing of major repairs and improvements to HRA assets. The movements during 2013-14 were as follows:

Income	2012-13 £'000	2013-14 £'000
Balance at 1 April	3,149	2,270
Transfer from the HRA	3,674	2,333
	<u>6,823</u>	<u>4,603</u>
Expenditure		
Financing HRA Capital Expenditure		
Land	-	-
Houses	4,553	809
Other Property	-	-
	<u>4,553</u>	<u>809</u>
Balance at 31st March	<u>2,270</u>	<u>3,794</u>

## HRA – NOTES TO THE ACCOUNT

### 5. BALANCE SHEET VALUATIONS OF ASSETS

	Dwellings	Garages	Vehicles, Plant & Equipment	Intangible Assets	Assets Under Construction	Assets Held for Sale	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2013	189,985	1,064	102	2	853	894	192,900
At 31 March 2014	197,718	1,196	196	1	1,290	609	201,010

Within the valuation of Council dwellings as at 31 March 2014 of £197.718m, £100.068m was attributable to the value of land (2012/13 £96.361m) and £97.650m to buildings (2012/13 £93.624m).

### 6. HRA CAPITAL EXPENDITURE

HRA capital expenditure amounted to £7.453m during 2013/14 (£8.945m 2012/13), the expenditure and sources of finance were as follows:

	Total Expenditure	Sources of Finance				
		Major Repairs Reserve	Revenue Contributions	Borrowing	Grants & Other Contributions	Capital Receipts
	£'000	£'000	£'000	£'000	£'000	£'000
Land						
Houses	7,329	809	5,484		214	822
Other Property	124		124			
<b>Total</b>	<b>7,453</b>	<b>809</b>	<b>5,608</b>	<b>0</b>	<b>214</b>	<b>822</b>

## HRA – NOTES TO THE ACCOUNT

### 7. HRA CAPITAL RECEIPTS

The following capital receipts were received during the year from disposals of land, houses and other property within the authority's HRA:

	2012-13 £'000	2013-14 £'000
Land	0	40
Dwellings	1,650	1,939
Repayment of discounts		
	<u>1,650</u>	<u>1,979</u>
Less amount pooled	<u>(317)</u>	<u>(363)</u>
	<u>1,333</u>	<u>1,616</u>

### 8. IMPAIRMENT CHARGES

Impairment charges of £1.992 million were debited to the HRA Income and Expenditure Account in 2013/14 although they were reversed out in the Statement of Movement on the HRA Balance, to avoid having an impact on rent levels, in accordance with the Code of Practice.

### 9. DEPRECIATION & AMORTISATION

The depreciation and amortisation charges for the year in respect of HRA assets were:

	2012-13 £'000	2013-14 £'000
Intangible assets	1	1
Operational assets		
Dwellings	2,178	2,286
Garages	14	14
Equipment	30	34
Depreciation and amortisation charged for the period	<u>2,223</u>	<u>2,335</u>
Less depreciation written off in respect of disposals	(11)	(10)
Less depreciation written off in respect of revaluations	(1,149)	(2,003)
Less depreciation written off in respect of impairments	(1,032)	(287)
Total depreciation and amortisation	<u>31</u>	<u>35</u>

## HRA – NOTES TO THE ACCOUNT

### 10. RENT ARREARS

The rent arrears at 31 March 2014, amounted to £0.339m (31 March 2013, £0.302m) and the aggregate Balance Sheet provision in respect of uncollectable HRA debts is £0.171m (31 March 2013, £0.161m).

## COLLECTION FUND

This account reflects the statutory requirements for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund is consolidated with other accounts of the billing authority.

2012-2013		2013-2014		
		Council Tax	NNDR	Total
£'000		£'000	£'000	£'000
	<b>Income from:</b>			
48,766	Council tax	51,076	0	51,076
7,943	Transfers from General Fund: Council Tax Benefit	0	0	0
0	Transitional Protection - sums due to the Council	0	78	78
72,105	NNDR	0	75,490	75,490
128,814		51,076	75,568	126,644
	<b>Expenditure</b>			
	Demands on the Fund by:			
6,086	Police and Crime Commissioner for Devon and Cornwall	5,510	0	5,510
2,817	Devon & Somerset Fire and Rescue Service	2,550	763	3,313
42,535	Devon County Council	37,755	6,865	44,620
4,757	Exeter City Council	4,391	30,512	34,903
71,879	Central Government	0	38,139	38,139
226	Costs of Collection Allowance	0	224	224
	Bad and doubtful debts			
187	Write offs	84	366	450
(30)	Impairment for Uncollectable Debt	30	30	60
0	Provisions for Appeals	0	1,995	1,995
128,457		50,320	78,894	129,214
<b>(357)</b>	<b>(Surplus) / Deficit</b>	<b>(756)</b>	<b>3,326</b>	<b>2,570</b>
	Add			
84	Fund balance b/f	(273)	0	(273)
<b>(273)</b>	<b>Fund Balance c/f</b>	<b>(1,029)</b>	<b>3,326</b>	<b>2,297</b>

## COLLECTION FUND

### NOTES:

#### 1. Council Taxbase

The council tax base, for tax setting purposes, is calculated by reference to the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of band D dwellings. The figures for 2013/14 were :

Band	Dwellings	Less Discounts	Conversion Factor	Band D equivalents
A relief	17	2	5/9ths	8
A	9,461	3,936	6/9ths	3,683
B	13,879	3,557	7/9ths	8,028
C	12,500	2,102	8/9ths	9,243
D	7,288	792	9/9ths	6,496
E	3,540	262	11/9ths	4,006
F	1,597	112	13/9ths	2,145
G	791	49	15/9ths	1,237
H	24	2	18/9 <sup>ths</sup>	44
<b>Band D equivalent</b>				<b><u>34,890</u></b>
Less Hardship relief (Band D)				<u>(24)</u>
<b>Total Band D equivalent</b>				<b><u>34,866</u></b>
Collection rate @ 97%				<u>(1,046)</u>
<b>Tax base</b>				<b><u>33,820</u></b>

#### 2. Income from Business Rates

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values (£186.175m at March 2014) multiplied by a uniform rate 47.1p (46.2p for those receiving small business relief) for 2013-2014.



