

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 23 September 2015
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

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

Membership -

Councillors Vizard (Chair), Laws (Deputy Chair), Baldwin, Buswell, Harvey, Henson, Lyons, Sheldon, Williams, Raybould and Thompson

Agenda

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

- 7 **Report to those Charged with Governance 2014/15 (ISA 260)/Audit Findings for Exeter City Council**
To consider the report of the Council's External Auditors Grant Thornton. (Pages 3 -
Please note this report is to follow as detail from the Final Statement of Accounts 2014/15 report is required. 38)
- 8 **Management Letter to the External Auditor in respect of the 2014/15 Statement of Accounts**
To consider the report of the Assistant Director Finance (Section 151 Officer) (Pages 39
Please note this report is to follow as detail from the Final Statement of Accounts 2014/15 report is required. - 42)
- 9 **Final Statement of Accounts 2014/15**
To consider the report of the Assistant Director Finance (Section 151 Officer). (Pages 43
Please note this report is to follow. - 158)

Date of Next Meeting

The next **Audit and Governance Committee** will be held on Wednesday 2 December 2015 at 5.30 pm

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The Audit Findings for Exeter City Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

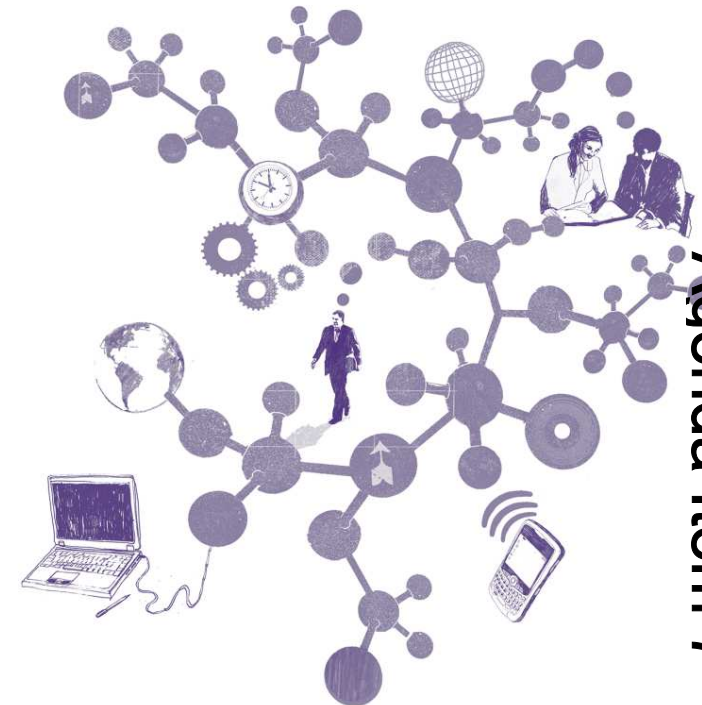
Year ended 31 March 2015

30 September 2015

Page 3

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Agenda Item 7



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9 September 2015

Dear Members

Audit Findings for Exeter City Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Exeter City Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours faithfully

Geraldine Daly

Chartered Accountants

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Contents

Section	Page
1. Executive summary	5
2. Audit findings	9
3. Value for Money	23
4. Fees, non-audit services and independence	27
5. Communication of audit matters	29

Appendices

- A Action plan
- Audit opinion

Page 5

Section 1: Executive summary

Page 6

- 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 Exeter City Council's (the Council) financial statements for the year ended 31 March 2015. 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 UK&I).

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 and 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 the Audit and Governance Committee on 24 June 2015.

At the time we produced our plan we had not agreed the accounting treatment for Strata Service Solutions Limited; Exeter Canal and Quay Trust; Exeter Business Centre Ltd and the Exeter Science Park Ltd. During the course of our audit the accounting treatment for these bodies was concluded and further information can be found on page 12 of this report.

Our audit is substantially complete although we are finalising our work in a number of areas. In particular, we need to complete our work on the following:

- obtaining the final signed version of the Strata Ltd accounts;
- reviewing the final version of the financial statements, in particular the adjustments made re Strata (see page 13), the prior period adjustments, the cash flow statement and the capital and financing entries within the movement in reserves statement;
- completing our testing on your welfare expenditure (Housing Benefits);
- 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
- completing our review of your Whole of Government Accounts return.

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

Key issues arising from our audit

Financial statements production

We worked with the Council in the year to help with de-cluttering its accounts. This involved removing any duplication and immaterial notes within the accounts. The move away from group accounting (see page 12) led to a reduction in disclosures and this, together with the de-cluttering exercise, led to a reduction in the Council's financial statements from 123 pages to 109. A further review, focussing on the formatting and layout of the financial statements could reduce this further.

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

There is only one unadjusted error within the Council's financial statements which relates to the accounting of the pension liability for Strata.

When the Council consolidated the figures for Strata into its own financial statements, it applied the statutory override to its share of Strata's pensions liabilities as well as to those of the Council itself; this additional override amounted to £1.136m. Our view is that this was not appropriate and the Council has not been able to provide us with a compelling case for applying this override.

There were also a number of other changes to the Council's financial statements following the audit of Strata. These issues are covered on page 13.

We did not identify any material errors within the Council's financial statements, although we did request that two prior period adjustments were presented differently.

We identified a small number of adjustments to improve the presentation of the financial statements, although none of these were particularly significant.

At the time of writing, we had commenced work on the Council's welfare expenditure testing. We identified an error regarding the parameters for the up-rating of certain state benefits. The system required the percentage increase to be entered e.g. 2.9%.

However, the Council entered the factor – in this case 1.029. The system assumed this to be 1.029% and therefore understated claimants' incomes and consequently overpaid them benefits. This did not affect every claimant as the up-rating is only used in certain circumstances, although there are 1,135 claims in total that will need to be checked.

The Council has estimated a 'worst case' scenario – assuming all of the 1,135 cases are wrong – and the total of this is approximately £85,000. The Council expects that the final error will be far less than this, but this cannot be confirmed until all of the cases have been reviewed. Once the cases have all been reviewed, we will be able to assess the impact, if any, on the amount of subsidy payable to the Council.

Further details of our financial statements audit are set out in section two of this report.

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 three 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.

Controls

Roles and responsibilities

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.

Findings

In our audit plan we again drew your attention to the fact that journals were not authorised before being processed. This was reported to the Council in 2012/13 and 2013/14. This issue still remains and we therefore bring this to the attention of Members through this report.

Further details are provided within section two 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 and the finance team.

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 2015

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 and the finance team.

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 2015

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

Page 11

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 the 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 24 June 2015. 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 on 24 June 2015. On page 12 we set out our final group audit scope assessment which we have finalised since our plan was issued. We concur with the Council's assessment that Strata Service Solutions Limited should be treated as a joint operation and that group accounts are not required in 2014/15.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

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 (UK&I) 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
Page 13	1. Improper revenue recognition Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Exeter City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Exeter City Council, mean that all forms of fraud are seen as unacceptable. 	Our audit work has not identified any issues in respect of revenue recognition.
	2. Management override of controls Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions] 	As reported in our audit plan, we have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. A material weakness was again noted as there is no authorisation process for journals prior to their posting. This was previously reported to the Council. We have undertaken detailed testing on journal transactions in the year by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention. Our audit work has not identified any evidence of management override of controls. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

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
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated).	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively undertaken cut off testing and searched for unrecorded liabilities substantively tested operating expenses incurred by the Council substantively tested year end creditors. 	Our audit work to date has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively substantively tested payroll transactions undertaken by the Council performed analytical procedures, including a trend analysis 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>However, the original disclosure concerning senior employees required a minor amendment.</p>

Page 14

Group audit scope assessment

As noted earlier, at the time we produced our plan we had not completed our full assessment of the following components.

This work was completed prior to the commencement of our final accounts field work and our conclusions are set out below. As a result of our work we agree with the Council's view that Group Accounts are not required in 2014/15.

Component	Assessment
<p>Strata Service Solutions Limited</p>	<p>Exeter City Council, Teignbridge District Council and East Devon District Council are all shareholders in a company called Strata Service Solutions Limited.</p> <p>The company became operational from 1 November 2014 and provides IT services to the three Councils. There are no plans currently, for the Company to provide such services to any other councils, companies or third parties.</p> <p>We have worked closely with the three councils regarding the accounting treatment of Strata. The Councils are of the view that this is a joint operation and our assessment has concluded that this is appropriate. The financial statements of Strata have been included within the Councils' own single entity accounts.</p> <p>Accounting issues relating to Strata are covered in more detail overleaf on page 13.</p>
<p>Exeter Canal and Quay Trust (ECQT)</p>	<p>As noted in our audit plan, new group accounting standards have been introduced and the way in which ECQT was accounted for needed to be revisited. A key determinant of a subsidiary is control and a reporting authority controls an entity if, and only if, it has:</p> <ul style="list-style-type: none"> a) power over the investee; and b) exposure, or rights, to variable returns from its involvement with the investee; and c) the ability to use its power over the investee to affect the amount of the investor's returns <p>We reviewed the Council's assessment of the relationship with ECQT and concluded that test (a) was met - but not (b) and (c) - and that therefore there is (i) no control over ECQT by Exeter City Council and (ii) that group accounts are not required.</p>
<p>Exeter Science Park Limited</p>	<p>We have reviewed the Council's assertion that Exeter Science Park is not material to the financial statements of Exeter City Council. We have concluded, based on this assessment that Group accounts would not be required on the basis of Exeter Science Park.</p>
<p>Exeter Business Centre Limited</p>	<p>We have reviewed the Council's assertion that Exeter Business Centre is not material to the financial statements of Exeter City Council. We have concluded, based on this assessment that Group accounts would not be required on the basis of Exeter Business Centre.</p>



Accounting for Strata Service Solutions Limited (Strata)

In this section we report on our consideration of the accounting for Strata Service Solutions Limited.

Accounting area	Comments
<p>Nature of relationship</p>	<p>We have worked closely with Exeter City Council, East Devon District Council and Teignbridge District Council regarding the accounting treatment of Strata. The Councils are of the view that the Company is a joint operation and we concur with this view. The financial statements of Strata have been included within the Councils' own single entity accounts.</p>
<p>Production of single entity accounts</p>	<p>Strata produced draft financial statements for the period 1 November 2014 to 31 March 2015. The figures within these financial statements were allocated between the three Councils on the basis of their individual shareholdings and were subsequently included within the Councils' own financial statements for the year ended 31 March 2015.</p> <p>Strata has appointed its own External Auditors and when its financial statements were audited, they were found to contain a significant error. This related to the treatment of capital payments to Strata from each of the three Councils. This was originally treated as income in Strata's draft financial statements, but this was revised to reflect the fact that it related to subsequent capital expenditure. The impact on Strata's financial statements was to reduce its turnover by approximately £1.5m. This income reduction led to a commensurate increase in the reported loss for the period and a corresponding reduction in the Company's net assets. A number of other minor revisions were also made to the Company's draft accounts.</p> <p>On the basis of the significance of the errors identified, Exeter City Council decided that it was appropriate to amend its own financial statements to reflect its share of the changes to Strata's financial statements. We support this decision and currently await the final, audited financial statements for Strata and the revised statements for Exeter City Council. We expect to receive these by Friday 11 September 2015.</p>
<p>Accounting for pensions</p>	<p>When Strata began trading, staff transferred to the company from the three councils which control the Company under TUPE arrangements. Strata took over the full pensions liabilities relating to these staff, which in some cases may have been built up over decades of Council service. In many Local Authority companies, the Councils retain the historic pensions liabilities – with the Company assuming responsibility for any post trading liabilities. Some Councils choose to retain the full liabilities.</p> <p>The way in which pensions impact on the income and expenditure account is different between companies and Local Authorities. Companies charge any payments made to the pension fund to the income and expenditure account together with any movement in the pension liability for the year. In order to avoid any short-term detrimental impact on the General Fund – and thus Council Tax payers – Local Authorities are only required to charge the payments made in the year to the pension fund to the income and expenditure account, with any movement in the pension liability being ultimately charged to the pensions reserve. This is known as the pensions statutory override.</p> <p>When the Council consolidated the figures for Strata into its own financial statements, it also applied the statutory override to its share of Strata's pensions liabilities; this amounted to £1.136m. Our view is that was not appropriate and the Council has not been able to provide us with a compelling case for applying this override.</p> <p>We recommended that the Councils take legal advice about the guarantees provided by the Councils for the pension liabilities of Strata, with the ultimate aim of resolving this issue in 2015/16. Should the Council agree to support a guarantee this needs to be disclosed in the current year accounts as a liability.</p>




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
Revenue recognition	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.	<p>The Council's revenue recognition policy is clearly set out and is consistent with that of the previous year.</p> <p>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.</p>	 Green
Estimates and judgements	<p>In the financial statements, the Council has disclosed that the key judgements and estimates are in relation to:</p> <ul style="list-style-type: none"> Funding for Local Government (i.e. going concern) Group accounts / joint operation pensions liabilities arrears valuation of property, plant and equipment (PPE) and depreciation 	<p>As noted overleaf, we are of the view that it is appropriate to prepare the Council's financial statements for the year ended 31 March 2015 on a going concern basis.</p> <p>Our Group audit scope assessment is on page 12. We agree with the Council's assessments that Strata Service Solutions Limited (Strata) is a joint operation and that group accounts are not required for 2014/15.</p> <p>We are satisfied that the Council's pensions liabilities and arrears are fairly stated. However, the financial statements contain an unadjusted error regarding the treatment of pensions for Strata. This is explored in more detail on page 13.</p> <p>We have been working with the Council's internal valuers throughout the year regarding PPE valuations, particularly those that were not formally revalued in the year.</p> <p>We are satisfied that the Council has adequate arrangements in place to ensure that all PPE is fairly valued at the balance sheet date.</p> <p>Our work on other key judgements and estimates has not identified any issues we wish to bring to your attention.</p>	 Amber

Page 17

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 continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Council has advised us that it has a reasonable expectation that the services it provides will continue for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing its financial statements.	We have reviewed the Council's assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 Green

Page 18

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

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.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee and have not been made aware of any incidents in the period. No other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	A letter of representation has been requested from the Council. In particular, representations will be requested from management for not amending the financial statements for the item identified on page 20.
	Disclosures	Our review found no non-trivial omissions in the financial statements.
	Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	We obtained direct confirmations from the Public Works Loan Board (PWLB) for loans from that body, and requested from management permission to send confirmation requests to third parties for bank and other loan balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We also wrote to a firm of solicitors used by the Council during the year and, at the time of writing, have not received a response. We have asked the Council to help obtain a response.

