
Meeting	Audit Committee
Date	29 April 2014
Subject	Group Accounts 2013/14
Report of	Chief Operating Officer
Summary	This report advises the committee of officers intended approach to preparing Group Accounts for 2013/14
Officer Contributors	Paul Thorogood – Head of Finance, Financial Services
Status (public or exempt)	Public
Wards affected	Not applicable
Key decision	No
Enclosures	Appendix A – Group Structure 2013/14 Appendix B – Consolidated Income and Expenditure Statement 2012/13 Appendix C – Consolidated Balance Sheet 2012/13 Appendix D – Organisations Considered for Group Accounts
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in	Not applicable
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1. RECOMMENDATIONS

- 1.1 The Audit Committee, as ‘those charged with Governance’, are asked to note the proposed approach to producing group accounts for 2013/14. The Committee are asked to comment on the policy devised for Group Accounting prior to the finalisation of the accounts.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Closure of Accounts 2013/14 will assess fundamental aspects of financial standing, performance management and value for money in Barnet, these areas cut across all council priorities.

4. RISK MANAGEMENT ISSUES

- 4.1 It is important that the Council has a clear rationale for producing/not producing group accounts in accordance with Section 9 of the Code of Practice on Local Authority Accounting in the UK (the Code) as well as International Financial Reporting Standards (IFRS). Failure to not comply with the Code and IFRS could result in misinterpretation by users of the Council’s statutory accounts.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 There are no equalities and diversity issues arising from the content of this report.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance and Value for Money, Staffing, ICT, Property, Sustainability)

- 6.1 This report sets out proposals by officers on whether or not to produce group accounts for 2013/14 for the reasons contained within Section 9 of the report.

7. LEGAL ISSUES

- 7.1 None in the context of this report.

8. CONSTITUTIONAL POWERS

- 8.1 Schedule 1 to the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 sets out the Council functions that are not allocated to the Executive. In line with the Council’s constitution (Responsibility for Functions), the Audit Committee is responsible to consider whether appropriate accounting policies have been followed as part of its function of reviewing and approving the annual statement of accounts.

9. BACKGROUND INFORMATION

Previous Approach to Group Accounts/Consolidated Financial Statements

- 9.1 Prior to the 2012/13 financial year, the Council had produced group accounts to consolidate the accounts of its subsidiaries. At the end of the 2012/13 financial year these were:

- The Barnet Group Ltd

- Barnet Homes Ltd
- Your Choice Barnet Ltd

9.2 Following agreement between the Council and Grant Thornton, as the Council's external auditors, at the end of 2012/13 group accounts were not produced. This was on the basis that they are not materially different to the single entity accounts for the Council.

9.3 During 2012/13, the Council also entered into a joint venture to form the Inglis Consortium LLP with VSM Estates Ltd and Annington Property Ltd. The Council's contribution to the joint venture was the freehold interest in the Mill Hill Depot in return for 13.9% of the profit made by the venture. Although the Council have only 13.9% they do have equal influence on the Board, however all risks and rewards are shared on the proportion of capital provided.

Current Group Structure

9.4 During the 2013/14 financial year the Council has set up Barnet (Holdings) Ltd. as a local authority trading account which has subsequently entered into a joint venture with Capita Ltd. to form RE (Regional Enterprise) Ltd.

9.5 The current group structure for the Council, as at March 2014, is set out in [Appendix A](#).

9.6 In line with previous practice and in line with International Accounting Standard 24 – Related Party Disclosures, officers have considered other parties (see [Appendix D](#)) which could form part of the Council group accounts however do not believe any meet the criteria where the Council:

- Has control or joint control over another reporting entity
- Has significant influence over another reporting entity
- Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity

Accounting Standards

9.7 In considering whether to consolidate the Council, its subsidiary undertakings and joint ventures into a set of group accounts, consideration must be given to the necessary accounting standards and Code of Practice on Local Authority Accounting in the UK (the Code).

International Financial Reporting Standard 10

9.8 International Financial Reporting Standard 10 outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. In particular the Standard:

- Requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements
- Defines the principle of control, and establishes control as the basis for consolidation
- Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee
- Sets out the accounting requirements for the preparation of consolidated financial statements
- Defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity

The Code - Chapter Nine

9.9 Chapter 9 of The Code sets out the arrangements on how and when local government organisations should produce group accounts.

- 9.10 Paragraph 9.1.1.6 states that:
 Authorities with interests in subsidiaries, associates and/or joint ventures (jointly controlled entities) shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material.

Consolidated Comprehensive Income & Expenditure Statement

- 9.11 Table 1 below compares the main lines of the group comprehensive income and expenditure statement (CIES) for the group and those of the Council as a single entity for 2012/13. The workings for the consolidation can be found in [Appendix B](#). From the group perspective, the consolidation does not include Barnet (Holdings) Ltd or the Inglis Consortium LLP as the Council's joint ventures.