## GROUP ACCOUNTS

The City Council controls the majority voting rights in the following two companies. They are both limited by guarantee and no dividends have ever been paid by either of the companies. As they are 100% owned the City Council would be required to meet any deficit arising from the companies' activities.

(a) Exeter Business Centre Limited (EBC).

The company's activities relate to the letting of affordable industrial units for small businesses.

(b) Exeter Canal and Quay Trust Limited (ECQT)

The company has charitable status and its main objectives are to preserve and develop the Exeter Canal and Quay area. The assets of ECQT consist of Investment Properties, which earn income for the Trust. These assets are not the property of the City Council and are subject to charitable status. City Councillors sit on the Trust's board and therefore the Council has control over the charitable funds disclosed.

Additionally the Council owns a 21.5% shareholding in Exeter Science Park Limited. The principal activity of the company is to ensure the successful delivery of the Science Park by enabling the market for the Science Park to be developed through connections with the knowledge base at the University of Exeter, the Met Office and the Peninsula College of Medicine and Dentistry. The largest shareholder is Devon County Council (49.9%), with University of Exeter (21.5%) and East Devon District Council (7.1%) also holding shares.

The requirements for group accounts are based on the provisions of IAS 27 Consolidated and Separate Financial Statements, which provide accounting provisions for the consolidation of subsidiaries in group accounts.

The Group accounts have been prepared using consistent accounting policies.

The main effect of this consolidation has been to increase the usable reserves by £2.230 million based on company accounts, which are subject to audit (in the case of the Science Park and ECQT). Exeter Business Centre's accounts are considered exempt from audit under s.477 of the Companies Act 2006. There has been no qualification of ECQT's accounts. Copies of the company accounts can be obtained from the Assistant Director Finance at the Civic Centre.

**GROUP COMPREHENSIVE INCOME & EXPENDITURE STATEMENT**

2012-2013				2013-2014		
Gross Expenditure	Gross Income	Net Expenditure	Service	Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
10,908	(8,386)	2,522	Central Services to the Public	2,976	(936)	2,040
11,607	(2,912)	8,695	Cultural and Related Services	10,469	(4,049)	6,420
7,586	(1,058)	6,528	Environmental and Regulatory Services	10,013	(3,671)	6,342
3,989	(1,390)	2,599	Planning Services	3,921	(1,243)	2,678
49,500	(45,572)	3,928	Housing Services	49,459	(46,114)	3,345
3,783	(6,309)	(2,526)	Highways and Transport Services	3,731	(6,876)	(3,145)
2,403	(130)	2,273	Corporate and Democratic Core	2,727	(655)	2,072
166	0	166	Non Distributed Cost	211	0	211
19,541	(22,876)	(3,335)	Housing Revenue Account - Other	14,366	(19,738)	(5,372)
<b>109,483</b>	<b>(88,633)</b>	<b>20,850</b>	<b>Cost of Services</b>	<b>97,873</b>	<b>(83,282)</b>	<b>14,591</b>
		(96)	Other operating expenditure			(542)
		(4,281)	Financing and investment income and expenditure			1,607
			Share of (Surplus) / Deficit on the Provision of			
			40 Services by the Science Park			38
		(15,387)	Taxation and non-specific grant income			(16,478)
		<b>1,126</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>(784)</b>

**GROUP COMPREHENSIVE INCOME & EXPENDITURE STATEMENT**

2012-2013			2013-2014		
Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000	£'000	£'000	£'000
		(9,339)			(6,811)
		(186)			(400)
		609			(1,930)
		<u>(8,916)</u>			<u>(9,141)</u>
		<b><u>(7,790)</u></b>			<b><u>(9,925)</u></b>

**GROUP MOVEMENT IN RESERVES STATEMENT**

	General Fund Balance (£'000)	Group I&E Account (£'000)	Earmarked Reserves (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Total Usable Reserves (£'000)	Unusable Reserves (£'000)	Total Group Reserves (£'000)
<b>Balance at 31 March 2012 carried forward</b>	(4,285)	(2,115)	(1,892)	(5,793)	(896)	(3,149)	(1,262)	<b>(19,392)</b>	(209,375)	<b>(228,767)</b>
<b><i>Movement in Reserves 2012-13</i></b>										
(Surplus) / deficit on the provision of services	2,869	(120)	0	(1,809)	0	0	0	940	0	940
Other Comprehensive Income & Expenditure		0	0	0	0	0	0	0	(8,730)	(8,730)
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>2,869</b>	<b>(120)</b>	<b>0</b>	<b>(1,809)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>940</b>	<b>(8,730)</b>	<b>(7,790)</b>
Adjustments between Accounting basis and funding basis under regulations	(3,070)	0	0	1,238	(727)	879	301	(1,379)	1,379	0
Net Increase / Decrease before Transfers to Earmarked Reserves	<b>(201)</b>	<b>(120)</b>	<b>0</b>	<b>(571)</b>	<b>(727)</b>	<b>879</b>	<b>301</b>	<b>(439)</b>	<b>(7,351)</b>	<b>(7,790)</b>
Transfers to / from Earmarked Reserves	1,128	0	(1,128)	0	0	0	0	0	0	0
<b>(Increase) / Decrease in 2012-13</b>	<b>927</b>	<b>(120)</b>	<b>(1,128)</b>	<b>(571)</b>	<b>(727)</b>	<b>879</b>	<b>301</b>	<b>(439)</b>	<b>(7,351)</b>	<b>(7,790)</b>

