



## Notice of meeting of a public meeting of

### Audit & Governance Committee

<b>To:</b>	Councillors N Barnes (Chair), Dew (Vice-Chair), Cullwick, Fenton, Gunnell, Kramm and Lisle and Mr Mendus and Mr Bateman
<b>Date:</b>	Wednesday, 23 September 2015
<b>Time:</b>	5.30 pm
<b>Venue:</b>	The Snow Room - Ground Floor, West Offices (G035)

### AGENDA

#### 1. **Declarations of Interest**

Members are asked to declare:

- Any personal interests not included on the Register of Interests
- Any prejudicial interests or
- Any disclosable interests

which they might have in respect of business on the agenda.

#### 2. **Minutes** (Pages 1 - 8)

To approve and sign the minutes of the meeting held on 29 July 2015.

#### 3. **Public Participation**

At this point in the meeting members of the public who have registered their wish to speak regarding an item on the agenda or an issue within the Committee's remit can do so. The deadline for registering is **5:00 pm on Tuesday 22 September 2015.**

### **Filming, Recording or Webcasting Meetings**

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#### **4. Forward Plan (Pages 9 - 16)**

This paper presents the future plan of reports expected to be presented to the committee during the forthcoming year to July 2016.

#### **5. Peer Review Update Report (Pages 17 - 18)**

This report presents an update on actions being taken to progress the recommendations arising from the Local Government Association (LGA) peer reviews.

#### **6. Programme and Project Management (Pages 19 - 22)**

As requested by the committee at their previous meeting, this report outlines arrangements that are in place in respect of project management to ensure transparency in general, but particularly in respect of projects with commercial sensitivities.

#### **7. Objection and Closure of the 2013/14 Audit (Pages 23 - 40)**

This report from Mazars presents the outcomes from the objection and closure of the 2013/14 audit.

**8. Annual Financial Report - Statement of Accounts 2014/15**  
(Pages 41 - 202)

This report presents a final set of accounts for 2014/15 to reflect changes made since the draft pre-audit accounts were presented to the committee on 29 July 2015.

**9. Audit Completion Report** (Pages 203 - 230)

This report from Mazars for the year ended 31 March 2015 summarises its audit conclusions.

**10. Risk Based Verification Policy** (Pages 231 - 242)

This paper presents the council's Risk Based Verification Policy for approval by the committee.

**11. Audit and Counter Fraud Monitoring Report** (Pages 243 - 270)

This report provides an update on progress made in delivering the internal audit workplan for 2015/16 and on current counter fraud activity.

**12. Regulation of Investigatory Powers Act (RIPA) and Inspection by the Surveillance Commissioner** (Pages 271 - 278)

This report presents statistics about the council's application of the Regulation of Investigatory Powers Act 2000 (RIPA) and describes the council's progress in completing the recommendations made following the most recent inspection by the Office of the Surveillance Commissioner (OSC).

**13. Deputy Leader's Report to Council** (Pages 279 - 282)

This report asks the Committee to give further consideration to the introduction of a Deputy Leader's report to Council. At the previous meeting, Members considered the principle of introducing such a report and this paper puts forward a specific proposal for consideration.

**14. Urgent Business**

Any other business which the Chair considers urgent under the Local Government Act 1972.

Democracy Officer:  
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For more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports and
- For receiving reports in other formats

Contact details are set out above.

**This information can be provided in your own language.**

我們也用您們的語言提供這個信息 (Cantonese)

এই তথ্য আপনার নিজের ভাষায় দেয়া যেতে পারে। (Bengali)

Ta informacja może być dostarczona w twoim własnym języku. (Polish)

Bu bilgiyi kendi dilinizde almanız mümkündür. (Turkish)

یہ معلومات آپ کی اپنی زبان (بولی) میں بھی مہیا کی جاسکتی ہیں۔ (Urdu)

 (01904) 551550

City of York Council

Committee Minutes

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Meeting	Audit & Governance Committee
Date	29 July 2015
Present	Councillors N Barnes (Chair), Cullwick, Gunnell, Lisle, Craghill (Substitute for Councillor Kramm), Cuthbertson (Substitute for Councillor Fenton) and Galvin (Substitute for Councillor Dew) and Mr Mendus
Apologies	Councillors Dew, Fenton and Kramm and Mr Bateman

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## 12. **Declarations of Interest**

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. None were declared.