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. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 11 above. We also considered and walked through the internal controls for welfare expenditure (Housing Benefits).

We identified one matter during the course of our audit regarding journal authorisation and we reported this in our audit plan. For completeness it is set out in the table below. This and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

Page 20	Assessment	Issue and risk	Recommendation
	 Red	As reported in our audit plan, journals were not authorised before processing.	The Council should introduce a sample-based approach to journal review and authorisation covering all journals.

Assessment

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

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.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<p>Extract from 2013/14 Audit Findings Report:</p> <p><i>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.</i></p>	<p>This weakness was still in place throughout 2014/15.</p> <p>The Council's response to the recommendation in our 2014/15 audit plan was that this would be resolved by 31 July 2015 (i.e. in 2015/16). We have not undertaken any testing on any transactions in 2015/16.</p>
2.	✓	<p>Extract from 2013/14 Audit Findings Report:</p> <p><i>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.</i></p>	<p>Our IT auditors were satisfied with the Council's arrangements.</p>

Page 21

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are 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
<p>As noted on page 13, Strata's draft financial statements for the period 1 November 2014 to 31 March 2015 were found to contain a significant error relating to the treatment of capital payments to Strata from each of the three Councils.</p> <p>The impact on Strata's financial statements was to reduce its turnover by approximately £1.5m. This income reduction led to a commensurate increase in the reported loss for the period and a corresponding reduction in the Company's net assets. A number of other minor revisions were also made to the Company's draft accounts.</p> <p>Exeter City Council decided that it was appropriate to amend its own financial statements to reflect its share of the changes to Strata's financial statements. We support this decision.</p>	Various	Various

Page 22

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below. We have included this within our Letter of Representation.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 As noted on page 12, we do not agree with the Council's use of the statutory override for the pension liabilities relating to Strata Service Solutions Limited. The Council should disclose the fact that they have agreed to provide a guarantee for their share of the pension liability which currently stands at £1.136m. The Council have agreed to support a guarantee to the value of the pension liability at transfer and they should clearly disclose this liability in the 2014/15 accounts.	1,136	1,136	

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.

Area`	Adjustment made
1 Prior period adjustment	The Council's financial statements contain two prior period adjustments which relate to a decrease in infrastructure assets (£2.2m) and an increase in the values of garages (£2.6m). These were originally adjusted for by amending the 2013/14 comparative figures. The Council subsequently agreed to make these adjustments by updating the opening balances for 2013/14 i.e. the introduction of a 'third balance sheet'.
2 Debtors classification	£273k was classified as 'other Local Authorities' whereas it related to Government Departments. NDR bad debt provision was included in sundry debtors rather than bad debts
3 Senior employees' remuneration	The note was updated to reflect the impact of redundancy payments on the total remuneration for the year
4 Housing Revenue Account (HRA) Capital Receipts	The note setting out the capital receipts in the year was originally understated by £173k.
5 Grant income	The note included an incorrect figure from the Council's working papers. 'Other grants' was originally stated as £13.620m whereas it should have been £1.453m. The Consolidated Income and Expenditure Statement was correct.
6 Finance leases (Council as lessor)	We compared the leases to the Council's fixed assets register and noted that the unguaranteed residual value was overstated by £198k
7 Property, Plant and Equipment (PPE) revaluations	We asked for the note to be clarified so that it reflected only those assets that were subject to a full revaluation in the year.

Section 3: Value for Money

Page 25

- 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.

Page 25
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 undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

The 2014/15 financial statements show that the Council was able to increase its useable reserves in the year by approximately £2.5m.

The Council's medium term financial plan shows that significant savings need to be delivered to reflect the anticipated fall in Central Government funding, although the Council does not plan to finance this fall in funding through reducing its General Fund balance.

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

The Council is open to new ways of working (e.g. the shared IT service with East Devon District Council and Teignbridge District Council) where it considers cost reductions and service improvements can be achieved. However, it is important for such developments to be closely monitored to ensure the expected savings and efficiencies are delivered in practice.

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 2015.

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:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

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

Theme	Summary findings	RAG rating
Key indicators of performance	<p>The 2014/15 financial statements show that the Council was able to increase its useable reserves in the year by approximately £2.5m and its medium term financial plan shows that the anticipated fall in Central Government funding will be managed without the need to reduce the Council's General Fund balance.</p> <p>The arrears in key areas such as Council Tax and NDR have risen and it is important that the Council introduces plans to tackle these.</p>	Green
Strategic financial planning	<p>The Council has:</p> <ul style="list-style-type: none"> adequately considered the main issues, both local and national, that it faces in agreeing its medium term financial plan adequately reflected the results of its medium term planning in its 2015-16 budget made reasonable and adequate planning assumptions in its medium term financial plan identified and taken account of funding cuts in its medium term financial plan <p>The Council needs to maintain this position by continuing to :</p> <ul style="list-style-type: none"> keep the medium term financial plan up-to-date and plan for a range of potential scenarios ensure that planned saving programmes are delivered. <p>Due to the scale of the financial challenge facing the Council and, in particular, the scale of the savings plans required, we have assessed Strategic Financial Planning as an 'amber' risk.</p>	Amber

Theme	Summary findings	RAG rating
Financial governance	<p>In 2013/14, we assessed the Council's arrangements as adequate and we did not identify any risks during our review of key documentation for 2014/15. In particular, the Council has:</p> <ul style="list-style-type: none"> adequate arrangements in place to make Members aware of financial matters, through timely and comprehensive reports adequate internal and external engagement in the budget setting process. <p>As a result, we have concluded that the Council continues to have adequate arrangements in place.</p>	Green
Financial control	<p>In 2013/14, we assessed the Council's arrangements as adequate and we did not identify any risks during our review of key documentation for 2014/15. In particular, the Council has:</p> <ul style="list-style-type: none"> robust efficiency plans in place, including timescales, which set out savings targets and how they will be delivered arrangements in place to deliver long-term sustainable savings rather than short-term efficiencies. <p>As a result, we have concluded that the Council continues to have adequate arrangements in place.</p>	Green
Prioritising resources	<p>The Council has adequate arrangements in place to:</p> <ul style="list-style-type: none"> challenge delivery methods and consider alternative options consult with key stakeholders when challenging delivery methods and alternative options inform and make key decisions on how to make savings to services understand the impact and outcome of decisions that it makes. <p>However, there is a need to monitor savings and efficiencies, particularly when they are planned to be achieved via partnerships, shared services or other alternative delivery models (ADMs)</p>	Green
Improving efficiency & productivity	<p>In 2013/14, we assessed the Council's arrangements as adequate and we did not identify any risks during our review of key documentation for 2014/15. In particular, the Council has:</p> <ul style="list-style-type: none"> adequate arrangements in place to understand its costs and inform its reviews of where cost savings in service delivery can be made sound IT systems and data quality arrangements in place. <p>As a result, we have concluded that the Council continues to have adequate arrangements in place.</p>	Green

Section 4: Fees, non-audit services and independence

- Page 29
- 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. Our certification work has not been completed. We will advise the Audit and Governance Committee of the final fee for this work.

Fees

	Per Audit plan £	Actual fees £
Council audit	77,183	77,183
Grant certification on behalf of Audit Commission*	10,890	* Indicative at present
Total audit fees	88,073	

Fees for other services

Service	Fees £
Audit related services	
Certification of pooled housing receipts return	TBC
Non audit related services	
We have invoiced the following amounts in 2014/15:	
Trade waste claim	£6,667
VAT advice	£1,800
	£8,447

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 Financial Reporting Council'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 (UK&) 260, as well as other (UK&I) 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).

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
Our communication plan		
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		✓

Page 33 Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should seek legal advice regarding the accounting for the pensions liability of Strata Service Solutions Limited and, in particular, whether a guarantee from the three Councils could remove the liability from Strata's financial statements. The Council should arrange for the guarantee to be put in place in relation to the pension liability in relation to this and account for this accordingly.	High	Agreed. The three Councils will look into the implications of the additional guarantee to establish whether it will work satisfactorily in a situation where there are three owners of the Company. – 31/03/2016 (DH)	31 March 2016 Dave Hodgson Assistant Director, Finance
Page 34	Repeated from audit plan: The Council should introduce a sample-based approach to journal review and authorisation covering all journals.	Medium	Repeated from audit plan: As an alternative to introducing a sample based approach, our Systems Accountant has established that the Efinancials system has the functionality for journal authorisation to be introduced as a control and this is now subject to testing. We are currently seeking advice from the software supplier regarding whether the journal authorisation controls can be introduced for specific journal types, rather than applied to all journal types (e.g. interface journals). If this is not possible, we may consider reverting back to the recommended sample based approach.	Repeated from audit plan: 31 July 2015 Michelle White Technical Accounting Manager
	3	The Council should review the formatting and layout of its financial statements to see if there is scope to further reduce their size	Low	Work has been undertaken in conjunction with Grant Thornton to de-clutter the accounts which resulted in the removal of duplication and immaterial notes, but consideration will also be given to the formatting and layout of the accounts to further reduce the number of pages
4	Keep the financial and operational performance of Strata under review to ensure the expected savings and efficiencies are delivered in practice.	Medium	Agreed.	On-going Joint Executive Committee / Board
5	Develop a plan to address the increasing level of arrears and report progress against this to Members	Medium	Agreed. The Assistant Director, Finance and Assistant Director, Customer Access will develop an action plan and report against this to the Audit & Governance Committee.	31 December 2015 Assistant Director, Finance and Assistant Director, Customer Access

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EXETER CITY COUNCIL

We have audited the financial statements of Exeter City Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Exeter City Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Director, Finance and auditor

As explained more fully in the Statement of the Assistant Director, Finance's Responsibilities, the Assistant Director, Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director, Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
give a true and fair view of the financial position of Exeter City Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We are required to report to you if:
in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

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

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

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

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

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

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

Conclusion

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

Certificate

We certify that we have completed the audit of the financial statements of Exeter City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[
Geraldine Daly
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Bristol

25 September 2015



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Please ask for: Dave Hodgson
Direct Dial: 01392 265292
Email: david.hodgson@exeter.gov.uk
Our ref: DH20150923
Your ref:
Date: 23 September 2015

Dear Sirs

Exeter City Council
Financial Statements for the year ended 31 March 2015

This representation letter is provided in connection with the audit of the financial statements of Exeter City Council for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:

Office of Assistant Director Finance

- a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xiii We have considered the unadjusted misstatements schedule included in your Audit Findings Report and set out below. We have not adjusted the financial statements for the misstatement brought to our attention as it is **[either]** immaterial to the results of the Council and its financial position at the year-end **[or]** for the reasons noted on the schedule **[or]** for the reasons noted below :

Issue	Impact on Comprehensive Income and Expenditure Account	Impact on Balance Sheet	Reason for not adjusting
We do not agree with the Council's use of the statutory override for the pension liabilities relating to Strata Service Solutions Limited. The Council should disclose the fact that they have agreed to provide a guarantee for their share of the pension liability which currently stands at £1.16m. The Council have agreed to support a guarantee to the value of the pension liability at transfer and they should clearly disclose this liability in the 2014/15 accounts.	£1.136m	£1.136m	The issue in question is a matter of legal interpretation and advice from Teignbridge's Head of Legal is that there are grounds to apply the Statutory override. Neither ourselves nor Grant Thornton have sought external legal advice as the amount is not considered material to this year's accounts. The Council is pursuing options to address this with our partners to ensure a satisfactory conclusion in advance of next year's statement of accounts.

- xiv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xvi We have provided you with:
 - a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b additional information that you have requested from us for the purpose of your audit; and
 - c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvii We have communicated to you all deficiencies in internal control of which management is aware.
- xviii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xx We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
 - d management;
 - e employees who have significant roles in internal control; or
 - f others where the fraud could have a material effect on the financial statements.
- xxi We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 23 September 2015.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

REPORT TO: AUDIT AND GOVERNANCE COMMITTEE
DATE OF MEETING: 23 SEPTEMBER 2015
REPORT OF: Assistant Director Finance
TITLE: Statement of Accounts 2014-15

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 2014-15.

2. Recommendations:

It is recommended that the Audit and Governance Committee approve the audited Statement of Accounts for 2014-15.

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 2015.

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 is one adjustment identified by Grant Thornton that has not been made within the financial statements in respect of the Council's use of the statutory override for the pension liabilities of Strata Service Solutions Ltd. However, as the audit is ongoing 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.

Clearly there is an issue raised by Grant Thornton in relation to the statutory override for the pension liabilities of Strata Service Solutions Ltd which is yet to be resolved.

7. Monitoring Officer Comments:

It was agreed at the time of setting up Strata Service Solutions Ltd that any legal advice to the Company will be provided by the Teignbridge District Council's in-house legal team. The Monitoring Officer now considers that they will have to scrutinise any legal advice received since each authority needs to be satisfied with the approach it takes in order to resolve the issue regarding pensions.

8. Report Details:

STATEMENT OF ACCOUNTS 2014-15

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 affecting the Statement of Accounts for 2014-15 are:

- **Group Accounting**

The Code of Practice on Local Authority Accounting introduced a new suite of standards for subsidiaries, associates and joint arrangements. This prompted a thorough review of the Council's Group Accounts, which comprised Exeter Canal and Quay Trust, Exeter Business Centre and Exeter Science Park Limited.

As a result of this work, it was concluded that Group Accounts were not required for 2014-15 as Exeter Canal and Quay Trust is no longer deemed to be a subsidiary. The remaining interests in Exeter Business Centre and the Exeter Science Park Limited are not considered to be material to the financial statements of the Council.

- **Strata Service Solutions Limited**

Exeter City Council, Teignbridge District Council and East Devon District Council each share control of Strata Service Solutions Ltd; a Company formed for the

provision of a shared Information Communications Technology service. The Company became operational from 1 November 2014.