**GROUP MOVEMENT IN RESERVES STATEMENT**

	General Fund Balance (£'000)	Group I&E Account (£'000)	Earmarked Reserves (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Total Usable Reserves (£'000)	Unusable Reserves (£'000)	Total Group Reserves (£'000)
<b>Balance at 31 March 2013 carried forward</b>	(3,358)	(2,235)	(3,020)	(6,364)	(1,623)	(2,270)	(961)	(19,831)	(216,726)	(236,557)
<b><i>Movement in Reserves 2013-14</i></b>										
(Surplus) / deficit on the provision of services	2,615	405	0	(3,804)	0	0	0	(784)	0	(784)
Other Comprehensive Income & Expenditure		(400)	0	0	0	0	0	(400)	(8,741)	(9,141)
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>2,615</b>	<b>5</b>	<b>0</b>	<b>(3,804)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,184)</b>	<b>(8,741)</b>	<b>(9,925)</b>
Adjustments between Accounting basis and funding basis under regulations (note 7)	(6,042)	0	0	4,101	(683)	(1,524)	278	(3,870)	3,870	0
Net Increase / Decrease before Transfers to Earmarked Reserves	(3,427)	5	0	297	(683)	(1,524)	278	(5,054)	(4,871)	(9,925)
Transfers to / from Earmarked Reserves	3,420		(3,420)	0	0	0	0	0	0	0
<b>(Increase) / Decrease in 2013-14</b>	<b>(7)</b>	<b>5</b>	<b>(3,420)</b>	<b>297</b>	<b>(683)</b>	<b>(1,524)</b>	<b>278</b>	<b>(5,054)</b>	<b>(4,871)</b>	<b>(9,925)</b>
<b>Balance at 31 March 2014 carried forward</b>	<b>(3,365)</b>	<b>(2,230)</b>	<b>(6,440)</b>	<b>(6,067)</b>	<b>(2,306)</b>	<b>(3,794)</b>	<b>(683)</b>	<b>(24,885)</b>	<b>(221,597)</b>	<b>(246,482)</b>

**GROUP BALANCE SHEET**

2012- £'000	2013-2014 £'000	Notes
301,295 Property, Plant and Equipment	319,373	
43,225 Investment Property	34,005	1
22,436 Heritage Assets	22,615	
627 Intangible Assets	477	
2,099 Long Term Investments	0	
188 Investment in Associate	551	
12,231 Long Term Debtors	12,456	
<b>382,101 Total Long-Term Assets</b>	<b>389,477</b>	
194 Inventories	209	
7,210 Short-Term Debtors	8,219	
489 Short-Term Investments	1,048	
1,635 Assets Held for Sale	609	
4,516 Cash & Cash Equivalents	13,261	
<b>14,044 Total Current Assets</b>	<b>23,346</b>	

## GROUP BALANCE SHEET

2012- £'000	2013-2014 £'000	Notes
(15,015) Short-Term Borrowing	(18,033)	
<u>(12,424) Short-Term Creditors</u>	<u>(12,905)</u>	
<b>(27,439) Total Current Liabilities</b>	<b>(30,938)</b>	
(56,906) Long term borrowing	(56,906)	
(1,151) Capital Grants Receipts in Advance	(2,614)	
(354) Long-Term Creditors	(353)	
<u>(73,738) Pension Scheme Liability</u>	<u>(75,530)</u>	
<b>(132,149) Total Long-Term Liabilities</b>	<b>(135,403)</b>	
<b><u>236,557</u> Net Assets</b>	<b><u>246,482</u></b>	
Financed by:		
19,831 Usable Reserves	24,885	
<u>216,726 Unusable Reserves</u>	<u>221,597</u>	
<b><u>236,557</u> Total Reserves</b>	<b><u>246,482</u></b>	

  
**DAVE HODGSON CPFA**  
**ASSISTANT DIRECTOR FINANCE**

## GROUP CASHFLOW STATEMENT

2012-2013		2013-2014
£'000		£'000
1,126	Net (surplus) or deficit on the provision of services	(784)
(13,288)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(12,268)
1,575	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	2,781
(10,587)	Net cashflows from Operating Activities	(10,271)
15,224	Investing Activities	5,895
(6,730)	Financing Activities	(4,369)
<b>(2,093)</b>	Net (Increase) or decrease in cash and cash equivalents	<b>(8,745)</b>
2,423	Cash and cash equivalents at the beginning of the reporting period	4,516
<b>4,516</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>13,261</b>



**GROUP NOTE TO THE ACCOUNTS**

**1. INVESTMENT PROPERTIES**

	<b>2012-13</b>	<b>2013-14</b>
	<b>£'000</b>	<b>£'000</b>
Rental income from investment property	3,979	3,686
Direct operating expenditure arising from investment property	(921)	(732)
<b>Net gain / (loss)</b>	<b>3,058</b>	<b>2,954</b>

	<b>2012-13</b>	<b>2013-14</b>
	<b>£000s</b>	<b>£000s</b>
Balance at 1 April	44,033	43,225
Additions :		
Purchases		
Construction		
Subsequent expenditure	23	0
Disposals		
Net gains / losses from fair value adjustments	(80)	1,119
Transfers:		
to/from Inventories		
to/from Property, Plant & Equipment	(751)	(10,339)
Other changes		
<b>Balance at 31 March</b>	<b>43,225</b>	<b>34,005</b>



Exeter City Council

APPENDIX B

# Annual Governance Statement

2013/14

### Scope of Responsibility

Exeter City Council is responsible for ensuring that its 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. 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, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This statement explains how Exeter City Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, paragraph 4(3), which requires all relevant bodies to prepare an Annual Governance Statement.

The Code of Governance sets out the six principles of good governance and describes the arrangements the Council has put in place to meet each of these principles:

1. Creating and implementing a local vision
2. A common purpose for Members and Officers
3. Upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions
5. Developing the capacity and capability to be effective
6. Ensuring robust public accountability

A copy of the Council's code is available on our website at <http://www.exeter.gov.uk/Code>

**The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with, and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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 the Council's aims and objectives, but it seeks to provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on going process designed to identify, prioritise and manage the risks to the achievement of the Council's aims and objectives.

The governance framework has been in place at Exeter City Council for the year ended 31 March 2014 and up to the date of approval of the annual statement of accounts.

