

**To the Chair and Members of the
AUDIT COMMITTEE**

STATEMENT OF ACCOUNTS 2014/15

EXECUTIVE SUMMARY

1. This report presents the Council's unaudited Statement of Accounts for the 2014/15 financial year. The report highlights the overall financial position for the year, a summary accounts closure timetable and information on performance including improvements achieved in accuracy and quality.
2. The Accounts and Audit (England) Regulations 2011 apply to the preparation, approval and audit of the Statements of Accounts and other financial statements. Since 2010/11 these regulations have been based on International Financial Reporting Standards ('IFRS') which attempt to standardise accounts in a consistent format across both the public and private sectors with the aim of achieving greater transparency.
3. Whilst there is no longer a requirement to present the draft accounts to Members before the external audit process commences, the Council has continued this practice as it gives Members early notification of the financial outcome of the previous financial year and is considered to be good practice.
4. There is a requirement to obtain certification of the accounts by the responsible financial officer, for Doncaster MBC this is the Director of Finance and Corporate Services, by the 30th June each year. The statutory deadline for the date of approval and publication of the final Statement of Accounts remains unaltered at 30th September. However, due to improved financial management processes, the Council is working to shorter deadlines for the 2014/15 accounts of the 23rd June and 16th September respectively.

EXEMPT REPORT

5. Not applicable

RECOMMENDATION

6. Members are requested to note the 2014/15 Statement of Accounts.

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

7. An unqualified audit opinion on the Council's financial statements and a good VfM conclusion resulting from the annual audit process would indicate that there is excellent internal control in place safeguarding Council resources.

BACKGROUND

8. The Council's 2014/15 accounts have been prepared in accordance with IFRS and the appropriate accounting codes of practice and have been approved by the Council's responsible financial officer on the 23rd June, in order to comply with the Accounts and Audit (England) Regulations 2011. This is a week earlier than the accounts for 2013/14.
9. The accounts will be available for public scrutiny for the statutory 4 week period from 20th July to 14th August. This was advertised in the Doncaster Star on 19th June. The unaudited accounts were placed on the Council's website on 26th June in line with the Government's policy of increased transparency in the public sector with public scrutiny of the accounts being a key feature of the financial governance framework of local authorities.
10. The accounts will be subject to external audit during the period 20th July to 21st August, and it is expected that the audit opinion will be finalised (subject to the continuing work on the Whole of Government Accounts) by 16th September, again, a week earlier than the 2013/14 accounts. Legislative requirements significantly reduce the timeframe allowed for the accounts closure process and Members of the Audit Committee will now be aware that the Council is required to produce the audited Statement of Accounts for the 2017/18 financial year by 31st July 2018, with the unaudited 2017/18 accounts being produced by 31st May 2018.
11. The Council is planning to finalise its audited 2014/15 accounts by 16th September, 14 days before the statutory deadline. In doing so, all requirements will have been met in full and in overall terms, the Council considers that the accuracy and quality of working papers and files for audit have, once again, improved significantly. The improvements have been brought about by more detailed project management and constant review of the 'critical path', challenging timeliness and quality, improving technical expertise and refining quality assurance techniques. A positive working relationship has been maintained with KPMG throughout the year to minimise the risk of any material issues arising during the audit of the accounts and to quicken the production processes. The interim audit undertaken during April identified no areas for concern.
12. The Council has an excellent track record in receiving an unqualified audit opinion on its accounts and a report will be presented by KPMG to this Committee on 16th September setting out the result of the external audit in the form of their 'Communication with those charged with governance' report (ISA 260 report), which formally sets out the findings of their audit of the financial statements.

THE 2014/15 FINANCIAL STATEMENTS AND SUPPORTING DISCLOSURE NOTES

13. Paragraphs 15 to 17 below provide details of the financial headlines, key changes and technical accounting issues included within the accounts. It

should be noted that the accounts are prepared in the accounting format set out in legislation, and as a result, they are not user friendly or easy to read. To assist understanding, a simpler and abridged version of the accounts, the 'Summary Statement of Accounts', will be produced and published on the Council's website following the conclusion of the audit in September 2015.