In accordance with accounting standards, the new Company is deemed to be a joint operation as it has been set up exclusively for the provision of services to the three authorities and decisions need to be made collectively and unanimously. Each authority is therefore required to recognise its own share of the assets, liabilities, revenue and expenses pertaining to Strata Service Solutions in its financial statements (35.936% for Exeter City Council).

- **Transport Infrastructure Assets**

From 2016-17 local authorities will be required to amend the measurement basis of their transport infrastructure assets. In preparation of this change, a review of the Council's infrastructure assets was undertaken and this resulted in the removal of assets with a carrying value of £2.2 million from the Council's Balance Sheet as the Council does not have legal title or significant risks and rewards of ownership.

- **Property, Plant and Equipment**

Revaluations of property, plant and equipment must be undertaken sufficiently regular in order to ensure the value of assets reported in the Balance Sheet are not materially different from the amount that would be given by a full valuation carried out on 31 March each year. In order to help meet this requirement the Council moved to a rolling programme of revaluations, whereby 20% of property, plant and equipment are fully re-valued each year, rather than a full revaluation every 5 years.

The valuation basis for council garages was also amended in accordance with accounting guidance. This resulted in their carrying value increasing by £2.6 million.

- **De-cluttering Exercise**

In conjunction with our external auditors, Grant Thornton, work was undertaken to de-clutter the accounts which has resulted in the removal of any duplication and immaterial notes within the accounts.

8.3 Audit Findings

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

- **Unadjusted Finding**

As explained in paragraph 8.2, the Council has reflected its share of the assets, liabilities, income and expenditure of Strata Service Solutions Ltd in its financial statements. In doing so, the Council applied the statutory override to its share of Strata's pension liabilities as well as to those of the Council itself. Our external auditors do not support this treatment.

The three owners; Exeter City Council, Teignbridge District Council and East Devon District Council are seeking legal advice. In the mean time, this remains unadjusted.

- **Prior Period Adjustment**

Two prior period adjustments were made to the accounts in respect of the removal of infrastructure assets and revaluation of council garages. Rather than

adjusting the 2013-14 comparatives, it was necessary to prepare a third Balance Sheet in order to correct the errors in an earlier reporting period and update the opening balances for 2013-14 instead. This has been reflected in the final set of financial statements.

- **Disclosures**

A number of disclosure changes were identified, which have been rectified. Most notably, the disclosure note in respect of officer remuneration has been updated to include redundancy packages.

Further minor changes have been made to the disclosure notes relating to; short term debtors, Housing Revenue Account capital receipts, finance leases, property, plant and equipment revaluations and grant income.

- **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 2014-15 was reported to Executive on 14 July 2015 and to Council on 28 July 2015.

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 2014-15 and the transactions of the Council during 2014-15, 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)

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STATEMENT OF ACCOUNTS

2014-2015

CONTENTS

Explanatory Foreword	1	HRA Statement of the Movement in HRA Balance	85
Statement of Responsibilities for the Statement of Accounts	7	HRA Notes to the Account	86
Movement in Reserves Statement	8	Collection Fund	89
Comprehensive Income & Expenditure Statement	10	Annual Governance Statement	91
Balance Sheet	12	Auditor's Report	100
Cashflow Statement	14	Glossary of Terms	104
Notes to the Financial Statements	15		
HRA Income & Expenditure Account	84		

EXPLANATORY FOREWORD

1. THE KEY ACCOUNTING STANDARDS AND STATEMENTS

The Statement of Accounts for 2014-15 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 2014-15
- 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 Statement, 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 2014-15, which affect the accounts of the Council, including :

- Extensive revisions to Group Accounts following the issue of new International Financial Reporting Standards and the amendment of related existing standards.
- Amendments to the presentation of financial statements to reflect updates to IAS 1 as required by the Annual Improvements to IFRS 2009-2012 Cycle.
- Minor amendment to the presentation of Financial Instruments for offsetting financial assets and liabilities, where applicable.

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.

EXPLANATORY FOREWORD

The Consolidated Balance Sheet

Summarises the overall financial position of the Council at 31 March 2015 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.

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.

EXPLANATORY FOREWORD

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 2014-15, Exeter's fund deficit has increased from £75.530 million to £96.538 million, an increase of £21.008 million. This is mainly due to a fall in the discount rate assumption. 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 (£1.332m in 2015-16). The next actuarial valuation of the Fund will be carried out as at 31 March 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 £4.9 million have been used to finance capital expenditure in 2014/15. Additions to property, plant and equipment (PPE) totalled £11.0 million, £0.08 million was spent on intangible assets, £4.4 million was revenue expenditure funded from capital under statute and £1.0 million was treated as long term debtors. During the year, the council disposed of PPE and assets held for sale valued at £1.3million, the receipts from which were used in part to finance capital expenditure. The net effect of revaluations and impairments has increased the value of fixed assets by £13.7million. Depreciation and amortisation have reduced the value of fixed assets by £5.4million.

EXPLANATORY FOREWORD

4. FINANCIAL OVERVIEW

The budget for 2014/15 included £1.5 million of savings / additional income to be delivered. This has been delivered, along with the early achievement of savings identified for the flowing year and additional income from the Business Rates retention scheme, meaning that the General Fund Balance has increased during 2014/15.

The City Council's revised budgeted Service net expenditure for 2014/15 was £12,472,740. Net interest payments of £165,000, £2,778,000 for New Homes Bonus, £1,470,000 to cover the repayment of debt and a transfer to earmarked reserves of £2,308,380 were added and resulted in a net budget of £13,472,378, which includes £165,742 transferred from the General Fund balances.

The Council delivered its General Fund service plans for a total net cost of £11,008,092, an underspend of £1,464,648 against the revised budget of £12,472,740.

Net interest payable was lower than budget. A voluntary repayment of debt has significantly increased the amount set aside to reduce the level of debt owed by the Council.

During the year £800,076 has been transferred from earmarked reserves, mainly to cover the voluntary repayment of debt. £997,817 was used to finance capital expenditure and a payment made to offset part of the Business Rates deficit from 2013/14. As a consequence of all the above, General Fund Balances have increased by £609,878.

The Council's General Fund Balance has therefore increased during the year from £3,364,640 to stand at £3,974,518 as at 31st March 2015. This is equivalent to about 28.6% of the net budget for 2014/15.

HRA

The final position for the Housing Revenue Account, including Council Own Build, showed an overall increase in the HRA working balance of £1,773,312 taking it to £7,736,531 as at 31 March 2015. Additionally, £2,475,648 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 £
Service Net Expenditure	12,472,740	11,008,092	(1,464,648)
Net Interest	165,000	147,632	(17,368)
Provision for Repayment of Debt	1,470,000	3,482,572	2,012,572
Revenue Contribution to Capital	0	997,817	997,817
Business Rates Deficit	0	1,215,465	1,215,465
	14,107,740	16,851,578	2,743,838
T/fr (From)/To Earmarked Reserves	2,308,380	(800,076)	(3,108,456)
Transfer (From)/To Working Balance	(165,742)	609,878	775,620
General Fund Expenditure	16,250,378	16,661,380	411,002
Formula Grant	(7,715,000)	(7,727,000)	(12,000)
Council Tax Freeze Grant	(118,000)	(118,000)	0
Pooling of Business Rates	(1,070,000)	(1,459,592)	(389,592)
CIL income		(9,096)	(9,096)
New Homes Bonus	(2,778,000)	(2,777,994)	6
Council Tax Net Expenditure	4,569,378	4,569,698	320
Opening General Fund Balance	3,364,640	3,364,640	0
Closing General Fund Balance	3,198,898	3,974,518	(775,620)

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

In 2014/15 the Council spent £16.5 million on capital projects and grants, compared with a revised approved programme of £19.2 million.

It has been identified that £2.3 million will need to be carried forward into future years, but it is not necessarily yet committed. Included in the expenditure for the year was:

- £9.3 m - New construction, conversion and renovation
- £1.4 m - Vehicles, plant and equipment
- £4.4 m – Grants
- £0.3 m - Acquisition of land and existing buildings
- £0.1 m - Intangible fixed assets
- £1.0 m – Loan to Exeter Science Park Ltd towards funding the new Science Park Centre

The capital programme of £16.5 million was financed as follows

- £1.1 million - HRA Major Repairs Allowance,
- £0.3 million - Communities & Local Government (Disabled Facilities Grant).
- £4.9 million - financed from borrowing
- £6.3 million - revenue and reserves,
- £3.4 million - capital receipts
- £0.5 million - other sources including contributions from developers.

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 Natalie Vizard
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 2015.



Dave Hodgson CPFA
Assistant Director Finance
23 September 2015

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)
Balance at 31 March 2013 carried forward	(3,358)	(3,020)	(6,364)	(1,623)	(2,270)	(961)	(17,596)	(215,663)	(233,259)
<i>Movement in Reserves 2013-14</i>									
(Surplus) / deficit on the provision of services	3,289	0	(3,804)	0	0	0	(515)	0	(515)
Other Comprehensive Income & Expenditure	0	0	0	0	0	0	0	(8,661)	(8,661)
Total Comprehensive Income & Expenditure	3,289	0	(3,804)	0	0	0	(515)	(8,661)	(9,176)
Adjustments between Accounting basis and funding basis under regulations (note 7)	(6,716)	0	4,101	(683)	(1,524)	278	(4,544)	4,544	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves	(3,427)	0	297	(683)	(1,524)	278	(5,059)	(4,117)	(9,176)
Transfers to / (from) Earmarked Reserves	3,420	(3,420)	0	0	0	0	0	0	0
(Increase) / Decrease in 2013-14	(7)	(3,420)	297	(683)	(1,524)	278	(5,059)	(4,117)	(9,176)

The opening balances on the Movement in Reserves Statement at 31 March 2013 have been restated in respect of garage revaluations and the removal of certain infrastructure assets. Please refer to Note 12 for more details.

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)
Balance at 31 March 2014 carried forward	(3,365)	(6,440)	(6,067)	(2,306)	(3,794)	(683)	(22,655)	(219,780)	(242,435)
<i>Movement in Reserves 2014-15</i>									
(Surplus) / deficit on the provision of services	2,657	0	(7,819)	0	0	0	(5,162)	0	(5,162)
Other Comprehensive Income & Expenditure	0	0	0	0	0	0	0	4,462	4,462
Total Comprehensive Income & Expenditure	2,657	0	(7,819)	0	0	0	(5,162)	4,462	(700)
Adjustments between Accounting basis and funding basis under regulations (note 7)	(2,729)	0	6,022	1,125	(1,421)	(267)	2,730	(2,730)	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves	(72)	0	(1,797)	1,125	(1,421)	(267)	(2,432)	1,732	(700)
Transfers to / (from) Earmarked Reserves	(537)	537	0	0	0	0	0	0	0
(Increase) / Decrease in 2014-15	(609)	537	(1,797)	1,125	(1,421)	(267)	(2,432)	1,732	(700)
Balance at 31 March 2015 carried forward	(3,974)	(5,903)	(7,864)	(1,181)	(5,215)	(950)	(25,087)	(218,048)	(243,135)

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.

2013-2014				2014-2015			Notes
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Service	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	
2,976	(936)	2,040	Central Services to the Public	2,627	(922)	1,705	
9,982	(3,903)	6,079	Cultural and Related Services	9,699	(3,879)	5,820	
10,013	(3,671)	6,342	Environmental and Regulatory Services	13,000	(3,932)	9,068	
3,721	(1,069)	2,652	Planning Services	3,323	(1,588)	1,735	
49,459	(46,114)	3,345	Housing Services	49,126	(45,964)	3,162	
3,731	(6,876)	(3,145)	Highways and Transport Services	2,798	(6,286)	(3,488)	
2,727	(655)	2,072	Corporate and Democratic Core	2,708	(1,074)	1,634	
211	0	211	Non Distributed Cost	1,187	(340)	847	
14,366	(19,738)	(5,372)	Housing Revenue Account - Other	11,686	(20,929)	(9,243)	
97,186	(82,962)	14,224	Cost of Services	96,154	(84,914)	11,240	
		(542)	Other operating expenditure			(890)	9
		1,607	Financing and investment income and expenditure			1,819	10
		(15,804)	Taxation and non-specific grant income			(17,331)	11
		(515)	(Surplus) or Deficit on Provision of Services			(5,162)	

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

2013-2014			2014-2015			Notes
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	
		(6,731)			(12,670)	
		(6,731) (Surplus) or deficit on revaluation of property, plant and equipment				
		<u>(1,930)</u>			<u>17,132</u>	
		<u>(8,661)</u>			<u>4,462</u>	
		<u>(9,176)</u>			<u>(700)</u>	
		Total Comprehensive Income and Expenditure			Total Comprehensive Income and Expenditure	

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'.

Restated 2012-2013 £'000	Restated 2013-2014 £'000		2014-2015 £'000	Notes
301,373	319,455	Property, Plant and Equipment	334,450	12
41,265	31,965	Investment Property	35,702	13
22,436	22,615	Heritage Assets	22,643	14
627	477	Intangible Assets	715	
1,499	0	Long Term Investments	50	16
12,231	12,456	Long Term Debtors	12,919	16
379,431	386,968	Total Long-Term Assets	406,479	
194	209	Inventories	194	
6,972	9,542	Short-Term Debtors	8,103	17
239	448	Short-Term Investments	429	16
1,635	609	Assets Held for Sale	281	19
3,969	12,284	Cash & Cash Equivalents	13,448	18
13,009	23,092	Total Current Assets	22,455	

BALANCE SHEET

Restated 2012-2013 £'000	Restated 2013-2014 £'000		2014-2015 £'000	Notes
(15,015)	(18,033)	Short-Term Borrowing	(10,015)	16
(12,320)	(14,490)	Short-Term Creditors	(16,379)	20
(27,335)	(32,523)	Total Current Liabilities	(26,394)	
(56,906)	(56,906)	Long term borrowing	(56,906)	16
(1,151)	(2,614)	Capital Grants Receipts in Advance	(5,884)	31
(51)	(52)	Long-Term Creditors	(77)	
(73,738)	(75,530)	Pension Scheme Liability	(96,538)	38
(131,846)	(135,102)	Total Long-Term Liabilities	(159,405)	
233,259	242,435	Net Assets	243,135	
Financed by:				
17,596	22,655	Usable Reserves	25,087	22
215,663	219,780	Unusable Reserves	218,048	23
233,259	242,435	Total Reserves	243,135	

Two prior period adjustments have been identified which have resulted in retrospective restatement of the Balance Sheet;

- Infrastructure assets with a carrying value of £2.2m have been removed, predominantly in respect of capital enhancements to public highway areas, following a review of legal ownership and substantive risks and rewards of ownership
- The valuation basis for council garages has been amended in accordance with proper accounting practices, which has resulted in a £2.6m increase in their carrying value



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.