**The Governance Framework**

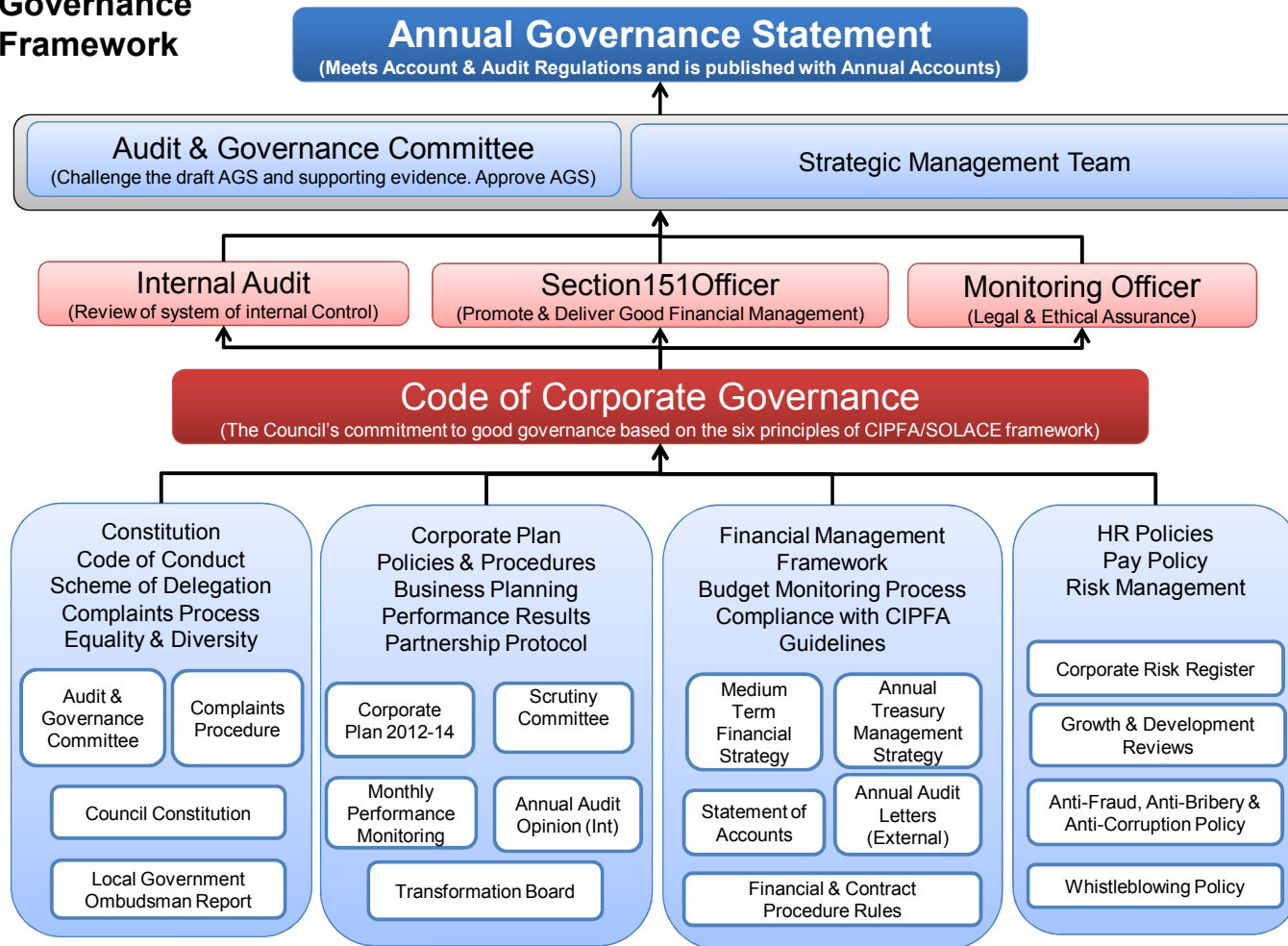
The Council's Governance Framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The Framework recognises that the Council's business is focussed upon its corporate priorities and seeks to facilitate delivery to our local communities of the goals set out in the Corporate Plan. The structures and processes, risk management and other internal control systems, such as standards of conduct, form part of this Framework, which is about managing the barriers to achieving the Council's objectives.

The local Code of Corporate Governance is reviewed annually through the Audit and Governance Committee. This last happened on 26 June 2013 and will be reviewed on 25 June 2014. Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. This task is managed by the Strategic Management Team (SMT) which comprises the Chief Executive and Growth Director, Deputy Chief Executive, Assistant Directors, Corporate Managers and a Business Manager.

The Council has designed systems and processes to regulate, monitor and control its activities in order to achieve its vision and objectives. The Code of Corporate Governance sets out the controls in full.

**ANNUAL GOVERNANCE STATEMENT**

**Governance Framework**



Review of Effectiveness

Exeter City 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 Strategic Management Team who have responsibility for the development and maintenance of the governance environment;
- ✓ the Audit Manager's annual report;
- ✓ comments made by the external auditors and other review agencies and inspectorates; and
- ✓ the Audit & Governance Committee review the elements of the governance framework that are in place and to ensure that it is effective complies with the 6 principles. They also reviewed the system of internal audit and concluded it was effective and remained a key source of assurance for the Council in 2013/14.

The Council's Monitoring Officer has a legal responsibility to look into matters of potential unlawfulness within the Council. The role is undertaken by the Corporate Manager Legal who attends every Full Council Meeting along with the Section 151 Officer, who is responsible for ensuring that all expenditure approved is legal.

Other key officers have also been consulted for their views on the standards of governance within the Council – specifically the

- ✓ Section 151 Officer,
- ✓ Monitoring Officer and
- ✓ Audit Manager.

The Audit & Governance Committee has monitored standards of conduct of Members and advised the Council on probity issues. Changes to, and entries made in the Register of Members' Interests were reviewed by the Monitoring Officer.