## 13. **Minutes**

Resolved: That the minutes of the meeting of 24 June 2015 be approved and signed as a correct record subject to Councillor Cuthbertson being included in the list of those present.

## 14. **Public Participation**

It was reported that there had been no registrations to speak under the Council's Public Participation Scheme.

## 15. **Forward Plan**

Members considered a paper which presented the future plan of reports expected to be presented to the committee during the forthcoming year to June 2016. Members noted that an item on the Council's use of surveillance had been added to the agenda for the September meeting.

Members were invited to identify any further items they wished to see added to the Forward Plan.

Referring to Annex 2 of agenda item 5 (Mazars Review of Housing for Older People Project), Members requested that a report be included on the agenda for the meeting on 23 September 2015 outlining the arrangements that were in place in respect of project management to ensure transparency in general, but particularly in respect of projects with commercial sensitivities. A more detailed follow-up report was to be presented at a future meeting.

Resolved: That, subject to the inclusion of the above item, the committee's Forward Plan for the period to June 2016 be approved.

Reason: To ensure the committee receives regular reports in accordance with the functions of an effective audit committee and can seek assurances on any aspect of the Council's internal control environment in accordance with its roles and responsibilities.

#### **16. Mazars Review of Housing for Older People Project**

Members considered a paper which presented the audit review of the Elderly Person's Home Project carried out by Mazars and an Action Plan developed in response to the key findings in the report.

Representatives from Mazars gave a presentation on their review, including its scope and key findings [*The presentation is included with the online agenda papers*]. Consideration was also given to the Action Plan that had been put in place.

Members questioned the representatives from Mazars about aspects of the review, including clarification as to which Members and officers had been interviewed as part of the process.

A number of concerns were expressed by Members regarding management of the project and they commented on the need to ensure that the following issues were addressed in future projects:

- Ensuring appropriate skills, knowledge and experience were in place, acknowledging that there may be occasions when external advice may need to be sought. Dedicated

time should be allocated when CYC staff were carrying out project management work.

- Appropriate structures, including Project Boards, to be in place to ensure accountability and transparency.
- Clear mechanisms were required to monitor progress, including sign off points during the development of projects to ensure progress was on target and to trigger alerts if problems were identified.

Officers gave details of the progress that had been made in implementing the Action Plan and explained the governance arrangements that were now in place and the project management system that was being used. Members were informed of the reporting mechanisms in place. The Gateway points that had been identified would necessitate consideration of alternative options at various stages of the project.

Officers confirmed that the business plan that was being presented to the Executive clearly identified costs, as would the options which would be considered at the Gateway points.

- Resolved:
- (i) That the contents of Mazars Audit Report be noted.
  - (ii) That the action plan at Annex 3 of the report be endorsed.
  - (iii) That the committee receive six monthly update reports on progress in implementing the action plan.

Reason: To ensure that the committee can monitor progress in addressing the issues raised in the audit review.

## **17. Draft Statement of Accounts 2014/15**

Members considered a report which presented for information the draft 2014/15 Statement of Accounts before they were audited. Officers gave a presentation on the accounts. *[A copy of the presentation is attached to the online agenda papers].*

Members noted that the final version of the accounts would be presented to them at the next meeting.

Members sought clarification on aspects of the accounts. It was agreed that it would be helpful for a fuller briefing on the accounts to be arranged for Members prior to the accounts being signed off by the Committee and that a training session on this topic be included in the committee's training programme.<sup>1</sup>

Officers were thanked for their work in preparing the accounts and in meeting the required timescales.