Comprehensive Income & Expenditure Statement	Group CIES 2012/13	Barnet Single Entity 2012/13	Difference	
	£'000	£'000	£'000	%
(Surplus)/Deficit on Continuing Operations	264,812	265,651	(839)	(0.3)
Financing and Investment Income & Expenditure	8,959	10,017	(1,058)	(11.8)
Taxation & Non-Specific Grant Income	(321,015)	(320,994)	(21)	0.0
Actuarial (Gains)/Losses on Pension Assets/Liabilities	29,647	28,252	1,395	4.7
Total Comprehensive Income & Expenditure	23,677	24,200	(523)	(2.2)

Table 1 – Consolidated Income and Expenditure for the Group and Barnet Council as a single entity for 2012/13

- 9.12 From consolidating the Barnet Group into Barnet Council's single entity accounts, it can be seen from the above that there is no material movement in the comprehensive income and expenditure statement.

Consolidated Balance Sheet

- 9.13 Table 2 below compares the main lines of the group balance sheet for the group and those of the Council as a single entity for 2012/13. The workings for the consolidation can be found in [Appendix C](#).

Balance Sheet	Group Balance Sheet 2012/13	Barnet Single Entity Balance Sheet 2012/13	Difference	
	£'000	£'000	£'000	%
Total Long Term Assets	1,128,341	1,126,545	1,796	0.2
Total Current Assets	299,548	283,762	15,786	5.3

Balance Sheet	Group Balance Sheet 2012/13	Barnet Single Entity Balance Sheet 2012/13	Difference	
	£'000	£'000	£'000	%
Total Current Liabilities	(122,114)	(107,264)	(14,850)	12.2
Total Long Term Liabilities	(736,188)	(707,182)	(29,006)	3.9
Net Assets	569,587	595,861	(26,274)	(4.6)
Usable Reserves	211,233	208,769	2,464	1.2
Unusable Reserves	415,829	387,092	28,737	6.9
Total Reserves	627,062	595,861	31,201	5.0

Table 2 – Consolidated Balance Sheet for the Group and Barnet Council as a single entity for 2012/13

9.14 From consolidating the Barnet Group into Barnet Council's single entity accounts, it can be seen from the above that there is no material movement in the consolidated balance sheet despite a movement in net assets of £26.3m and £31.2m in reserves.

9.15 The main balances to note from the Barnet Group include:

- Total current assets of £15.8m which predominantly relates to cash and cash equivalents (£5.5m/35%) and debtors (£9.7m/61%)
- Total current liabilities of £14.9m which predominantly relates to trade payables (£3.7m/25%) and accruals and deferred income (£8.3m/56%)
- Total long term liabilities of £29.0m which relates to pension and other employee obligations
- Unusable Reserves of £28.7m which relates to the pension reserve

Approach to be adopted for 2013/14

9.16 The largest difference between the group accounts and the single entity accounts, provided above in table one and two, is on the balance sheet as a result of the pension fund liability. However, this is not considered sufficiently large to warrant group accounts as it would not materially impact on the reader's view of the Council's activities and has no impact on the usable reserves.

9.17 With consideration for Barnet (Holdings) Ltd. which became operational during 2013/14, the only asset held is the share owning in RE (Regional Enterprise) Ltd.

9.18 Financial transactions with RE (Regional Enterprise) Ltd. in this financial year are directly from the Council in line with the service agreement and the joint venture is not proposing to pay a dividend in the current financial year. The company has not incurred any expenditure to date in this financial year or received any income with the exception of the purchase of its share holding in the joint venture.

- 9.19 The joint venture with Inglis Consortium LLP has realised a payment to the Council in the current financial year of £1.807m (as at 13th February) which will be posted to the revenue accounts, to recognise the profit share received and then transferred to the balance sheet. The land at Mill Hill Depot that the Council has put into the venture was already transferred from operational assets to land in the Council's accounts for the 2012/13 financial year and is due to transfer in 2015/16. As the Council's share holding is only 13.9%, it is not proposed any other accounting transactions will be reflected in the Council's accounts.
- 9.20 It is officer's intention not to produce group accounts for the 2013/14 financial year and this approach has been considered and agreed with Grant Thornton. The Audit Committee are asked to consider the reasons for not producing group accounts and whether they require additional assurances for the July audit committee when the accounts will be presented for approval.
- 9.21 As part of this approach, officers will conduct an internal exercise during closing the accounts for 2013/14 to ensure the level of materiality doesn't exceed those set out above.

10. LIST OF BACKGROUND PAPERS

- 10.1 None.

Cleared by Finance (Officer's initials)	AD
Cleared by Legal (Officer's initials)	CE