The Performance Management Framework has improved during the year. Monitoring information on key areas of performance has been provided to the Strategic Management Team for review and action, with key issues reported to the Transformation Board. Budget monitoring reports have been presented to all three Scrutiny Committees along with the Executive.

The Constitution is reviewed regularly to ensure it is up to date, and reflects best practice and legal requirements. The Monitoring Officer review Standing Orders during 2013-14. The Constitution is approved by Full Council.

In 2013/14 the Council responded to 522 customer complaints. All complaints were responded to by the relevant Assistant Director or Corporate Manager so that any issues identified could be actioned.

Review of Effectiveness

Internal Audit assessed corporate governance arrangements by measuring the Council against the requirements of the governance framework outlined in the CIPFA / SOLACE publication "Delivering Good Governance in Local Government", and the results of this have been reported to the Audit and Governance Committee. The review of the effectiveness of the governance framework by the Audit and Governance Committee noted that there was some improvement required.

The Council's Risk Management arrangements have been monitored throughout the year by the Audit & Governance Committee. Service risk registers are not yet in existence to underpin sound risk management. However there has been a major review of risk in respect of the Council's key project – the leisure complex. Internal Audit will be completing a review of risk management during 2014-15.

All key systems were audited in 2013/14 and a total of 34 audit reports were provided to management and the Audit & Governance Committee.

The Code of Governance was found by Internal Audit to be out of date. The 2014/15 Code is to be approved by the Audit and Governance Committee in June 2014.

Based on the assurance work undertaken by Internal Audit, the Audit Manager has provided an opinion on the adequacy of the control environment which concluded that the key systems are operating soundly and that there are no fundamental breakdowns of controls resulting in material discrepancy. It should, however, be noted that all risks of failure cannot be eliminated, and the assurance given is therefore reasonable and not absolute. Isolated areas in which controls were below the required standard are reported initially to the relevant Assistant Director who ensures prompt corrective action is taken, and ultimately to the Audit and Governance Committee who monitor progress with improvements via follow up reports from Internal Audit.

In September 2013 the Council's external auditor (Grant Thornton) provided the Council with an unqualified opinion on the Council's accounts within their Annual Audit and Inspection letter, and a positive value for money opinion has been received in their Annual Governance Report.

In the 2012/13 Annual Governance Statement, four key issues were identified.

- Establish Audit & Governance Committee – complete
- Address recommendations by External Audit – complete (expect authorisation of journals)
- Update risk register – complete
- Internal Audit recommendations – ongoing.

## ANNUAL GOVERNANCE STATEMENT

### Significant Governance Issues

This Statement is intended to provide reasonable assurance. It is stressed that no system of control can provide absolute assurance against material misstatement or loss. In concluding this overview of the Council's governance arrangements, seven issues have been identified that need to be addressed to ensure continuous improvement in the Governance Framework. The aim is to address these weaknesses during the 2014/15 financial year, by way of an action plan for improving the governance framework and system of internal control. This will be subject to regular monitoring by the Committee.

Issue No.	Issue Identified	Summary of Action Proposed
1	The Code of Corporate Governance is out of date and requires updating.	An updated Code of Corporate Governance will be submitted for approval to Full Council by July 2014.
2	During the year a number of internal audit reports identified some data quality issues, some more significant than others.	Managers are reminded of the importance of accuracy within data input, whenever the issue arises.
3	With considerable changes to the structure of the Council as it transforms the way in which services are delivered; separation of duties continues to be an area of concern.	Managers will continue to review the arrangements for separation of duties as a matter of course. No fundamental weaknesses have yet been identified.
4	The debtors system was found to have a fundamental weakness as reported to this committee on 27 November 2013. A follow up audit has amended the finding to significant improvement required.	The whole area of sundry debtors is to be subject to a review reporting back by the end of the 2014-15 financial year.



## ANNUAL GOVERNANCE STATEMENT

### Significant Governance Issues

Issue No.	Issue Identified	Summary of Action Proposed
5	There are currently no service operational risk registers in place. This could mean that not all operational risks are being identified and managed.	As the corporate risk register beds in, services will be required to set up their own risk registers during this financial year.
6	The Council currently does not have a protocol for partnership working.	It has been agreed that this will be a priority for the Policy Unit. This will be reviewed by Internal Audit during the second quarter of 2014-15.
7	Although under review, the Council does not have an agreed Business Continuity process in place leaving the Council at risk of service delivery failure in the event of an incident.	The Council, with support from Zurich municipal is developing a detailed Business Continuity Plan during the 2014-15 financial year.

**Approval of the Annual Governance Statement**

Through the action referred to on the previous page, we propose over the coming year to address the issues that have been identified, with a view to further enhancing our governance arrangements. These steps will identify improvements that are needed and we will monitor their implementation and operation as part of our next annual review.

**Signed:** ..... **Date:** .....  
Councillor Greg Sheldon  
**Chair of Audit & Governance Committee**

**Signed:** ..... **Date:** .....  
Dave Hodgson CPFA  
**Assistant Director Finance & Section 151 Officer**

**Signed:** ..... **Date:** .....  
Councillor Pete Edwards  
**Leader of the Council**

**Signed:** ..... **Date:** .....  
Karime Hassan  
**Chief Executive & Growth Director**









## GLOSSARY OF TERMS

**Accounting Period**

The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local authority accounts.

**Accounts**

A generic term for statements setting out details of income and expenditure or assets and liabilities or both, in a structured manner. Accounts may be categorised either by the type of transactions they record, e.g. revenue account, capital accounts or by the purpose they serve, e.g. management accounts, final accounts, balance sheets.

**Accruals**

Sums included in the final accounts to cover income or expenditure attributable to the accounting period but for which payment has not been made / received at the balance sheet date.

**Actual**

Actual, as opposed to budget, expenditure and income directly attributable to an accounting period, generally referred to as actuals.

**Audit**

An independent examination of an organisation's activities, either by internal audit or the organisations external auditor.

**Balances**

Working balances are reserves needed to finance expenditure in advance of income from debtors, precepts and grants. Any excess may be applied at the discretion of the authority, to reduce future demands on the Collection Fund or to meet unexpected costs during the year. Balances on holding accounts and provisions are available to meet expenditure in future years without having adverse effect on revenue expenditure.