2013-2014 £'000	2014-2015 £'000	Notes
(515) Net (surplus) or deficit on the provision of services	(5,162)	
Adjustments to net surplus or deficit on the provision of services for non-cash (12,357) movements	(11,366)	
Adjustments for items included in the net surplus or deficit on the provision of 3,052 services that are investing and financing activities	407	
(9,820) Net cashflows from Operating Activities	(16,121)	24
5,874 Investing Activities	16,252	25
(4,369) Financing Activities	(1,295)	26
(8,315) Net (Increase) or decrease in cash and cash equivalents	(1,164)	
3,969 Cash and cash equivalents at the beginning of the reporting period	12,284	
12,284 Cash and cash equivalents at the end of the reporting period	13,448	

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Authority is required to prepare an annual Statement of Accounts by the Accounts 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 2014/15 and the Service Reporting Code of Practice 2014/15, 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 categories 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.

VAT

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

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
- unlisted 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 to the pension fund 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.

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Community Infrastructure Levy (CIL)

The Council has elected to charge a Community Infrastructure Levy. The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised in the Comprehensive Income and Expenditure Statement, as set out above.

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 at 31 March 2015, 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

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 re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains or loss on disposal.

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

Asset included in the balance sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years and the revised amount is included in the balance sheet. A full valuation is performed on a rolling basis to cover 20% of assets per annum over a five-year cycle. Assets not included in the full valuation are also assessed 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 and residual values:

Acquisition value	Life expectancy	Residual value
£10,000 – £14,999	6 years	12%
£15,000 - £19,999	7 years	11%
£20,000 - £49,000	6 years	12%
Over £50,000	7 years	4%

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

Asset	Life expectancy	Residual value
Plant & equipment	5 to 10 years	Nil
Infrastructure	20 years	Nil
Operational Properties	Up to 60 years (unless otherwise specified)	As specified by Valuers

NOTES TO THE FINANCIAL STATEMENTS

Components

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 (referred to as MRP; Minimum Revenue Provision) 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.

INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has interests in companies and other entities that have the nature of subsidiaries and associates. However, these interests are not considered to be material. In accordance with the Code, group accounts do not need to be prepared where an authority's interest is not considered to be material. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

JOINT OPERATIONS

Jointly controlled operations are arrangements where contractual agreements are in place under which two or more parties share control. The parties each have rights to the assets and obligations for the liabilities relating to that arrangement.

Joint operations are recognised in the single entity statements by bringing in the authority's share of the assets, liabilities, revenue and expenses of the arrangement.

Exeter City Council, East Devon District Council and Teignbridge District Council each share control of Strata Service Solutions Ltd (Strata), which was incorporated under the Companies Act 2006 for the provision of a shared Information Communications Technology service. The single entity statements for each authority reflect their respective shares of Strata. However, the accompanying notes to the Council's financial statements only include information relating to Strata where this would make a material difference to the usefulness of the notes.

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 2014/15, they comprise:

- IFRS 13 Fair Value Measurement
- IFRIC 21 Levies
- Annual Improvements to IFRSs 2011-2013 cycle

The 2015/16 Code of Practice on Local Authority Accounting has adopted these new or amended standards, any accounting changes will therefore be implemented from 1 April 2015.

IFRS 13 will provide a standard definition of 'fair value' in respect of financial and non-financial assets and liabilities. It defines fair value as the price that would be received or paid, taking account characteristics such as condition, location, restrictions on use. The standard will also require significant disclosure where fair value has been calculated using valuation techniques not derived from market information.

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by government.

The annual improvements to IFRS 2009-2011 cycle covered; IFRS 1 First-time adoption of IFRS, IFRS 3 Business Combinations and IAS40 Investment Property.

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 set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Funding for Local Government

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.

Group Accounts

The Council is the sole shareholder of Exeter Business Centre and it has a 21.5% shareholding in the Exeter Science Park Limited. It has been determined that group accounts do not need to be prepared as the authority's interest in these entities are not considered to be material. Please refer to Note 32 for more details.

Joint Operation

Strata Service Solutions Ltd is a registered company which has been established to assist the three authorities; Exeter City Council, East Devon District Council and Teignbridge District Council, in the provision and operation of shared ICT services. It is deemed to be a joint operation due to the inherent rights to the assets and obligations for liabilities each authority has relating to the joint arrangement, based upon the following

facts and circumstances:

- The three authorities have joint control of the entity. Each authority has one nominated Director and each Director has one vote. The Directors are responsible for the management of the Company's business, for which purpose they may exercise all the powers of the company with decisions made collectively and unanimously.
- The Company is required by the Councils to carry out the tasks as set out in the Business Plans and Service Plans and is limited to the business and objectives as set by the Councils
- The Company's revenue derives from the financial allocations set and controlled by each of the Councils
- There are no plans for Strata to do anything other than provide services to the three authorities. The Company has been established as an in-house mutual trading local authority controlled company to assist them in the provision of services.

Joint operations are not consolidated into group accounts, instead each authority has recognised in its financial statement its share of assets, liabilities, revenue and expenses pertaining to Strata Service Solutions Ltd. Please refer to Note 33 for more details.

NOTES TO THE FINANCIAL STATEMENTS

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

The Statement of Accounts contains 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
Pensions Liabilities	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 £3.517m in the pension liability and £0.095m in the Projected Service Cost. However the assumptions interact in a complex way. During the year the actuaries have amended the liability by £22.791m as a result of assumptions being updated.
Arrears	At the Balance Sheet date, the Council had a balance of £6.703m for sundry debtors. Impairment of doubtful debts totalling £2.803m 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 £2.803m being set aside.
Valuation of Property, Plant and Equipment and Depreciation	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 £24,500 for every year that the useful life is reduced by.

NOTES TO THE FINANCIAL STATEMENTS

5. EVENTS AFTER THE BALANCE SHEET DATE

The draft 2014/15 Statement of Accounts was authorised for issue by the Assistant Director Finance, D Hodgson CPFA, on 26 June 2015. Events after this date have not been recognised in the 2014/15 Statement of Accounts. Where events taking place before this date provided information about conditions existing at 31 March 2015, 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

A Business Improvement District (BID) Scheme is due to be implemented in 2015/16 for Exeter's city centre, following the end of a ballot on Monday 2 March. As billing authority, Exeter City Council will act as an agent to the Exeter BID Company since it will collect the BID levy income on behalf of the BID body.

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.

	2013-14						2014-15					
	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)
Adjustments involving the Capital Adjustment Account												
Reversal of items debited or credited to the CIES												
Charges for depreciation and impairment of non-current assets	(3,548)	(1,992)	0	0	0	5,540	(3,131)	0	0	0	0	3,131
Movements in the market value of Investment Properties	1,039	0	0	0	0	(1,039)	1,369	0	0	0	0	(1,369)
Amortisation of intangible Assets	(284)	0	0	0	0	284	(185)	0	0	0	0	185
Capital Grants and contributions applied	214	122	0	0	0	(336)	193	85	0	0	0	(278)
Movement in the Donated Assets Account	131	0	0	0	0	(131)	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	(568)	0	0	0	0	568	(3,178)	0	0	0	0	3,178
Amounts of non-current assets written-off on disposal or sale as part of the gain/loss on disposal	(696)	(1,344)	0	0	0	2,040	53	(1,141)	0	0	0	1,088
Insertion of items not debited or credited to the CIES												
Statutory provision for the financing of capital investment	1,327	0	0	0	0	(1,327)	1,332	0	0	0	0	(1,332)
Voluntary provision for the financing of capital investment	110	0	0	0	0	(110)	2,150	0	0	0	0	(2,150)
Capital expenditure charged against the General Fund and HRA balances	366	5,608	0	0	0	(5,974)	998	5,339	0	0	0	(6,337)
Adjustment to long term debtor repayments	0	0	0	0	0	0	0	0	(188)	0	0	188

NOTES TO THE FINANCIAL STATEMENTS

	2013-2014						2014-2015					
	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)
Adjustments involving the Capital Grants Unapplied												
Capital grants and contributions unapplied credited to the CIES	(41)	0	0	0	41	0	361	(7)	0	0	(354)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	226	(226)	0	0	0	0	87	(87)
Adjustments involving the Capital Receipts Reserve												
Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the CIES	1,060	1,992	(3,052)	0	0	0	485	1,983	(2,468)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	2,126	0	0	(2,126)	0	0	3,368	0	0	(3,368)
Contribution from the Capital Receipts Reserve towards admin costs of disposals	0	(40)	40	0	0	0	0	(34)	34	0	0	0
Contribution from the Capital Receipts Reserve towards the payment to the Government capital receipts pool	(364)	0	364	0	0	0	(400)	0	400	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	(161)	0	11	150	0	0	(21)	0	0	21
Adjustments involving the Deferred Capital Receipts Reserve												
Transfer of Finance Lease Premium to I&E account	(4)	0	0	0	0	4	(102)	0	0	0	0	102

NOTES TO THE FINANCIAL STATEMENTS

	2013-14						2014-15					
	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)
Adjustments involving the Financial Instruments Adjustment Account												
Amount by which finance costs charged to the CIES are different from the finance costs chargeable in year in accordance with statutory requirements	(7)	0	0	0	0	7	(259)	0	0	0	0	259
Adjustments involving the Pension Reserve												
Reversal of retirement benefits debited or credited to CIES	(6,962)	(461)	0	0	0	7,423	(7,127)	(503)	0	0	0	7,630
Employers pension contributions and direct payments to pensioners in the year	3,509	191	0	0	0	(3,700)	3,434	321	0	0	0	(3,755)
Adjustments involving the Collection Fund Adjustment Account												
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	(1,939)	0	0	0	0	1,939	1,253	0	0	0	0	(1,253)
Adjustments involving the Accumulated Absences Account												
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in accordance with statutory requirements	(59)	25	0	0	0	34	25	(21)	0	0	0	(4)
Adjustments involving the Major Repairs Reserve												
Amount equal to full depreciation charges set aside in the Major Repairs Reserve	0	0	0	(2,333)	0	2,333	0	0	0	(2,487)	0	2,487
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	809	0	(809)	0	0	0	1,066	0	(1,066)
Total Adjustments	(6,716)	4,101	(683)	(1,524)	278	4,544	(2,729)	6,022	1,125	(1,421)	(267)	(2,730)

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 2013 £'000s	Transfers in £'000s	Transfers out £'000s	Balance 31 March 2014 £'000s	Transfers in £'000s	Transfers out £'000s	Balance 31 March 2015 £'000s
General Fund							
New Homes Bonus	1,377	2,205	(635)	2,947	2,678	(3,578)	2,047
Strategic Review	0	140	(15)	125	0	(74)	51
Capital Fund	0	0	0	0	700	0	700
Other Planning Reserves	280	94	(156)	218	0	(14)	204
Leisure Reserves	215	0	0	215	0	(33)	182
Economic Development	44	9	0	53	20	0	73
Housing GF Reserves	146	33	(67)	112	0	(30)	82
Redundancy Reserve	0	250	0	250	300	(158)	392
Museum Reserves	600	0	(52)	548	0	(8)	540
NNDR Deficit	0	1,331	0	1,331	0	(537)	794
Other Earmarked Reserves	358	311	(28)	641	5	(71)	575
Strata Usable Reserves	0	0	0	0	263	0	263
Total	3,020	4,373	(953)	6,440	3,966	(4,503)	5,903

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER OPERATING EXPENDITURE

	2013-14	2014-15
	£'000	£'000
Trading Account (surplus) / deficit	14	0
Pension Fund Administration Expenses	53	55
Payment to the Government's Housing Capital Receipt Pool	363	400
(Gain) / losses on the disposal of non-current assets	(972)	(1,151)
(Gain) / losses on transfer of assets to Strata Service Solutions Ltd	0	(194)
	(542)	(890)

11. TAXATION AND NON-SPECIFIC GRANT INCOME

	2013-14	2014-15
	£'000	£'000
Council tax income	(4,457)	(4,612)
Non-domestic rates	(3,365)	(5,133)
Non-ringfenced government grants	(7,687)	(6,954)
Capital grants and contributions	(295)	(632)
	(15,804)	(17,331)

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2013-14	2014-15
	£'000	£'000
Interest payable and similar charges	2,125	2,098
Net interest on the net defined benefit liability	3,251	3,245
Net interest on the net defined benefit liability - Strata Service Solutions Ltd	0	19
Interest receivable	(109)	(75)
Income and expenditure in relation to investment properties and changes in their fair value	(3,824)	(3,604)
Other investment income	164	137
Interest receivable - Strata Service Solutions Ltd	0	(1)
	1,607	1,819

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	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
Cost or valuation								
As at 1 April 2014	201,577	106,483	14,969	4,048	4,560	0	1,482	333,119
Additions	5,776	923	1,230	15	106		2,914	10,964
Revaluations - Revaluation Reserve	2,323	6,306						8,629
Revaluations - CIES		(400)						(400)
Derecognition - disposals	(657)	(257)	(303)					(1,217)
Derecognition - other		(2,189)	(1,729)	0			(192)	(4,110)
Reclassifications - held for sale	(161)							(161)
Other movements - Strata Service Solutions Ltd			512					512
At 31 March 2015	208,858	110,866	14,679	4,063	4,666	0	4,204	347,336
Depreciation and impairments								
At 1 April 2014	0	(1,320)	(10,397)	(1,947)	0	0	0	(13,664)
Depreciation Charge	(2,437)	(1,436)	(1,028)	(355)				(5,256)
Depreciation written out to Revaluation Reserve	2,429	1,584						4,013
Depreciation written out to CIES		39						39
Derecognition - disposals	8		269	149				426
Derecognition - other			1,556					1,556
At 31 March 2015	0	(1,133)	(9,600)	(2,153)	0	0	0	(12,886)
Balance Sheet amount at 31 March 2015	208,858	109,733	5,079	1,910	4,666	0	4,204	334,450
Balance Sheet amount at 1 April 2014	201,577	105,163	4,572	2,101	4,560	0	1,482	319,455

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
Cost or valuation								
As at 1 April 2013	193,712	96,192	14,241	3,540	4,260	0	862	312,807
Additions	6,893	421	1,218	508	281		628	9,949
Donations	81	50						131
Revaluations - Revaluation Reserve	4,547							4,547
Revaluations - CIES	(2,278)	(516)						(2,794)
Derecognition - disposals	(820)		(474)					(1,294)
Derecognition - other							(8)	(8)
Reclassifications - held for sale	(609)							(609)
Other movements	51	10,336	(16)		19			10,390
At 31 March 2014	201,577	106,483	14,969	4,048	4,560	0	1,482	333,119
Depreciation and impairments								
At 1 April 2013	0	0	(9,817)	(1,617)	0	0	0	(11,434)
Depreciation Charge	(2,301)	(1,320)	(1,030)	(330)				(4,981)
Depreciation written out to Revaluation Reserve	2,004							2,004
Depreciation written out to CIES	287							287
Derecognition - disposals	10		450					460
Derecognition - other								0
At 31 March 2014	0	(1,320)	(10,397)	(1,947)	0	0	0	(13,664)
Balance Sheet amount at 31 March 2014	201,577	105,163	4,572	2,101	4,560	0	1,482	319,455
Balance Sheet amount at 1 April 2013	193,712	96,192	4,424	1,923	4,260	0	862	301,373

Downward revaluations of £4.9m have been moved to the 'cost or valuation' section of this note from 'depreciation and impairments' in order to reflect the proper accounting treatment.