- Resolved: (i) That the draft pre-audit Statement of Accounts for the financial year ended 31 March 2015 be noted.
- (ii) That the annual governance statement contained within the accounts be noted.

Reason: To ensure that, in line with best practice, Members have had the opportunity to review the draft pre-audit Statement of Accounts.

Action Required

1. Identify suitable dates

JC

**18. Scrutiny of the Treasury Management Annual Report 2014/15 and Review of Prudential Indicators**

Members considered a paper which presented the Treasury Management Annual Report and Review of Prudential Indicators 2014/15 which was due to be considered by the Executive on 30 July 2015.

Officers responded to Members' questions on aspects of the report. It was agreed that it would be useful for a training session to be arranged on Treasury Management.<sup>1</sup>

Resolved: That the Treasury Management Annual Report 2014/15 and Review of Prudential Indicators be noted.

Reason: So that those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their



responsibilities with regard to delegation and reporting.

Action Required

Identify a suitable date

JC

**19. Key Corporate Risks Monitor 1**

Members considered a report which presented an update on the key corporate risks for City of York Council, and the present refreshed Key Corporate Risk Register 2015.

Officers stated that significant progress had been made in ensuring that risk management was given a high priority on the corporate agenda and it was routinely featuring on Directorate Management Team agendas.

Consideration was given to the Key Corporate Risks and the risk matrix. At the request of Members, details were given as to how the risks were identified by Directorates but were then subject to challenge.

Members' attention was drawn to the updated Risk Management Policy and Strategy, which was attached at Annex B of the report.

Resolved: (i) That the refreshed key corporate risks, detailed in Annex A of the report, be noted.

(ii) That the draft policy, strategy and associated guidance document be approved.

Reason: To provide assurance that the authority is effectively understanding and managing its key risks.

**20. Consultation on Governance Issues**

Members considered a paper which annexed a report on governance issues that was due to be considered by the Executive on 30 July 2015. The report also asked Members to consider whether further changes were required to the Council Procedure Rules.

### Executive Decision Making

Members noted that the new Council leadership wanted policy and scrutiny committees to have the opportunity to debate and make recommendations on matters requiring an executive decision before a final decision was taken. The views of the Audit and Governance Committee on the proposals would be reported to the Executive when they considered the matter.

Members made the following comments:

- There was general support for the opportunities for greater cross-party Member involvement in decision making and increased pre-scrutiny
- It was important to recognise the realities of political control and the fact that although the proposals offered greater opportunities for Member involvement in the decision making process, the Council would still operate a Leader and Cabinet model of decision making. The Executive would not have to comply with the recommendations of scrutiny.
- Some concerns were expressed regarding the complexity of the proposed processes.
- Members' role in respect of ward committees was also to be enhanced and therefore issues in respect of capacity and resources to support the proposed new arrangements would also need to be considered.
- Some Members suggested that a two week timescale for call-in was too long and would cause unnecessary delay.
- It was recommended that the new arrangements be reviewed after six months or a year.

Officers clarified the options in respect of the membership of the Corporate and Scrutiny Management Committee. Members' attention was also drawn to the need to ensure that effective urgency procedures were in place.

### Council Procedure Rules

Following the recent introduction of new Council Procedure Rules, Members were also asked to indicate:

- Whether there was a wish to revisit the issue of written questions

- Whether the Committee would support the introduction of a Deputy Leader's report to Council

Members agreed that, as there had only been one Council meeting since the new procedures had been introduced, it was too soon to judge whether changes were necessary in respect of the arrangements for questions.

Differing views were expressed as to whether a Deputy Leader's report to Council should be introduced. Whilst some Members suggested that there may be differences in the views of the Leader and the Deputy Leader and therefore both should have the opportunity to present a report, the majority of those present agreed that as a coalition arrangement was in place separate reports were not required, particularly in view of the amount of Council business that had to be dealt with at the meetings and the time constraints.