**Budget**

A statement of the income and expenditure policy plan of the Council over a specified period. The most common is the annual Revenue Budget expressed in financial terms and including other physical data, e.g. manpower resources.

**Capital Financing**

The raising of money to pay capital expenditure. In the past the cost of capital assets was usually met by borrowing, but capital expenditure may also be financed by other means such as leasing, contributions from revenue accounts, the proceeds from the sale of capital assets, capital grants and contributions from developers or others.

## GLOSSARY OF TERMS

<b>Capital Grants</b>	Government grant towards capital expenditure on a specific service or project.	<b>Debtor</b>	An amount due to an organisation within the accounting period not received at the balance sheet date.
<b>Collection Fund</b>	This is a statutory fund kept separate from the main accounts of the Council. It records all income due from the Council Tax, National Non Domestic Rates and Revenue Support Grant and shows the precept payments due to Devon County Council, Devon Police Authority, Devon Fire & Rescue Authority and Exeter City Council.	<b>Deferred Liabilities</b>	This represents the liability for principal repayments on finance leases.
<b>Contingent Liability</b>	A liability which exists at the balance sheet date where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events, for example, the default by a borrower on a loan from a third party for which the authority has given a guarantee.	<b>Depreciation</b>	The theoretical loss in value of an asset, owing to age, wear and tear, deterioration, or obsolescence.
<b>Creditor</b>	Amounts owed by the Authority for work done, goods received or services rendered within the accounting period, but for which payment was not made at the balance sheet date.	<b>Employee Costs</b>	These include salaries, wages and allied national insurance and superannuation costs payable by the City Council, together with training expenses and charges relating to the index-linking of pensions of former employees.
<b>Current Assets</b>	Assets that can be expected to be consumed or realised during the next accounting period.	<b>Final Accounts</b>	Accounts prepared for an accounting period, usually in a summarised form. These accounts show the net surplus (profit) or deficit (loss) on individual services and a balance sheet is prepared for them. They are produced as a record of stewardship and are available to interested parties. Local authorities are required to publish each year a Statement of Accounts (final accounts and balance sheet) as specified in the Accounts and Audit Regulations 2011.
<b>Current Liabilities</b>	Amounts that will become due or could be called upon during the next accounting period.		



## GLOSSARY OF TERMS

<b>Finance Lease</b>	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.	<b>Non-Current Assets</b>	Assets that can be expected to be of use or benefit to the Authority in providing its service for more than one accounting period.
<b>Financial Year</b>	The local authority financial year commences 1 April and finishes 31 March the following year.	<b>Operating Lease</b>	A lease under which ownership of the asset remains with the lessor; for practical purposes it is equivalent to contract hiring.
<b>Government Grants</b>	Payments by central government towards local authority expenditure. They must be specific e.g. Housing Benefits, or general e.g. Revenue Support Grant.	<b>Precepts</b>	The amount that a Precepting Authority (e.g. a County Council) requires from a Charging Authority to meet its expenditure requirements.
<b>Interest</b>	An amount received or paid for the use of a sum of money when it is invested or borrowed.	<b>Revenue Expenditure Financed by Capital under Statute</b>	Expenditure which has been legally capitalised but which does not produce a fixed asset for the council, e.g. renovation grants for homeowners.
<b>Inventories</b>	Items of raw materials and stores an authority has procured to use on a continuing basis which it has not used.	<b>Revenue Support Grant</b>	A grant paid by government to meet a proportion of the local authority expenditure necessary to provide a standard level of service throughout the country.
<b>Minimum Revenue Provision</b>	The minimum amount that must be charged to an authority's revenue accounts and set aside as a provision for credit liabilities. It is calculated by applying a percentage of outstanding debt in accordance with the Council's approved policy.		
<b>National Non Domestic Rates (NNDR)</b>	The NNDR poundage is set annually by central government and collected by Charging Authorities. The proceeds are redistributed by the government between Local Authorities in proportion to their population.		

## GLOSSARY OF TERMS

- Value for Money** An expression describing the benefit obtained (not just in financial terms) for a given input of cash.
- The phrase is widely used within public bodies, but there are many difficulties in its use because value, as such, is a subjective measure and there are rarely supporting objective measures. The Audit Commission is required to consider value for money with the three objectives of economy of input, efficiency of operation and effectiveness of output in service provision.
- Work in Progress** The cost of work done on an incomplete project at a specified date which has not been recharged to the appropriate account at that date.

## REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 24<sup>TH</sup> SEPTEMBER 2014

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PROGRESS REPORT 1<sup>ST</sup> QUARTER 1<sup>ST</sup> APRIL TO 30<sup>TH</sup> JUNE 2014

### Is this a Key Decision?

No

\* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

### Is this an Executive or Council Function? COUNCIL

#### 1. What is the report about?

To report on internal audit work carried out during the period 1<sup>st</sup> April to 30<sup>th</sup> June 2014, to advise on overall progress against the Audit Plan and to report any emerging issues requiring consideration.

#### 2. Recommendations:

That the Internal Audit Progress Report for the first quarter of the year 2014/15 be noted.

#### 3. Reasons for the recommendation:

One of the roles of this committee is to review quarterly internal audit reports and the main issues arising and seek assurance from management that action has been taken, where necessary.

#### 4. What are the resource implications including non financial resources.

None.

#### 5. Section 151 Officer comments:

There are no financial implications contained within the report. It is encouraging to note that the audit of debtors has noted some improvement since the last audit report although there remains work to be done to ensure that the control environment is robust.

#### 6. What are the legal aspects?

There are no issues to rise on the content of this report.

#### 7. Monitoring Officer's comments:

There are no issues to raise on the content of this report.

## 8. Report details:

This Committee is responsible for the implementation and active monitoring of audit processes and actions, which includes performance against the annual audit plan, reviewing quarterly internal audit progress reports and seeking responses and assurance from management regarding audit recommendations that have not been accepted or those not implemented within a reasonable timescale. The 2014/15 Audit Plan was approved at this Committee on 12th March 2014.