NOTES TO THE FINANCIAL STATEMENTS

Prior Period Adjustments

The asset values of Infrastructure Assets and Council Dwellings have been restated as at 1 April 2013.

- A number of infrastructure assets including City Centre Enhancements and the National Cycle Network have been removed from the Council's Balance Sheet to reflect their ownership status
- The valuation basis of council garages has been amended in accordance with the Stock Valuation for Resource Accounting guidance, which has resulted in the removal of the social housing adjustment factor

This has affected the comparative figures published for 2013/14, as set out below:

	Published 2013/14 £'000	Restatement £'000	Restated 2013/14 £'000
Balance Sheet			
Property, plant and equipment	319,012	443	319,455
of which:			
Infrastructure Assets	4,321	(2,220)	2,101
Council Dwellings (including garages)	198,914	2,663	201,577
Unusable Reserves	219,337	443	219,780
of which:			
Capital Adjustment Account	218,181	(2,220)	215,961
Revaluation Reserve	67,552	2,663	70,215

Capital Commitments

At 31 March 2015, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2015/16 at a cost of £3.780m. Similar commitments at 31 March 2014 were £7.103m. The major commitments are:

Property refurbishment and improvement	£'000 2,103
New Construction	911
Infrastructure	145
Community Assets	25
Vehicles and equipment	<u>596</u>
	<u>3,780</u>

NOTES TO THE FINANCIAL STATEMENTS

Revaluations

The significant assumptions applied in estimating fair value are set out in the statement of accounting policies. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuations are carried out by the Council's in-house valuers; registered with the Royal Institution of Chartered Surveyors.

	Council Dwellings £'000s	Other Land and Buildings £'000s	Total £'000s
Carried at historical cost	-	-	-
Valued at fair value in:			
2014-15	208,858	109,733	318,591
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.

	2013-14	2014-15
	£'000	£'000
Rental income from investment property	3,443	2,810
Direct operating expenditure arising from investment property	(657)	(575)
Net gain / (loss)	2,786	2,235

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.

	2013-14	2014-15
	£000s	£000s
Balance at 1 April	41,265	31,965
Additions :		
Purchases	0	0
Construction	0	0
Subsequent expenditure	0	0
Disposals		
Net gains / losses from fair value adjustments	1,039	1,369
Transfers:		
to/from Inventories		
to/from Property, Plant & Equipment	(10,339)	2,368
Other changes		
Balance at 31 March	31,965	35,702

NOTES TO THE FINANCIAL STATEMENTS

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

	2013-14	2014-15
	£'000	£'000
Opening Balance	22,436	22,615
Revaluation		
Museum Exhibits	196	0
Guildhall	26	26
St Nicholas Priory	0	2
Total	222	28
Impairment Recognised in the Revaluation Reserve		
Museum Exhibits	0	0
Guildhall	0	0
St Nicholas Priory	(43)	0
Total	(43)	0
Closing Balance	22,615	22,643

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 17th and 19th 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. 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 2014 £'000s	31 March 2015 £'000s	31 March 2014 £'000s	31 March 2015 £'000s
Financial liabilities at amortised cost	59,572	62,867	32,523	26,394
Financial liabilities at fair value through profit and loss	-	-	-	-
Total borrowings	<u>59,572</u>	<u>62,867</u>	<u>32,523</u>	<u>26,394</u>
Loans and Receivables	12,456	12,969	22,274	21,980
Available-for-sale financial assets	-	-	-	-
Total investments	<u>12,456</u>	<u>12,969</u>	<u>22,274</u>	<u>21,980</u>

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.

	2013-14			2014-15		
	Measured at Amortised Cost Liabilities £'000s	Loans and Receivables £'000s	Financial Assets £'000s	Measured at Amortised Cost Liabilities £'000s	Loans and Receivables £'000s	Financial Assets £'000s
Interest Expenses	2,125	0	2,125	2,098	0	2,098
Total Expense	2,125	0	2,125	2,098	0	2,098
Interest Income	0	(109)	(109)	0	(75)	(75)
Increase in fair value	0	(2)	(2)	0	0	0
Gains on Derecognition	0	(91)	(91)	0	0	0
Total income	0	(202)	(202)	0	(75)	(75)
Losses on Revaluation	0	0	0	0	35	35
Surplus/Deficit on Revaluation	0	0	0	0	35	35
Net (Gain)/Loss for the year	2,125	(202)	1,923	2,098	(40)	2,058

Material Soft Loans Made by the Authority

During 2014/15 the Council provided loans of £1m towards funding the building of the Science Park centre, in two loan advances of £500,000 with interest charged at 2.55% and 2.62% respectively. The loans are repayable on maturity in 2023/24.

	2014/15 £'000s
Balance at start of year	0
New loans granted in the year	1,000
Fair value adjustment on initial recognition	(292)
Other changes	27
Nominal value at 31 March	735

Valuation Assumptions

The interest rate at which the fair value of this soft loan has been made is arrived at by taking the authority's prevailing cost of borrowing (6%) and adding an allowance for the risk that the loan might not be repaid by Exeter Science Park Ltd in this case a zero rate.

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 statements 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 6% for company loans and homeowner loans.	The only loans deemed material are the loans for private sector renewal and a loan advance in respect of the Exeter Science Park Limited
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 31st March 2015;
- 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 March 2014		31 March 2015	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial Assets				
- Investments	0	0	0	0
- Fixed Term Investments	448	448	479	479
Sub Total - Note 1	448	448	479	479
- Trade and other receivables	9,542	9,542	8,103	8,103
Financial Liabilities				
- Long term Creditors	(52)	(52)	(77)	(77)
- Capital Grants Received in Advance	(2,614)	(2,614)	(5,884)	(5,884)
- Trade and other payables	(14,490)	(14,490)	(16,379)	(16,379)
- Short-term Borrowing	(18,033)	(18,033)	(10,015)	(10,015)
- Long-term Borrowing	(56,906)	(58,384)	(56,906)	(78,996)

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

NOTES TO THE FINANCIAL STATEMENTS

17. SHORT TERM DEBTORS

	2013-14	2014-15
	£'000	£'000
Government Departments	3,820	2,604
Other Local Authorities	1,440	1,289
Public Body	0	232
Sundry Debtors	6,679	6,967
Debtors of Strata Service Solutions Ltd	0	79
	<u>11,939</u>	<u>11,171</u>
Provision for bad debts	(2,397)	(3,068)
Total Debtors	<u>9,542</u>	<u>8,103</u>

18. CASH AND CASH EQUIVALENTS

	2013-14	2014-15
	£'000	£'000
Cash held by the Council	9	8
Bank current accounts	230	885
Short-term investments	3,001	0
Short-term call accounts	9,044	12,061
Strata - Cash at bank and in hand	0	494
Total cash and cash equivalents	<u>12,284</u>	<u>13,448</u>

19. ASSETS HELD FOR SALE

	Current	
	2013-14	2014-15
	£'000s	£'000s
Balance at 1 April	1,635	609
Assets newly classified:		
Property, plant and equipment	609	201
Intangible assets	0	0
Other assets / liabilities	0	0
Revaluation losses	0	0
Revaluation gains	0	3
Impairment losses	(384)	0
Assets declassified:		
Property, plant and equipment	(52)	(40)
Intangible assets	0	0
Other assets / liabilities	0	0
Assets sold	(1,199)	(492)
Transfers between current and non-current	0	
Other movements	0	0
Balance at 31 March	<u>609</u>	<u>281</u>

NOTES TO THE FINANCIAL STATEMENTS

20. SHORT TERM CREDITORS

	2013-14	2014-15
	£'000	£'000
Government Departments	3,090	4,540
Other Local Authorities	2,458	2,365
Public bodies	302	91
Sundry Creditors	8,640	9,245
Creditors of Strata Service Solutions Ltd	0	138
	14,490	16,379

21. PROVISIONS

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

	Injury and Damage Compensation claims 2013-14 £'000	Injury and Damage Compensation claims 2014-15 £'000
Balance at 1 April	83	87
Additional provisions made	87	115
Amounts used	(18)	(13)
Unused amounts reversed	(65)	(74)
Balance at 31 March	87	115

22. USABLE RESERVES

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

	2013-14	2014-15
	£'000	£'000
General Fund Balance	3,365	3,974
Housing Revenue Account	6,067	7,864
Capital Receipts Reserve	2,306	1,181
Major Repairs Reserve	3,794	5,215
Earmarked Reserves	6,440	5,903
Capital Grants Unapplied	683	950
Balance at 31 March	22,655	25,087

NOTES TO THE FINANCIAL STATEMENTS

23. UNUSABLE RESERVES

	2013-14	2014-15
	£'000	£'000
Revaluation Reserve	70,215	81,901
Capital Adjustment Account	215,961	222,676
Financial Instrument Adjustment Account	(58)	(317)
Deferred Capital Receipts Reserve	11,574	11,451
Pensions Reserve	(75,530)	(96,538)
Collection Fund Adjustment Account	(1,914)	(661)
Accumulated Absences Account	(468)	(464)
Total Unusable Reserves	219,780	218,048

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

2013-14		2014-15
£'000		£'000 £'000
64,592	Balance at 1 April	70,215
8,346	Upward revaluation of assets	12,691
	Downward revaluation of assets and impairment losses not charged	
(1,615)	to CIES	(20)
6,731	Surplus / deficit on revaluation	12,671
	Difference between fair value depreciation and historical cost	
(629)	depreciation	(719)
(454)	Prior year adjustment	0
(25)	Accumulated gains on assets sold	(266)
(1,108)	Amount written off to CAA	(985)
70,215	Balance at 31 March	81,901

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.

2013-14 £'000		2014-15 £'000	£'000
213,668	Balance at 1 April		215,961
	Charges for depreciation and		
(7,874)	impairment of non-current assets	(5,617)	
(284)	Amortisation of intangible Assets	(185)	
	Revenue expenditure funded from		
(568)	capital under statute	(3,178)	
	Gain on value of assets donated to		
	0 Strata		195
	Amounts of non-current assets		
	written-off on disposal or sale as		
(2,040)	part of the gain/loss on disposal	(1,017)	
(10,766)			(9,802)
	Adjusting amounts to Revaluation		
1,108	reserve		719
	Net amount written out of the cost		
204,010	of non-current assets in year		206,878

NOTES TO THE FINANCIAL STATEMENTS

2013-14 £'000	2014-15	
	£'000	£'000
Capital finance applied in year:		
2,126 Use of Capital receipts reserve	3,368	
809 Use of the Major Repairs Reserve	1,066	
Capital Grants and contributions		
336 applied - CIES	278	
Capital Grants and contributions		
226 applied - CGU Account	87	
Statutory provision for financing		
1,327 capital	1,332	
Voluntary provision for financing		
110 capital	2,150	
Capital Expenditure charged		
directly to the General Fund and		
5,974 HRA	<u>6,337</u>	
10,908		14,618
Movements in the market value of		
1,039 Investment Properties		1,369
Movement in the Donated Assets		
130 Account		0
(126) Repayment of Long Term Debtors		<u>(189)</u>
215,961 Balance at 31 March		<u>222,676</u>

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.

2013-14 £'000	2014-15	
	£'000	£'000
(51) Balance at 1 April		(58)
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 (7) costs charged in year under statute	(259)	
(7)		(259)
(58) Balance at 31 March		(317)

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.

2013-14 £'000	2014-15	
	£'000	£'000
(73,738) Balance at 1 April		(75,530)
1,931 Remeasurements of the net defined benefit liability/(asset)		(16,879)
(7,423) Reversal of items relating to retirement benefits in the CIES		(6,403)
3,700 Employers pension contributions and direct payments to pensioners		3,719
0 Transfer of Strata pension liability		(1,445)
(75,530) Balance at 31 March		(96,538)

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.

2013-14 £'000	2014-15 £'000	£'000
11,602 Balance at 1 April		11,574
Transfer of Finance Lease		
(4) Premium to CIES	(102)	
Transfer to Capital Receipts		
(24) Reserve upon receipt of cash	(21)	
		(123)
11,574 Balance at 31 March		11,451

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.