- Resolved:
- (i) That the views of the committee in respect of the proposed executive decision making arrangements be reported to the Executive for their consideration.
  - (ii) That the Committee did not wish to recommend that the issue of written questions be revisited at this time, as the new system had not yet been sufficiently tested to identify whether changes were required.
  - (iii) That the Committee did not support the introduction of a Deputy Leader's report to Council.

- Reasons:
- (i) To enable revised decision making arrangements to be put in place.
  - (ii) To ensure that the Council meeting continues to be a forum for constructive challenge and debate.

Councillor N Barnes, Chair  
[The meeting started at 5.30 pm and finished at 8.40 pm].

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**Audit and Governance Committee**

23 September 2015

Report of the Director of CBSS (Portfolio of the Leader of the Council)

**Audit & Governance Committee Forward Plan to July 2016****Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to July 2016.

**Background**

2. There are to be six fixed meetings of the Committee in a municipal year. To assist members in their work, attached as an Annex is the indicative rolling Forward Plan for meetings to July 2016. This may be subject to change depending on key internal control and governance developments at the time. A rolling Forward Plan of the Committee will be reported at every meeting reflecting any known changes.
3. A number of amendments have been made to the Forward plan since the previous version was presented to the Committee in July 2015.
4. Four reports have been added to the agenda for the September meeting; an initial project management report; a Risk based verification policy report; and a report on the outcome of the Surveillance Commission.
5. A further project management report has been added to the Agenda for the December meeting at the request of Members at the last meeting in July.
6. The quarterly risk report has also been deferred from September to the next meeting in December.
7. An update report on the Older people project has been added to the Agenda for February's meeting.

### **Consultation**

8. The Forward Plan is subject to discussion by members at each meeting, has been discussed with the Chair of the Committee and key corporate officers.

### **Options**

9. Not relevant for the purpose of the report.

### **Analysis**

10. Not relevant for the purpose of the report.

### **Council Plan**

11. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

### **Implications**

12.
  - (a)**Financial** - There are no implications
  - (b)**Human Resources (HR)** - There are no implications
  - (c)**Equalities** - There are no implications
  - (d)**Legal** - There are no implications
  - (e)**Crime and Disorder** - There are no implications
  - (f) **Information Technology (IT)** - There are no implications
  - (g)**Property** - There are no implications

### **Risk Management**

13. By not complying with the requirements of this report, the council will fail to have in place adequate scrutiny of its internal control

environment and governance arrangements, and it will also fail to properly comply with legislative and best practice requirements.

### Recommendations

14.

- (a) The Committee's Forward Plan for the period up to July 2016 be noted.

Reason

*To ensure the Committee receives regular reports in accordance with the functions of an effective audit committee.*

- (b) Members identify any further items they wish to add to the Forward Plan.

Reason

*To ensure the Committee can seek assurances on any aspect of the council's internal control environment in accordance with its roles and responsibilities.*

### Contact Details

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**Chief Officer Responsible for the report:**

Ian Floyd  
Director of CBSS  
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**Report  
Approved**



**Date** 23/09/2015

### Specialist Implications Officers

Head of Civic, Democratic & Legal Services

**Wards Affected:** Not applicable

**All**

**For further information please contact the author of the report**

**Background Papers:**

None

**Annex**

Audit & Governance Committee Forward Plan to July 2016



## **Audit & Governance Committee Draft Forward Plan to July 2016**

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

- **Committee 9<sup>th</sup> December 2015**

Mazars Annual Audit Letter 2014/15

Mazars Audit Progress Report

Treasury Management Mid year review report 2015/16 and review of prudential indicators

Information Governance Update Report

Freedom of Information Update Report

Internal Audit & Fraud progress report

Project Management report

Risk Update report

*Changes to the Constitution (if any)*

- **Committee 10<sup>th</sup> February 2016**

Key Corporate Risk Monitor Quarter 4 (Including directorate risks)