The purpose of Internal Audit is to provide an independent and objective review of the adequacy and effectiveness of the Council's arrangements for internal control, risk management and governance. The activities we audit are given an assurance rating as follows:

Excellent	★★★★★	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.
Good	★★★★	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.
Some improvement required	★★★	There is a basic control framework in place, but not all risks are well managed and a number of controls are required to be strengthened.
Significant improvement required	★★	Most of the areas reviewed were not found to be adequately controlled. Risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.
Fundamental weakness	★	Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.

### 8.1 Work Undertaken

Internal Audit's objective is to examine the Council's financial and non-financial systems to check that there are adequate internal controls in place to prevent loss due to frauds, errors and inefficiency, and due attention is paid to corporate governance and risk management.

A summary of progress against the annual audit plan to date is shown at Appendix A, together with the current status of each area for review and the outcomes of the review, where completed.

The table is based on the audit plan and the systems grouped into the twelve strategic purposes as per the Corporate Plan.

A further summary of the outcomes of audits completed can be found at Appendix B.

Progress against the annual audit plan is on target.

### 8.2. Issues for consideration

There are no instances to report where recommendations were not accepted by management during this quarter.

There are no instances of management accepting a recommendation which was not subsequently implemented within a reasonable timescale.

**9. How does the decision contribute to the Council's Corporate Plan?**

Good governance contributes to the Council's purpose of a "Well Run Council".

**10. What risks are there and how can they be reduced?**

Not applicable

**11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?**

Not applicable

**12. Are there any other options?**

Not applicable

Helen Putt & Helen Kelvey  
**Audit Managers**

**Local Government (Access to Information) Act 1972 (as amended)**

**Background papers used in compiling this report:-**

None

Contact for enquires:

Democratic Services (Committees), Room 2.3, 01392 265275

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**EXETER CITY COUNCIL  
AUDIT AND GOVERNANCE COMMITTEE**

**PROGRESS OF 2014/15 AUDIT PLAN AS AT 30/06/14**

Audit Area	Budget Days	Actual Days	Report Status	Direction of travel since last audit	Assurance Rating	Number of findings		
						High	Med	Low

**Leader**

'A stronger city'

External Funding & Grants	5	0	To start Q4					
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**Enabling Services**

'A well run Council'

'Maintain our property assets of the city'

Main Accounting 2014-15	25	3.7						
- Budget setting			To start Q2					
Income Management/Sundry Debt	35	11.4	To start Q4					
Procurement	30	1.2	To start Q3					
Creditors	50	19.6						
Quarter 1			In progress					
Treasury Management	5	0	To start Q2					
People Management	35	16.2	In progress					
ICT – Shared service	30	5.8	Ongoing					
Business Continuity	15	0	To start Q3					
Risk Management	10	3.5	In progress					
Contracts	5	0	To start Q3					
Counter Fraud/Anti-Fraud	15	9.1	Draft Report					
Corporate governance	15	2.1	Ongoing					
Information Governance	10	1.8	Ongoing					
Equalities & Diversity	10	0	To start Q4					
Safeguarding	15	10.7	In progress					
Partnerships	5	0	To start Q3					
External Audit	5	0.7	Ongoing					

**Customer Access**

'Help me with my housing and financial problem'

Housing Benefit Subsidy	50	20.1	To start Q4					
Council Tax	30	0	To start Q2					
NDR	12	0	To start Q2					
One View of Debt (OVD)	25	0	To start Q3					
Housing - Tenants	25	3.7	In progress					

## Housing

'Provide suitable housing'

'Be a good landlord'

Housing - Property	15	1.4	To start Q4					
Private Sector Housing	10	0	To start Q3					

## Environment, Health & Wellbeing

'Keep place looking good'

'Keep me/my environment safe and healthy'

Health & Safety	10	12	In progress					
Licensing	5	7.4	Draft Report					

## Economy and Culture

'Provide great things for me to see and do'

'Help me run a successful business'

Culture/Events (Rugby World Cup)	2	0	Ongoing					
Museums			In progress					

## City Development

'Deliver good development'

Planning	5	0.5	To start Q4					
New Homes Bonus	8	6.8	In progress					
CIL/Section 106	8	0	To start Q4					

## Public Realm

'Keep place looking good'

Car Parks	10	0	To start Q4					
CCTV	5	5.6	In progress					
Homecall	5	5.4	Completed	No previous report	Good	0	4	2

Contingency (special/frauds) including unplanned work	40	6
Follow-ups	10	4.4
PSIAS Peer Review	2	0
<b>Total</b>	<b>597</b>	<b>159.1</b>

Results of reports finalised during 2014/15 relating to 2013/14 – see Appendix B for summary of reports

Audit Area	Report Status	Direction of travel since last audit	Assurance Rating	Number of findings		
				H	M	L
Debtors 2013/14	Final	↑	Some Improvement Required	0	6	16
Housing Benefit Subsidy 2013/14	Final	↔	Some Improvement Required	2	6	3
Main Accounting 2013/14 –	Final	↔	Some	0	7	5



System management					Improvement required			
Creditors 2013/14 – Quarter 4			Final	↔	Good	0	4	6