14. The style and format of the accounts used for 2014/15 is similar to that used last year, with a number of items excluded or revised as part of the 'removing the clutter' drive reducing the size of this year's accounts. The draft accounts are now 110 pages in length (compared to 119 pages in 2013/14 and 149 pages in 2012/13).
15. Members of this Committee have a key role in scrutinising the accounts in order to maintain strong governance over financial reporting. Early production of the accounts enables the Members of this Committee sufficient time to review the statements and ask challenging and pertinent questions. Whilst the explanatory foreword provides the summary of the financial year and the associated statements, it is worthwhile highlighting some specific points for the year:
 - a. At their meeting on 16th June, Cabinet were presented with the final outturn positions for both revenue and capital for the 2014/15 financial year. This included a General Fund one-off underspend against budget of £3.2m, resulting in an increase in General Fund reserves (to £20.7m); capital expenditure of £117.4m and £2.1m improvement from original budget resulting in HRA reserves increasing by £0.2m (to £6.1m).
 - b. For Members, probably the most important issue will be whether the Council has a surplus or deficit compared to its budget for the year. The (increase)/decrease in 2014/15 on the Movement in Reserves Statement gives this information for both the General Fund and the Housing Revenue Account (HRA). The deficit of £8.8m shown in the Comprehensive Income and Expenditure Statement (CIES) is an indication that the costs of providing the year's services have not been covered by income. This is split between General Fund services (£2.8m) and the HRA (£6.0m). This represents the position that would have been reported under 'commercial accounting' rules. Statutory adjustments convert the Council's financial performance from the £8.8m to a net surplus of £14.4m and £0.2m for the General Fund and HRA respectively (this can be seen on page 10 of the accounts). The £14.4m includes both the increase in earmarked reserves £11.2m and the £3.2m one-off underspend.
 - c. The Council's net worth has decreased by £84.1m to £511.9m since the previous financial statements (see 'Balance Sheet' on page 11 of the accounts). This is principally due to the increase of £91.8m in the Council's liability relating to the Local Government pension scheme (from £296.3m to £388.1m). This is mainly due to revisions in the actuary's future assumptions of key variables, as detailed in disclosure note 48, 'Defined Benefit Pension Scheme' (pages 76 to 79 of the accounts).
 - d. Reserves are an indication of the temporary resources available to assist an authority to deliver services. Not all reserves can be used to deliver

services and this is reflected by reporting reserves in two groups – ‘usable’ and ‘unusable’ reserves. Usable reserves have increased by £3.1m or 2.7% from £116.3m to £119.4m (these are shown on page 10).

Usable Reserves (see Movement in Reserves Statement)	31 st March 2014	31 st March 2015	Movement in year
	£m	£m	£m
General Fund balance	17.5	20.7	3.2
Earmarked General Fund reserves	47.8	59.0	11.2
Housing Revenue Account	5.9	6.1	0.2
Capital Receipts Reserve	7.7	10.0	2.3
Major Repairs Reserve	21.2	11.1	(10.1)
Capital Grants Unapplied	16.2	12.5	(3.7)
Total Usable Reserves	116.3	119.4	3.1

Unusable reserves are determined by technical accounting rules and are not available for use by the Council. These have fallen by £87.2m to £392.5m mainly reflecting the change in the Pensions Reserve. During the financial year the Council made a prepayment of £28.0m to the SY Pensions Authority in respect the pension deficit for the period 2014-2017, generating non-recurrent revenue savings in 2014/15 of £0.6m. This prepayment has resulted in an imbalance between the Pension Reserve (£410.5m) and the Pension Liability (see paragraph 23) of £22.4m as at 31st March 2015 with £5.6m being charged in year.

Unusable Reserves (Note 25)	31 st March 2014	31 st March 2015	Movement in year
	£m	£m	£m
Revaluation Reserve	251.7	268.6	16.9
Capital Adjustment Account	521.1	530.7	9.6
Financial Instruments Adjustment A/c	(1.1)	(1.6)	(0.5)
Pension Reserve	(296.3)	(410.5)	(114.2)
Deferred Capital Receipts Reserve	4.9	4.8	(0.1)
Collection Fund Adjustment	3.7	3.3	(0.4)
Accumulated Absences Account	(4.0)	(2.8)	1.2
Unequal Pay Back Pay Account	(0.3)	0	0.3
Total Unusable Reserves	479.7	392.5	(87.2)

16. The Statement of Accounts also includes group account statements for the Council, its subsidiary company (St Leger Homes of Doncaster Limited (‘SLHD’) and its jointly controlled entities (Digital Region Limited (‘DRL’) and Doncaster Racecourse Management Company Limited (‘DRMCL’)). For 2014/15, these have been assessed under new accounting standards IFRS 10 (‘Consolidated Financial Statements’) and IFRS 11 (‘Joint Arrangements’). The Group Accounts are shown in detail from page 95 to 102 of the accounts.

Grouped entity	Share of net assets (£m) Surplus / (Deficit)		Movement (£m)
	31 st March 2014	31 st March 2015	
DMBC (parent)	596.0	511.9	(84.1)
SLHD	(3.0)	(12.9)	(9.9)
DRL	(5.2)	(0.9)	4.3
DRMCL	1.2	1.5	0.3
Total	589.0	499.6	(89.4)

17. The movement in the SLHD net assets reflects the movement in the pension

deficit (the post-transfer element) which is, again, as a result of the change in the actuary's assumptions. The deficit on DRL is sufficiently covered by a provision held in the Council's single entity accounts and this will provide the finance for any further closure costs.