Scrutiny of the Treasury Management strategy statement and Prudential indicators

Older people Project update report

Counter Fraud: Risk Assessment and review of policies

Audit & Counter Fraud Plan & Consultation

*Changes to the Constitution (if any)*

- **Committee 13<sup>th</sup> April 2016**

Mazars Audit Progress Report

Mazars Audit Strategy Report

Approval of Internal Audit Plan

Internal Audit & Fraud Plan Progress Report including follow up of Audit Recommendations

Information Governance Annual Report

*Changes to the Constitution (if any)*

- **Committee June 2016**

Draft Annual Governance Statement

Annual Report of the Audit & Governance Committee

Mazars Audit progress report

Annual Report of the Head of Internal Audit

*Changes to the Constitution (if any)*

- **Committee July 2016**

Draft Statement of Accounts

Mazars Audit Progress Report

Scrutiny of the Treasury Management Annual Report 2014/15 and review of Prudential Indicators

Key Corporate Risks Quarter 2 (including directorate risks)

Freedom of Information Update report

*Changes to the Constitution (if any)*

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**Audit & Governance Committee****23 September 2015**

Report from the Office of the Chief Executive

**Peer Review****Summary****1. Background**

- 1.1 The council undertook a Local Government Association (LGA) Peer Review in 2013. In 2014 there was a further review into member behaviour following a motion at full council. This paper updates members on the actions that will be taken to progress the recommendations within these reviews.

**2. Peer Review 2016**

- 2.1 Action plans were developed in response to both CYC peer reviews and progress on these has been reported to Audit & Governance Committee.
- 2.2 Following discussion with the LGA, it has been agreed to undertake a further Peer Review in late November 2016. It is intended that the review will consider the progress the council has made to address the recommendations of the two earlier reviews. The LGA team will also consider how the council's service delivery model may change to address the reduction in Government funding and the needs of its residents.
- 2.3 The immediate tasks for the council are to agree the terms of reference for the 2016 peer review and to develop a self assessment document. This document will incorporate the action plans that were developed for the earlier reviews in addition to detail on how the organisation has changed the way in which some services are delivered, such as the Libraries Mutual.

- 2.4 It is proposed to bring the terms of reference, details of the LGA team and the self assessment document to the next Audit & Governance Committee meeting.
- 2.5 It is expected that the LGA team will be on site for around 4 days and will meet with officers and members. Again an action plan will be developed in response to the LGA's findings and this will be presented to Audit & Governance Committee.

### 3. Recommendations

Audit & Governance Committee are asked to -

- Note the decision to undertake a further Peer Review in November 2016.
- Note that a revised action plan will be brought to Audit & Governance following the Peer Review

Reason: To ensure that Members are kept updated on progress following the peer reviews.

#### Contact Details

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Transformation & Change

**Chief Officer Responsible for the report: Steve Stewart, Chief Executive**

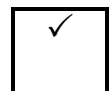
**Report Approved**



**Date** 15 September 2015

**Wards Affected:** *List wards or tick box to indicate all*

**All**



**For further information please contact the author of the report**



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**Audit & Governance Committee**  
Report from the Office of the Chief Executive

23 September 2015

## **Programme/Project Management**

### **Summary**

1. At the Audit & Governance meeting on 29<sup>th</sup> July, the Committee requested an update outlining the arrangements that were in place in respect of project management to ensure transparency in general but particularly in respect of projects with commercial sensitivities. This report seeks to answer that question.
2. A more comprehensive report on the council's project management activity will be brought to Audit & Governance Committee in October.