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**EXETER CITY COUNCIL  
AUDIT AND GOVERNANCE COMMITTEE**

**Internal Audit Summary of Work Completed April to Jun 2014/15**

Audit Area	Summary
<p><b>Debtors 2013/14</b></p> <p>Assurance rating: Some improvement required ★★★</p>	<p>The Council provides a wide range of services to the community and raises a significant amount of income from a number of sources. The debtors system is used to raise invoices for services/goods such as trade and garden waste collections, home call alarms, commercial rents, rechargeable housing repairs, service charge and ground rents and housing benefit overpayments.</p> <p>The objectives of the audit were to review procedures in order to check that Financial Regulations are being complied with and to test that there are sufficient internal controls to ensure that all income due is collected in a timely manner, adequate recovery actions undertaken, write-off procedures are adhered to and monitoring of debt recovery is reported to Members.</p> <p>A total of 6 medium and 16 low recommendations were made all of which were accepted by management.</p>
<p><b>Housing Benefit Subsidy 2013/14</b></p> <p>Assurance rating: Some improvement required ★★★</p>	<p>This audit sought to provide assurance that housing benefit applications had been processed in accordance with Housing Benefit subsidy regulations during 2013/14. A total of 2 high risk, 6 medium and 3 low risk recommendations were made all of which were accepted by management. The 2 high risk findings related to:</p> <ul style="list-style-type: none"> <li>• two cases where the entitlement to benefit was incorrectly calculated and the claimants were over or underpaid</li> <li>• change in circumstances that were not followed up</li> </ul>
<p><b>Main Accounting 2013/14 Part Two - System Management</b></p> <p>Assurance rating: Some improvement required ★★★</p>	<p>This audit is carried out in three parts. Part 1 was carried out in August 2013 and included a review of the budget setting process. Part 2 (this audit) is a review of system management and includes completeness and accuracy of financial records, budgetary control, journals and internal transactions, suspense and holding accounts, bank reconciliations, VAT and capital accounting. Part 3 is the year end processes.</p> <p>A total of 7 medium and 5 low risk recommendations were made, all of which were accepted by management.</p>
<p><b>Creditors 2013/14 – Quarter 4</b></p> <p>Assurance rating: Good ★★★★★</p>	<p>This audit is carried out quarterly. The testing undertaken in this quarter included the following:</p> <ul style="list-style-type: none"> <li>• Invoice checks - reviewing invoices to ensure that they quote all of the relevant information, are arithmetically correct, that VAT has been correctly accounted for and that the invoice has not been paid twice.</li> <li>• Credit notes - reviewing credit notes to check that they quote all of the relevant information</li> <li>• Payments - checking that the amount paid agrees to the value of the invoice</li> <li>• Supplier checks - checking that suppliers provide their business addresses, that their VAT numbers are valid and that if an employee is also a supplier, that relevant employment checks are undertaken.</li> </ul> <p>A total of 4 medium and 6 low risk recommendations were made, all of which were accepted by management.</p>

<p><b>Homecall</b></p> <p>Assurance rating: Good ★★☆☆</p>	<p>Home Call provides community alarms to rent to people at risk, including the elderly, those with mobility problems, medical conditions or those in sheltered housing to enable them to continue to live in their own homes. As at 11 April 2014, there were 1,030 Home Call clients.</p> <p>The scope of the audit included a review of the issue of alarms, reconciliation of income, recovery of outstanding invoices, maintenance of alarms, client and staff protection.</p> <p>A total of 3 medium and 1 low recommendation were made, all of which were accepted by management.</p>
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## REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 24 September 2014

Report of: Corporate Manager (Policy, Communications and Community Engagement)

Title: Corporate Risk Register

### Is this a Key Decision?

No

### Is this an Executive or Council Function?

Risk Management is a Council function and is an important element of the Council's Code of Corporate Governance. Regular monitoring of the Council's corporate risks helps to ensure that the Council's business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

#### 1. What is the report about?

The report advises the Committee of the Council's risk management progress and presents the updated Corporate Risk Register (Appendix A).

#### 2. Recommendations:

That the Committee reviews the updated Corporate Risk Register.

#### 3. Reasons for the recommendation:

To comply with the Council's Risk Management Policy which states that this Committee is responsible for monitoring the effectiveness of risk management throughout the Council and regularly reviewing the Corporate Risk Register.

#### 4. What are the resource implications including non financial resources.

Assistant Directors, Corporate Managers and other officers, as appropriate, are asked to update the Corporate Risk Register on a quarterly basis. This process is facilitated by the Policy, Communications and Community Engagement team.

#### 5. Section 151 Officer comments:

Amongst the risks set out are a number of areas relating to finance. I am comfortable at the moment that the mitigations in place and proposed, will reduce the risk to the Council.

#### 6. What are the legal aspects?

There are no issues to raise on the content of this report.

#### 7. Monitoring Officer's comments:

There are no issues to raise on the content of this report.

**8. Report details:**

The Corporate Risk Register provides details of those risks which could have a major impact on the city or the Council and need to be monitored and managed at a senior management/political level. Risks which could have an impact on a service, but which would not necessarily impact on a council-wide or city basis, are contained in the operational risk register and managed by Assistant Directors and Managers.

Assistant Directors, Corporate Managers, the Deputy Chief Executive and the Chief Executive and Growth Director have reviewed the Council's risks. The Corporate Risk Register has been updated to reflect this. No significant changes have occurred since the last reporting period. The notes column contained in the register identifies those risks which have been updated since the last reporting period.

Some emerging risks have been identified and work will be conducted over the next three months to define and score these. These risks include the delay in responding to land charge searches, universal credit and how this may have a financial impact on the Council and the future work around the combined authority approach.

**9. How does the decision contribute to the Council's Corporate Plan?**

This decision helps to ensure the delivery of the Council's purpose 'Well Run Council'.

**10. What risks are there and how can they be reduced?**

Any risks should be captured in either this document or the operational risk register. However, the existing risk management process and procedure is to be audited over the coming months and this may highlight weaknesses or risks within the existing process and procedure. A further report will be presented to this Committee upon the completion of the audit.

**11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?**

The decision to regularly review the Corporate Risk Register will ensure that any risks or issues identified under the above headings will be identified and managed at a senior level. Most of the risks contained within the Corporate Risk Register would have an impact on one or more of the headings identified above.

**12. Are there any other options?**

Options on how the risk management process and procedure can be improved may be identified as part of the forthcoming audit.

**Corporate Manager (Policy, Communications and Community Engagement)**

**Local Government (Access to Information) Act 1972 (as amended)**

**Background papers used in compiling this report:-**

None

Contact for enquires: Democratic Services (Committees), Room 2.3, 01392 265275

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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