2013-14 £'000	2014-15 £'000	£'000
24 Balance at 1 April		(1,914)
Amount by which council tax and NNDR income credited to CIES differs from that calculated for the		
(1,938) year under statute	1,253	
		1,253
(1,914) Balance at 31 March		(661)

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.

2013-14 £'000	2014-15 £'000	
	£'000	£'000
(434) Balance at 1 April		(468)
434 Settlement / cancellation of previous year's accrual	468	
(468) Amounts accrued at the end of	<u>(464)</u>	
Amount by which remuneration charged to CIES differs from remuneration charged for the year		
(34) under statute		4
(468) Balance at 31 March	<u>(464)</u>	<u>(464)</u>

24 CASHFLOW STATEMENT – OPERATING ACTIVITIES

	2013-14 £'000	2014-15 £'000	2014-15 £'000	2014-15 £'000
		ECC	Strata	Total
Net (surplus) / deficit on provision of Services	(515)	(5,896)	734	(5,162)
Depreciation	(4,982)	(5,256)		(5,256)
Impairment	(2,892)	(362)		(362)
Amortisation	(284)	(186)		(186)
Investment (losses) / gains	93	(35)		(35)
Donated assets	131	0	194	194
Pension liability	(3,723)	(2,684)	(1,192)	(3,876)
Carrying amount of non-current assets sold	(2,040)	(3,503)		(3,503)
Movement in investment properties	1,039	1,368		1,368
Finance lease income	4	102		102
Other	(1,980)	263		263
Movement in inventories	15	(20)	5	(15)
Movement in debtors	1,557	(635)	258	(377)
Movement in creditors	705	775	(415)	360
less				0
Items classified elsewhere				
	3,052	406	(42)	364
	(9,820)	(15,663)	(458)	(16,121)

NOTES TO THE FINANCIAL STATEMENTS

25. CASHFLOW STATEMENT – INVESTING ACTIVITIES

	2013-14	2014-15	2014-15	2014-15
	£'000	£'000	£'000	£'000
		ECC	Strata	Total
Purchase of non-current assets	12,301	16,845	0	16,845
Purchase of short and long-term investments	135,000	149,000	0	149,000
Other payments for investing activities	0	2,077	0	2,077
Proceeds from the sale of non-current assets	(3,052)	(2,468)	0	(2,468)
Proceeds of short and long-term investments	(136,421)	(148,500)	0	(148,500)
Other receipts for investing activities	(1,954)	(665)	(37)	(702)
Net cash flows from investing activities	5,874	16,289	(37)	16,252

26. CASHFLOW STATEMENT – FINANCING ACTIVITIES

	2013-14	2014-15	2014-15	2014-15
	£'000	£'000	£'000	£'000
		ECC	Strata	Total
Cash receipts of short and long-term borrowing	(18,000)	(18,000)	0	(18,000)
Other receipts for financing activities	(1,369)	(9,295)	0	(9,295)
Repayments of short and long-term borrowing	15,000	26,000	0	26,000
Net cash flows from financing activities	(4,369)	(1,295)	0	(1,295)

NOTES TO THE FINANCIAL STATEMENTS

27. 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:

	2013-14	2014-15
Directorate Net Expenditure	£'000	£'000
Community & Environment	10,168	9,498
Economy & Development	(690)	(708)
Corporate Services	5,679	5,173
HRA	0	0
less		
Notional Capital Charges	(2,931)	(2,955)
IAS Pension Adjustment	0	
Net Expenditure	12,226	11,008

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.

	2013-14 £'000	2014-15 £'000
Net expenditure in the Directorate analysis	12,226	11,008
Net expenditure of services not included in the analysis	3,891	2,820
Amounts in the CIES not reported to management in the analysis	1,134	3,772
Amounts included in the analysis not included in the CIES cost of services	(3,027)	(7,270)
Amounts included in respect of Strata Service Solutions	0	910
Cost of Services in CIES	14,224	11,240

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	Adjustments - Strata Service Solutions	Cost of services	Corporate Amounts	Corporate Amounts - Strata Service Solutions	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2014-15									
Fees & charges	(18,835)			2,237	(885)	(17,483)			(17,483)
Interest & Investment income						0	(3,542)	(1)	(3,543)
Income from Council Tax						0	(4,612)		(4,612)
Government grants & contributions	(47,001)					(47,001)	(12,719)		(59,720)
Total Income	(65,836)	0	0	2,237	(885)	(64,484)	(20,873)	(1)	(85,358)
Employees	19,292	(135)		(422)		18,735			18,735
Other expenses	57,552		3,411	(9,085)	1,795	53,673	55		53,728
Depreciation, amortisation & impairment		2,955	361			3,316			3,316
Interest payments						0	5,343	19	5,362
Payments to Housing Pool						0	400		400
Gain / loss of disposal of assets						0	(1,151)	(194)	(1,345)
Total Expenditure	76,844	2,820	3,772	(9,507)	1,795	75,724	4,647	(175)	80,196
Surplus / deficit on the provision of services	11,008	2,820	3,772	(7,270)	910	11,240	(16,226)	(176)	(5,162)

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
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)	(11,347)	(58,207)
Total Income	(66,640)	0	0	2,808	0	(63,832)	(19,961)	(83,793)
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)
Total Expenditure	78,866	3,891	1,134	(5,835)	0	78,056	5,222	83,278
Surplus / deficit on the provision of services	12,226	3,891	1,134	(3,027)	0	14,224	(14,739)	(515)

NOTES TO THE FINANCIAL STATEMENTS

28. MEMBERS ALLOWANCES

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

	2013-14	2014-15
	£'000	£'000
Salaries	18	12
Allowances	252	247
Expenses	2	5
Total	272	264

29. OFFICERS REMUNERATION

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

Remuneration Band	Number of Employees	
	2013-14	2014-15
£50,000 - £54,999	0	0
£55,000 - £59,999	3	4
£60,000 - £64,999	8	10
£65,000 - £69,999	0	0
£70,000 - £74,999	0	0
£75,000 - £79,999	0	1
£80,000 - £84,999	0	0
£85,000 - £89,999	1	2
£90,000 - £94,999	0	0
£95,000 - £99,999	0	0
£100,000 - £104,999	0	0
£105,000 - £109,999	1	0
£110,000 - £114,999	0	1
£115,000 - £119,999	0	0
£120,000 - £124,999	0	0
£125,000 - £129,999	1	0

NOTES TO THE FINANCIAL STATEMENTS

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

2014-15

Post	Salary, fees & allowances	Expenses	Taxable Benefits	Compensation for Loss of Office	Total Remuneration	Employers Pension Contributions	Total
Chief Executive & Growth Director	110,000	146	0	0	110,146	25,190	135,336
Deputy Chief Executive	88,440	0	0	0	88,440	20,253	108,693
Assistant Director Economy	64,320	901	0	0	65,221	14,729	79,950
Assistant Director Environment	64,765	398	0	0	65,163	14,831	79,994
Assistant Director Customer Access	64,320	119	0	0	64,439	14,729	79,168
Assistant Director Finance	64,320	58	0	0	64,378	14,729	79,107
Assistant Director City Development	64,320	65	0	0	64,385	14,729	79,114
Assistant Director Housing	64,320	0	0	0	64,320	14,729	79,049
Assistant Director Public Realm	64,320	198	0	0	64,518	14,735	79,253
Corporate Manager - Property	56,280	303	0	0	56,583	12,888	69,471
Corporate Manager - Policy/Communications/Community Engagement	54,170	21	0	0	54,191	13,011	67,202
Corporate Manager - Democratic/Civic Support	58,635	21	0	0	58,656	13,428	72,084
Corporate Manager - Legal	58,635	109	0	0	58,744	13,428	72,172

NOTES TO THE FINANCIAL STATEMENTS

2013-14

Post	Salary, fees & allowances	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	128,555	5,919	134,474
Chief Executive & Growth Director	105,500	202	0	0	105,702	21,627	127,329
Deputy Chief Executive	87,166	202	0	0	87,368	17,869	105,237
Assistant Director Economy	64,000	618	0	0	64,618	13,120	77,738
Assistant Director Environment	64,028	0	0	0	64,028	13,126	77,154
Assistant Director Customer Access	64,000	16	0	0	64,016	13,120	77,136
Assistant Director Finance (left 31/05/14)	10,167	0	497	0	10,664	2,084	12,748
Assistant Director Finance	60,928	0	0	0	60,928	12,490	73,418
Assistant Director City Development	64,000	59	0	0	64,059	13,120	77,179
Assistant Director Housing	64,000	0	0	0	64,000	13,120	77,120
Assistant Director Public Realm	64,000	363	0	0	64,363	13,120	77,483
Corporate Manager - Policy/Communications/Community Engagement	56,000	26	0	0	56,026	11,480	67,506
Corporate Manager - Democratic/Civic Support	58,855	153	0	0	59,008	12,020	71,028
Corporate Manager - Legal	58,745	202	0	0	58,947	12,020	70,967

The 2013/14 comparatives have been updated to reflect the inclusion of Corporate Managers in the Strategic Management Team. The Corporate Manager – Property is new for 2014/15 following the restructure of Property Services.

NOTES TO THE FINANCIAL STATEMENTS

30. EXTERNAL AUDIT COSTS

In 2014-15 Exeter City Council incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Authority's external auditors:

	2013-14	2014-15
	£'000	£'000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	76	77
Audit Commission rebate	(10)	(8)
Fees payable to Grant Thornton for the certification of grant claims and returns *	15	20
Fees payable in respect of other services provided by the appointed auditor**	6	8
	87	97

* Additional fee incurred in 2014/15 which relates to significant testing work undertaken in respect of the housing benefit subsidy claim for 2013/14

** Charge for advice in respect of review of IT shared service arrangements (£5,999 – 2013/14), submission of a VAT claim in respect of trade waste (£6,667 – 2014/15) and other VAT related advice (£1,800 – 2014/15)

31. GRANTS, CONTRIBUTIONS AND DONATIONS

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

	2013-14	2014-15
	£'000	£'000
Credited to Taxation and non-specific grant income		
Council taxpayers	(4,457)	(4,612)
Revenue Support Grant	(4,860)	(4,049)
New Homes Bonus	(2,205)	(2,778)
Council Tax Freeze Grant	(119)	(118)
Local Services Support Grant	(503)	0
NNDR	(3,365)	(5,133)
Community Infrastructure Levy	0	(9)
Other Capital Grants & Contributions	(295)	(632)
Total	(15,804)	(17,331)
Credited to Services		
Benefit Subsidy	(39,676)	(39,762)
NNDR Cost of Collection	(224)	(224)
Supporting People	(274)	(275)
CT/HB Admin Grant	(811)	(622)
Other Grants	(1,370)	(1,453)
Total	(42,355)	(42,336)

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:

	2013-14	2014-15
	£'000	£'000
Capital Grants receipts in advance		
Land at Beacon Avenue	(97)	(57)
Environmental Cont - Rydon Lane	(13)	(13)
Affordable Housing - Cowick St	(581)	(487)
Community Facility - Western Way	(37)	(38)
Leisure Contribution - Hill Barton	(91)	(68)
Local Energy Networks	(152)	(73)
Leisure Contribution - Newcourt	(352)	(750)
Community Facility - Newcourt	(130)	(185)
Affordable Housing - Newcourt	0	(245)
Extracare - St Loyes	(1,006)	(1,734)
Leisure Contribution - Earls Park	0	(95)
Affordable Housing - Earls Park	0	(901)
Leisure Contribution - St Loyes	0	(293)
Leisure Contribution - Prince of Wales Rd	0	(764)
Other Grants	(155)	(181)
Total	(2,614)	(5,884)

32. 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 2014/15 is shown in Note 28. During the financial year, the Council paid grants to organisations totalling £443,797 in which nine members had positions on the governing body.

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.

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTIES (Continued)

Entities Controlled or Significantly Influenced by the Authority

Exeter Business Centre Ltd

Exeter Business Centre Ltd (EBC) main purpose is the letting of affordable business units to support small businesses.

The Authority controls EBC through its ownership of 100% of the shares in the Company and it is deemed to be a subsidiary. The Authority made a £45,000 contribution towards running costs during 2014/15 and EBC had net assets of £45,952 as at 31 March 2015 (£17,340 31 March 2014).

Exeter Canal and Quay Trust Ltd

Exeter Canal and Quay Trust (ECQT) has a charitable status and its main objectives are to preserve and develop the Exeter Canal and Quay area.

ECQT is deemed to be influenced significantly by the Authority through its representation on the Trust board. The Council leases a number of assets to ECQT on a long term basis at nil rent, with the exception of Double Locks Hotel whereby rent is 5% of turnover divided equally between ECQT and the Council (£22,706 in 2014/15). ECQT also contributed £70,030 towards Council costs mostly in respect of running the Quay House Visitors Centre.

Exeter Science Park Ltd

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 shareholding is Devon County Council (49.9%) along with the University of Exeter (21.5%) and East Devon District Council (7.1%).

The Authority has a 21.5% shareholding in the Company. It is deemed to be an associate due to the Council's ownership interest and significant influence. During 2014/15 the Council provided loans of £1m towards funding the building of the Science Park centre, in two loan advances of £500,000 with interest charged at 2.55% and 2.62% respectively. The loans are repayable on maturity in 2023/24.

The Council's share in the net assets of Exeter Science Park Ltd is £508,000 at 31 March 2015.

NOTES TO THE FINANCIAL STATEMENTS

33. INTERESTS IN JOINT OPERATIONS

Exeter City Council, Teignbridge District Council and East Devon District Council each have interests in a joint operation called Strata Service Solutions Ltd, a registered company (company number 09041662) whose registered office is Civic Centre, Paris Street, Exeter, Devon, EX1 1JN. The Company was established on 30 October 2014.

The business of the Company is the operation and provision of a shared information communications technology service to each of the Councils including;

- A source of expertise regarding information technology
- A resilient and reliable ICT infrastructure
- A service desk that maintains and supports devices, operating systems and core applications
- Information security and information management services
- Developing and implementing business systems to meet Council business objectives
- A Street Name and Numbering function

The proportions of ownership interests are; Exeter City Council (35.936%), Teignbridge District Council (27.372%) and East Devon District Council (36.692%). Each authority has equal voting rights, with decisions taken collectively and unanimously.