From the 2015/16 financial statements, DRL will cease to exist and will no longer form part of the Council's group boundary.

FINANCIAL RATIOS

18. The following financial ratios promote the accountability of councils for their spending decisions. These include:

- The ratio of **current assets to current liabilities**, an indicator of how a council manages its short-term finances
- The ratio of **usable reserves to gross revenue expenditure**, highlighting how much money a council is retaining for future plans and to cover unpredictable spending
- The ratio of **long term borrowing to tax revenue**, an indication of the potential for debt repayments to impact on future spending plans
- The ratio of **long term borrowing to long term assets**, an insight into what borrowing has funded and the potential need for future borrowing
- The ratio of **school balances to dedicated schools grant**, showing whether schools, maintained by the Council, are retaining a high or low proportion of the funding provided for spending on education

The ratios for the Council are provided below and reflect continued, sound financial management and governance arrangements:

DMBC Financial Ratios	2012/13	2013/14	2014/15
Current assets to current liabilities (working capital)	0.625	0.759	0.802
Usable reserves to gross revenue expenditure	6.82%	9.46%	11.79%
Long term borrowing to tax revenue	1.515	1.538	1.841
Long term borrowing to long term assets	0.266	0.259	0.288
School balances to Dedicated Schools Grant	6.15%	9.05%	11.60%

The proportion of current assets to current liabilities (ideal ratio of 1.0) is steadily improving indicating that the Council is managing its short term finances more effectively with an increase in short term assets compared to a decline in the corresponding liabilities (the ratio has increased to 0.802 in 2014/15).

The comparison of usable reserves (which includes, for these purposes, General Fund balances, earmarked reserves (less school balances) and usable capital receipts) to gross revenue spend is now higher at 11.79% (up from 9.46% in 2013/14) reflecting the Council's plans to increase and retain reserves for known future needs and contingencies.

OPTIONS CONSIDERED

19. The main content and format of the Statement of Accounts is set out in the Code of Practice on Local Authority Accounting for 2014/15. The Council has a statutory obligation to submit its draft 2014/15 Statement of Accounts to the External Auditor by 30th June. Failure to do so could result in an audit qualification and consequential reputational damage.

IMPACT ON THE COUNCIL'S KEY OBJECTIVES

20. These are detailed in the table below:-

	Priority	Implications
	We will support a strong economy where businesses can locate, grow and employ local people. <ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> • <i>Mayoral Priority: Be a strong voice for our veterans</i> • <i>Mayoral Priority: Protecting Doncaster's vital services</i> 	The Statement of Accounts provides information on all Council priorities incorporating income and expenditure for all Council services. An unqualified opinion from KPMG on the financial statements and a good Value for Money conclusion would assist with the positive reputation of the Council and ensure that strong governance is in place.
	We will help people to live safe, healthy, active and independent lives. <ul style="list-style-type: none"> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living</i> 	
	We will make Doncaster a better place to live, with cleaner, more sustainable communities. <ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living</i> 	
	We will support all families to thrive. <ul style="list-style-type: none"> • <i>Mayoral Priority: Protecting Doncaster's vital services</i> 	
	We will deliver modern value for money services.	
	We will provide strong leadership and governance, working in partnership.	

RISK AND ASSUMPTIONS

21. The table below highlights the most significant risks that could have a negative impact on the deliverability of the Council's financial position and the action taken to mitigate them.

Risks / Assumptions	Probability	Impact	Proposed Action
Robustness of correct outturn figure	Low	Medium	Work has been undertaken during monitoring and closedown process to process all transactions, and prepare for audit. This has included an increase in senior officer quality assurance review and control; and internal verification and checks by finance and technical officers.
The Audit identifies a material / significant finding or inaccuracy in the production of the accounts.	Low	High	Continuous dialogue with KPMG throughout the year. Specific discussions on key complex / technical areas are as part of the monthly audit liaison group meetings

LEGAL IMPLICATIONS

22. Section 27 of the Audit Commission Act 1998 specifies that the Secretary of State may, by regulations applying to bodies subject to audit other than health service bodies, make provision with respect to the form, preparation and certification of accounts and of statements of accounts.
23. The Accounts and Audit (England) Regulations 2011 under regulation 8(2) provides that the Council's responsible financial officer must certify the Statement of Accounts, as soon as is reasonably practicable and, in any event, before 30th June immediately following the end of a year.

FINANCIAL IMPLICATIONS

24. The Council's Accounts are prepared in line with the Accounts and Audit (England) Regulations 2011 and International Financial Reporting Standards.

EQUALITY IMPLICATIONS

25. This report has no specific equality implications.

CONSULTATION

26. This report has no significant consultation implications.

BACKGROUND PAPERS

27. Following background papers:

- Accounts and Audit (England) Regulations 2011
- The Code of Practice on Local Authority Accounting 2014/15 ('The Code') - based on IFRS

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