NOTES TO THE FINANCIAL STATEMENTS

The figures that have been consolidated into the Council's single entity financial statements in respect of Strata Service Solutions Ltd are:

	2014-2015 £'000's
Adjustments to CIES	
Fees	(953)
Cost of sales	470
Admin expenses	257
Transfer of pension scheme liability	1,136
Cost of Services	910
Gain on disposal of assets	(194)
Net interest on the net defined benefit liability	19
Interest receivable	(1)
(Surplus) or Deficit on Provision of Services	734
Remeasurement of the net defined benefit liability	253
Total CIES	987

	2014-2015 £'000's
Adjustments to Balance Sheet	
Property, plant & equipment	512
Intangible assets	715
Investment in Strata removed upon consolidation and replaced with proportional share of assets and liabilities	(1,173)
Total Long Term Assets	54
Inventories	5
Short Term Debtors	79
Cash & cash equivalents	494
Total Current Assets	578
Short Term Creditors	(138)
Total Current Liabilities	(138)
Capital Grants Receipts in Advance	(36)
Pension Scheme Liability	(1,445)
Total Long Term Liabilities	(1,481)
Net assets	(987)
Financed by:	
Usable Reserves	263
Unusable Reserves	(1,250)
Total Reserves	(987)

NOTES TO THE FINANCIAL STATEMENTS

34. 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.

	2013-14	2014-15
	£'000	£'000
Opening Capital Financing Requirement	89,826	89,960
Capital Investment		
Intangible Assets	133	83
Property, Plant and Equipment	9,950	10,952
Investment Properties	0	0
Long Term Debtors	392	1,008
Long Term Investments	0	50
REFCUS	1,355	4,319
Sources of Finance		
Capital Receipts	(2,126)	(3,368)
Government grants and other contributions	(1,349)	(879)
Sums set aside from revenue	(6,784)	(7,404)
Minimum Revenue Provision	(1,437)	(1,332)
Voluntary Revenue Provision	0	(2,150)
Repayment of Long Term Debtors	0	(12)
Closing Capital Financing Requirement	89,960	91,227
Explanation of movements in year		
Increase in underlying need to borrow (unsupported by Government financial assistance)	134	1,267
Increase/(decrease) in Capital Financing Requirement	134	1,267

NOTES TO THE FINANCIAL STATEMENTS

35. 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 £775,249 (2013/14 £785,185). Rental Payments due in 2015/16 can be broken down as follows:

Due to expire in 2015/16 (or on 1 year rolling agreements)	£75,916
2 – 5 Years	£684,333
5+ Years	£15,000

NOTES TO THE FINANCIAL STATEMENTS

Council as a Lessor

Finance Leases

The Authority has thirty five 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

	2013-14 £'000	2014-15 £'000
Finance Lease Debtor		
• Current	113	113
• Non-current	11,416	11,313
Unearned finance income	11,529	11,426
Unguaranteed Residual Value	15,356	17,599
Gross investment in Lease	26,885	29,025
Minimum lease payments are:		
5 + Years	597	597

Operating Leases

The Council leases out approximately 300 Commercial Premises. Investment income totalling £2,235,220 has been received in respect of these properties during 2014-15 (£2,785,811 in 2013-14).

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

Due to expire in 2015-16 (or on 1 year rolling agreements)	£277,770
2 – 5 Years	£473,816
5+ Years	£1,483,634

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.

NOTES TO THE FINANCIAL STATEMENTS

36. IMPAIRMENT LOSSES

During 2014/15, the Council has recognised impairment losses of £361,237 in relation to its operational land and buildings.

37. TERMINATION BENEFITS

The Authority terminated the contracts of a number of employees in 2014/15, incurring liabilities of £237,456 in redundancy payments (£578,481 – 2013/14) and £164,450 in pension strain payments (£270,515 – 2013/14), which have been charged to the Comprehensive Income and Expenditure Statement.

These are broken down as follows:

Band	Number of Employees	
	2013-14	2014-15
Compulsory Redundancy		
Less than £20,000	2	0
£20,000 - £39,999	1	1
£40,000 - £59,999	1	0
£60,000 - £79,999	0	1
£80,000 - £99,999	0	0
Voluntary Redundancy		
Less than £20,000	13	6
£20,000 - £39,999	5	3
£40,000 - £59,999	3	0
£60,000 - £79,999	0	2
£80,000 - £99,999	1	0
£100,000 - £149,999	1	0
£150,000 - £199,999	0	0
£200,000 - £249,999	0	0

NOTES TO THE FINANCIAL STATEMENTS

38. DEFINED BENEFIT PENSION SCHEMES

- Exeter City Council participates in the Local Government Pension Scheme, which is administered by Devon County Council in accordance with the Local Government Pension Scheme Regulations 2014. The Pension Fund Committee oversees the management of the Fund.
- The Local Government Pension Scheme is a defined benefit scheme and currently provides benefits based on career average re-valued 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 2015. 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 22.9% 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 2015-16 is £3.319m.

The estimated asset allocation as at 31 March 2015 is as follows:

Asset Share	2013-14		2014-15	
	£'000	%	£'000	%
Equities	25,315	26	26,104	25
Overseas Equities	33,104	34	36,530	34
Infrastructure	1,947	2	2,935	3
Gilts	6,816	7	6,738	6
Other Bonds	4,868	5	3,682	3
Property	8,763	9	10,585	10
Cash	1,947	2	1,825	2
Target Return Portfolio	14,605	15	15,615	15
Alternative assets	0	0	1,883	2
Total	97,365	100	105,897	100

NOTES TO THE FINANCIAL STATEMENTS

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

	2013-14	2014-15
Discount rate for scheme liabilities	4.4% pa	3.3% pa
Discount rate for pension cost	4.4% pa	3.3% pa
Rate of increase in salaries	4.6% pa	4.2% pa
Rate of increase in pensions in payment	2.8% pa	2.4% pa
Rate of increase in deferred pensions	2.8% pa	2.4% pa
Rate of inflation - RPI	3.6% pa	3.2% pa
- CPI	2.8% pa	2.4% pa
<i>Mortality assumptions</i>		
Longevity at 65 – current pensioners		
Men	22.7	22.8
Women	26.0	26.1
Longevity at 65 – future pensioners		
Men	24.9	25.1
Women	28.3	28.4
Avg long term expected rate of return		
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 2014-15 was £10.307m (£4.374m 2013-14).

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:

CIES	2013-14 £m	2014-15 £m
<i>Net Services Cost</i>		
Current Service Cost	3.908	3.516
Loss / (gain) on curtailment (Gain)/Loss from settlements – re transfer of staff to Strata	0.211 0	0.447 0.349
<i>Other Operating Expenditure</i>		
Administration expenses	0.053	0.055
<i>Financing and Investment Income and Expenditure</i>		
Net interest on the defined liability (asset)	<u>3.251</u>	<u>3.263</u>
	7.423	7.630
Movement in Reserves Statement		
Reversal of net charges	(7.423)	(7.630)
Employers contributions	3.700	3.755

NOTES TO THE FINANCIAL STATEMENTS

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

	2013-14	2014-15
	(£m)	(£m)
Opening fair value of assets	94.848	97.365
Opening fair value of Strata assets	0	1.643
Interest income	4.221	4.243
Remeasurement gains / (loss)	0.491	6.064
Administration expenses	(0.053)	(0.055)
Contributions by the employer	3.293	3.683
Contributions by participants	0.907	0.920
Net benefits paid out	(6.342)	(6.626)
Settlement prices received / (paid) – re staff transferred to Strata	0	(1.340)
Closing fair value of assets	97.365	105.897

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

	2013-14	2014-15
	(£m)	(£m)
Opening present value of liabilities	168.586	172.895
Opening present value of Strata liabilities	0	2.779
Current service cost	3.908	3.516
Interest cost	7.472	7.507
Contributions by participants	0.907	0.919
<i>Remeasurement (gains) and losses:</i>		
Change in demographic assumptions	0.995	0.00
Change in financial assumptions	6.206	23.074
Experience loss(gain)	(9.048)	0.051
Benefits paid out	(6.059)	(6.346)
Past service cost, including curtailments	0.211	0.447
Liabilities assumed / (extinguished) on settlements – re staff transferred to Strata	0	(2.127)
Unfunded pension payments	<u>(0.283)</u>	<u>(0.280)</u>
Closing present value of liabilities	<u>172.895</u>	<u>202.435</u>

NOTES TO THE FINANCIAL STATEMENTS

Pension Assets and Liabilities Recognised in the Balance Sheet:

	2013-14	2014-15
	(£m)	(£m)
Present value of defined benefit obligations	172.895	202.435
Fair Value of Scheme Assets	<u>(97.365)</u>	<u>(105.897)</u>
Net Liability in Balance Sheet	75.530	96.538

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	195.358	209.576
Salaries +/- 1%	202.917	201.956
Pensions +/- 1%	205.656	199.274
Discount rate +/- 1%	198.830	206.108

NOTES TO THE FINANCIAL STATEMENTS

39. 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 1.4.14	Expenditure	Income	Value of fund at 31.3.15
	£'000	£'000	£'000	£'000
Reynolds Chard Bequest	361	0	12	373
Veitch Bequest	21	0	0	21
Dorothy Holman Trust	40	0	0	40
Bowling Green Marshes	(1)	0	1	0
Topsham Recreation Ground	17	0	0	17
	438	0	13	451

NOTES TO THE FINANCIAL STATEMENTS

40. 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 24 February 2015.

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 £4 million for up to 364 days, Foreign institutions that deal in Sterling and are rated F1+ have a maximum investment of £3 million for up to 180 days, whilst the lowest rating the Council will accept (F1 and P-1) have a maximum investment of £3 million for up to 90 days. For two major UK clearing banks Barclays and Nationwide, which are rated F1 and P-1 (£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

	Amount at 31/03/2015	Historical experience of default	Historic experience adjusted for market conditions at 31/03/2015	Estimated maximum exposure to default and uncollectability
	£'000	%	%	£'000
Deposits with banks and other financial institutions	429	4.3	5	21
Trade and other Receivables – Sundry Debt	7,628	10	15	1,144
Other statutory debts	379	10	15	57
Total	8,436			1,222

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 £6.703m sundry debt in Note 17, some £4.011m is invoiced debt. £2.859m of this invoiced debt is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
30 days – 1 year	1,468
1 – 2 years	576
2 – 3 years	343
3 – 4 years	186
4 – 5 years	73
5 + years	213
Total	2,859

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 2015 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 March 2015 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 £110,000 over a year. In respect of the fixed term deposits of £3.5m an increase of 1% would have decreased the fair value by £35,000.

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 2015 and a foreign currency loss has been charged against the Comprehensive Income and Expenditure Statement. A 1% reduction in the value of the Kroner will mean a reduction of £4,220 in the value of the investments.

NOTES TO THE FINANCIAL STATEMENTS

41. 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.

42. 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.

	2013-14	2014-15
	£'000	£'000
Income		
Fees and Charges	(76)	(71)
	(76)	(71)
Expenditure		
Employees	30	44
Premises	52	61
Supplies and Services	37	27
Transport	11	9
Support Services	22	8
Capital Charges	5	5
	157	154
Net cost of Harbour Activities as included in the Comprehensive Income and Expenditure Statement	81	83

HRA INCOME & EXPENDITURE ACCOUNT

2013-2014		2014-2015	
£'000	Income	£'000	£'000
(18,177)	Dwelling rents	(19,257)	
(466)	Non dwelling rents	(473)	
(685)	Charges for services and facilities	(703)	
(129)	Supporting People Subsidy	(131)	
(19,457)	Total Income		(20,564)
	Expenditure		
6,171	Repairs and maintenance	4,836	
3,548	Supervision and management	3,911	
22	Rents, rates, taxes and other charges	11	
4,326	Depreciation and impairment of non-current assets	2,487	
8	Debt management costs	8	
10	Increase/(decrease) in bad debt provision	68	
14,085	Total Expenditure		11,321
(5,372)	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		(9,243)
163	HRA share of Corporate and Democratic Core		158
(5,209)	Net Cost of HRA Services		(9,085)

HRA INCOME & EXPENDITURE ACCOUNT

2013-2014		2014-2015
£'000		£'000
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:	
(608)	(Gain) or loss on sale of HRA non-current assets	(808)
1,984	Interest payable and similar charges	1,986
(48)	Interest and investment income	(76)
199	Net interest on the net defined benefit liability (asset) and administration expenses	242
(122)	Capital grants and contributions receivable	(78)
(3,804)	(Surplus)or deficit for the year on HRA services	(7,819)

Movement on the HRA Statement

2013-2014		2014-2015
£'000		£'000
(6,364)	Housing Revenue Account surplus brought forward	(6,067)
(3,804)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(7,819)
4,101	Net additional amount required by statute to be debited or (credited) to the HRA balance for the year	6,022
297	(Increase) or decrease in the HRA Balance	(1,797)
(6,067)	Housing Revenue Account surplus carried forward	(7,864)

HRA – NOTES TO THE ACCOUNT

1. HRA DWELLINGS

	Flats	Houses and Bungalows	Total
At 31 March 2014	2,603	2,409	5,012
At 31 March 2015	2,594	2,391	4,985

2. VACANT POSSESSION VALUE OF DWELLINGS

At 1 April 2015 the vacant possession value of the dwellings was £660.594 million, this compares to the tenanted market value in the Balance Sheet of £204.784 million. The difference of £455.810 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 the developments remain within the overall umbrella of the Housing Revenue Account, the costs and incomes arising from the developments are accounted for separately as part of their build costs were financed from borrowing. 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 2014-15 were as follows:

	2013-14	2014-15
	£'000	£'000
Income		
Balance at 1 April	2,270	3,794
Transfer from the HRA	2,333	2,487
	<u>4,603</u>	<u>6,281</u>
Expenditure		
Financing HRA Capital Expenditure		
Land	-	-
Houses	809	843
Other Property	-	223
	<u>809</u>	<u>1,066</u>
Balance at 31st March	<u>3,794</u>	<u>5,215</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 2014	197,718	3,859	196	1	1,290	609	203,673
At 31 March 2015	204,784	4,073	361	0	4,204	281	213,703

Within the valuation of Council dwellings as at 31 March 2015 of £204.784m, £103.727m was attributable to the value of land (2013/14 £100.068m) and £101.057m to buildings (2013/14 £97.650m).

The Balance Sheet valuation of garages has been restated, as at 31 March 2014, to reflect a change to their valuation basis in accordance with proper accounting practice. Please refer to Note 12 of the main financial statements for more details.

6. HRA CAPITAL EXPENDITURE

HRA capital expenditure amounted to £9.174 million during 2014-15 (£7.453 million 2013-14), the expenditure and sources of finance were as follows:

	Total Expenditure	Major Repairs Reserve	Sources of Finance			
			Revenue Contributions	Borrowing	Grants & Other Contributions	Capital Receipts
	£'000	£'000	£'000	£'000	£'000	£'000
Land						
Houses	8,951	843	5,339	0	79	2,690
Other Property	223	223	0	0	0	0
Total	9,174	1,066	5,339	0	79	2,690

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:

	2013-14 £'000	2014-15 £'000
Land	40	0
Dwellings	1,939	1,970
Repayment of discounts		7
	<u>1,979</u>	<u>1,977</u>
Less amount pooled	<u>(363)</u>	<u>(400)</u>
	1,616	1,577

8. DEPRECIATION & AMORTISATION

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

	2013-14 £'000	2014-15 £'000
Intangible assets	1	1
Operational assets		
Dwellings	2,286	2,385
Garages	14	52
Equipment	34	49
Depreciation and amortisation charged for the period	<u>2,335</u>	<u>2,487</u>
Less depreciation written off in respect of disposals	(10)	(8)
Less depreciation written off in respect of revaluations	(2,003)	(2,429)
Less depreciation written off in respect of impairments	(287)	0
Total depreciation and amortisation	35	50

9. RENT ARREARS

The rent arrears at 31 March 2015, amounted to £0.470m (31 March 2014, £0.339m) and the aggregate Balance Sheet provision in respect of uncollectable HRA debts is £0.239m (31 March 2014, £0.171m).

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.

2013-2014			2014-2015		
Council Tax £'000	NNDR £'000	Total £'000	Council Tax £'000	NNDR £'000	Total £'000
Income from:					
51,076	0	51,076	53,310	0	53,310
0	78	78	0	(959)	(959)
0	75,490	75,490	0	76,911	76,911
<u>51,076</u>	<u>75,568</u>	<u>126,644</u>	<u>53,310</u>	<u>75,952</u>	<u>129,262</u>
Expenditure					
Demands on the Fund by:					
5,510	0	5,510	5,734	0	5,734
2,550	763	3,313	2,653	734	3,387
37,755	6,865	44,620	39,292	6,604	45,896
4,391	30,512	34,903	4,548	29,349	33,897
0	38,139	38,139	0	36,686	36,686
0	224	224	0	224	224
Exeter City Council Fund Transfer					
Bad and doubtful debts					
84	366	450	193	0	193
30	30	60	385	130	515
0	3,679	3,679	0	(802)	(802)
<u>50,320</u>	<u>80,578</u>	<u>130,898</u>	<u>52,827</u>	<u>72,925</u>	<u>125,752</u>
(756)	5,010	4,254	(483)	(3,027)	(3,510)
Add					
(273)	0	(273)	(1,029)	5,010	3,981
<u>(1,029)</u>	<u>5,010</u>	<u>3,981</u>	<u>(1,512)</u>	<u>1,983</u>	<u>471</u>
Fund Balance c/f					

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 2014/15 were :

Band	Dwellings	Less Discounts	Conversion Factor	Band D equivalents
A relief	19	7	5/9ths	7
A	9,532	3,881	6/9ths	3,789
B	13,966	3,464	7/9ths	8,200
C	12,494	2,052	8/9ths	9,309
D	7,361	778	9/9ths	6,596
E	3,550	255	11/9ths	4,033
F	1,596	107	13/9ths	2,154
G	806	37	15/9ths	1,288
H	26	1	18/9 ^{ths}	52
Band D equivalent				35,428
Less Hardship relief (Band D)				<u>(22)</u>
Total Band D equivalent				<u>35,406</u>
Collection rate @ 97%				<u>(1,062)</u>
Tax base				<u>34,344</u>

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 (£185.867m at March 2015) multiplied by a uniform rate 48.2p (47.1p for those receiving small business relief) for 2014-2015.



Exeter City Council

Annual Governance Statement

2014/15

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 2015 and up to the date of approval of the annual statement of accounts.

The Governance Framework

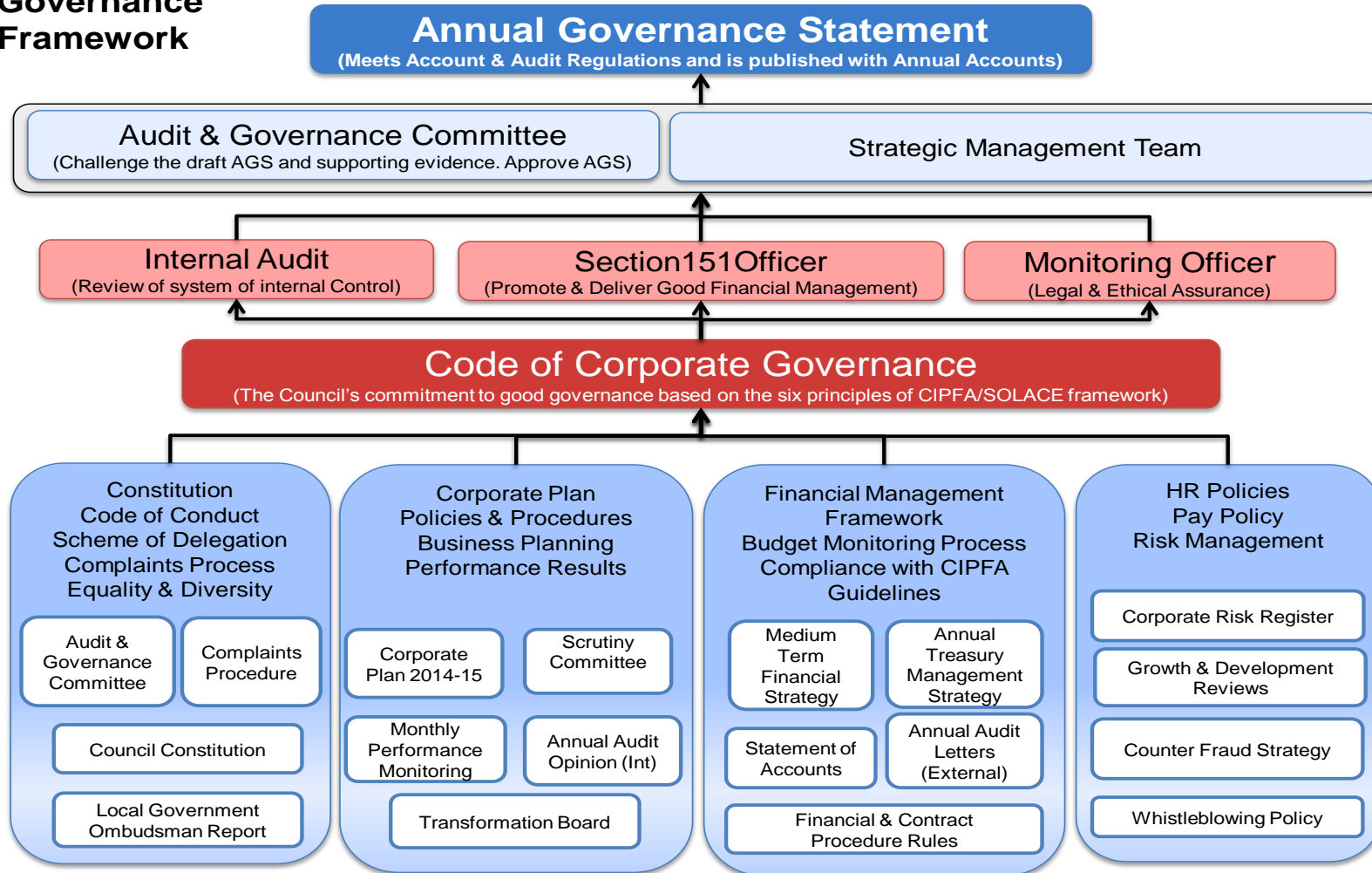
The Council's Governance Framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The Framework recognises that the Council's business is focussed upon its corporate priorities and seeks to facilitate delivery to our 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 11 March 2015 and will be reviewed on 9 March 2016. 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 2014/15.

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
- ✓ Internal 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 last reviewed Standing Orders during 2013-14. The Constitution is approved by Full Council.

In 2014/15 the Council responded to 213 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

The Audit & Governance Committee have undertaken a self-assessment in accordance with The CIPFA publication '*Audit Committees: Practical Guidance for Local Authorities*' to evaluate its performance against the responsibilities set out in the terms of reference and to demonstrate the Council's commitment to improving its governance. One area for improvement was identified.

Internal Audit undertook a risk management 'health check' against the 'Alarm National Performance Model for Risk Management in Public Services' in order to assess the Council's current risk management maturity level and the results of this have been reported to the Audit and Governance Committee. There has also been a major review of risk in respect of the Council's key project – the leisure complex

All key systems were audited in 2014/15 and a total of 24 audit reports were provided to management and the Audit & Governance Committee.

In September 2014 the Council's external auditor (Grant Thornton) provided the Council with an unqualified opinion on the Council's accounts within their Annual Audit letter and an unqualified value for money opinion has been received

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 the 2013/14 Annual Governance Statement, seven key issues were identified, which are set out along with the action taken.

- The Code of Corporate Governance required updating – completed.
- Internal audit identified some data quality issues – managers have been reminded.
- Separation of duties risk – ongoing review.
- Debtors requires significant improvement – ongoing.
- No service operational risk registers in place – an operational risk register is currently being populated.
- No protocol for partnership working – ongoing.
- Although under review, the Council does not have an agreed Business Continuity process in place - ongoing.

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, six 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	Risk of Fraud – the risk of fraud is a continual threat to any organisation and all managers and employees need to be proactive in preventing fraud.	Promote the Counter Fraud Strategy and Counter fraud Leaflet via City News. Provide Fraud statistics to staff and follow up all allegations.
2	Housing Benefit Data Quality – due to the reduction in quality control checks on housing benefit assessments there has been an increase in the error rate and this has a potential significant impact on the Housing Benefit subsidy received from Government.	Increased checking resources have been re-introduced into the Service.
3	Business continuity – Although reported last year this area is still under review and 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. Work is continuing in 2015-16.
4	Partnership Working Protocol - the Council currently does not have a protocol for partnership working, as reported in our annual report last year.	It has been agreed that this will be a priority for the Policy Unit. However the work is still continuing and not yet complete.

Significant Governance Issues

Issue No.	Issue Identified	Summary of Action Proposed
5	Shared ICT Service – due to the lack of clarity regarding responsibility for providing assurance of internal controls for Strata it is difficult provide any form of opinion relating to the Council’s ICT service.	Devon Audit Partnership will be providing an internal audit function to Strata, which is intended to provide the assurance required by our own internal audit function.
6	Separation of Duties – 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. There is a risk that inadequate separation of duties could weaken the system of internal control, resulting in an increased risk of irregularities, errors and fraud.	Managers will continue to review the arrangements for separation of duties as a matter of course. No fundamental weaknesses have yet been identified.

ANNUAL GOVERNANCE STATEMENT

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:

Councillor Natalie Vizard
Chair of Audit & Governance Committee

Date:

Signed:

Dave Hodgson CPFA
Assistant Director Finance & Section 151 Officer

Date:

Signed:

Councillor Pete Edwards
Leader of the Council

Date:

Signed:

Karime Hassan
Chief Executive & Growth Director

Date:

AUDITORS REPORT

AUDITORS REPORT

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AUDITORS REPORT

AUDITORS REPORT

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.	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.
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.	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.
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.	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

Capital Grants	Government grant towards capital expenditure on a specific service or project.	Debtor	An amount due to an organisation within the accounting period not received at the balance sheet date.
Collection Fund	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, Police and Crime Commissioner for Devon and Cornwall, Devon & Somerset Fire and Rescue Service and Exeter City Council.	Deferred Liabilities	This represents the liability for principal repayments on finance leases.
Contingent Liability	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.	Depreciation	The theoretical loss in value of an asset, owing to age, wear and tear, deterioration, or obsolescence.
Creditor	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.	Employee Costs	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.
Current Assets	Assets that can be expected to be consumed or realised during the next accounting period.	Final Accounts	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.
Current Liabilities	Amounts that will become due or could be called upon during the next accounting period.		

GLOSSARY OF TERMS

Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.	Non-Current Assets	Assets that can be expected to be of use or benefit to the Authority in providing its service for more than one accounting period.
Financial Year	The local authority financial year commences 1 April and finishes 31 March the following year.	Operating Lease	A lease under which ownership of the asset remains with the lessor; for practical purposes it is equivalent to contract hiring.
Government Grants	Payments by central government towards local authority expenditure. They must be specific e.g. Housing Benefits, or general e.g. Revenue Support Grant.	Precepts	The amount that a Precepting Authority (e.g. a County Council) requires from a Charging Authority to meet its expenditure requirements.
Interest	An amount received or paid for the use of a sum of money when it is invested or borrowed.	Revenue Expenditure Financed by Capital under Statute	Expenditure which has been legally capitalised but which does not produce a fixed asset for the council, e.g. renovation grants for homeowners.
Inventories	Items of raw materials and stores an authority has procured to use on a continuing basis which it has not used.	Revenue Support Grant	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.
Minimum Revenue Provision	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.		
National Non Domestic Rates (NNDR)	NNDR is also referred to as business rates; it is a tax on the occupation of non-domestic property. Authorities can voluntarily form a business rate retention pool, where all authorities in the pool can benefit from keeping a proportion of business rate revenue as well as growth on the revenue that is generated in their area to spend on local services.		

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.



Exeter City Council

Civic Centre

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www.exeter.gov.uk