### **Background**

3. The council undertakes a large amount of programme and project management and in line with best practice across the public sector adheres to the MSP and Prince methodologies. Because of a statutory requirement to change the way services are delivered or because of the need to ensure that more efficient processes are in place to reduce cost, most areas of the council will be involved in project work. The vast majority of these are successfully completed. The council has a strong track record in delivering change, including delivery of West Offices on time and on budget, delivery of major park and ride sites, delivery of capital programme typically around £70m per annum, successful delivery of savings programmes across the council (including major transformation) of around £10m per annum. It is recognised that a small number of higher risk projects do occasionally not progress as intended, however this is likely to always be the case due to the number of major projects being undertaken and the often complex contractual arrangements with third party organisations. All council projects are risk assessed however it is not possible to remove risk completely. The council does however always recognise the need to be constantly improving and recent changes and

proposals to improve the risk management and visibility of these projects are set out below.

4. Over the last year, the council has been strengthening the management of projects through;
  - a. Improved Training
  - b. Deployment of a standard CYC Project toolkit
  - c. Implementation of Verto, an online project office system

### **Training**

5. A programme of training for staff has been developed and is now being cascaded. Led by the council's workforce development unit, the training will ensure that officers working on projects are provided with the right level of guidance and support to develop their skills in project management and wider Lean principles.

### **Deployment of a standard CYC toolkit**

6. Although we adopt the Prince and MSP methodologies, both need to be tailored to City of York Council. The new project toolkit integrates the CYC approach to risk management and governance. This means that the project managers can identify how their project needs to be established, how risk should be assessed. In addition, standard templates are provided for project plans and project reporting.

### **Verto**

7. In order to ensure a consistent, well managed approach to programme and project management, a new web based system has been implemented to support the management of projects. It is called Verto. Each phase of a programme or project is managed within the system and it provides a gateway process for the project manager to ensure that all requirements are met before moving to the next project phase. All work from planning to risk management is controlled in the system and all involved in the projects have access to update and view the information where appropriate. This allows a wider oversight for all stakeholders involved in the projects and those involved in the quality assurance of the systems in place (such as internal audit). During 15/16 all



significant projects will move onto this system. These will include major capital programmes, Adult Social Care Better Care Fund initiatives, Community Stadium and Digital Council Programme.

### **Transparency of Project activity.**

8. It is recognised that through the implementation of a standard project methodology and improved project reporting to Directorate Management Teams and CMT, there is improved visibility of projects across officers. However that improved visibility has not yet been provided to members.
9. The annual governance statement referred to a need to strengthen the role of Audit & Governance Committee and Scrutiny Committees in the issue of major projects. It is recommended that a quarterly major projects report is produced for Audit & Governance Committee, to cover projects under the following broad headings –
  - a. Where there is significant capital expenditure
  - b. Where there is likely to be significant public interest
  - c. Where there is a major saving target/change in the delivery of a service.
10. This report will be focussed on the main key projects and is not intended to be an exhaustive list. It would, however, be possible for the Committee to ask for additional information on any projects they become aware of. It is important however that the Committee are only involved in aspects within their remit, and in simple terms these cover matters of risk, governance, and effective use of resources.
11. It is suggested that where the Committee consider there are matters highlighted that they feel merit a more detailed review, then the committee should ask the relevant Scrutiny Committee to receive further details. Scrutiny Committees can clearly also ask for major projects to be reported to them, and it is hoped that regular reporting to Audit and Governance Committee would assist with the identification of relevant matters for the Scrutiny Committee.
12. It should be noted that matters in terms of the finance of major

projects is reported already to Executive in respect of the capital programme monitor. However, there may be merit in attaching to the Capital Monitor report, the Major projects report that Audit and Governance Committee have considered, along with any recommendations from the Audit and Governance meeting.

**13. Commercial Sensitivities.**

Through regular reporting to the Audit and Governance Committee, it is hoped to improve the transparency and communication to members of key projects, whilst balancing where relevant any issues of commercial sensitivity. It should be noted that commercial sensitivity tends to only apply at the procurement stage, rather than during construction.

**Recommendations**

Audit & Governance Committee are –

- Asked to agree that quarterly project updates be provided as described in Para 9.
- Note that a regular project updates will also be presented to the Executive (via the capital monitor report) covering the council's most significant projects.

Reason: To ensure greater transparency in project management.

**Contact Details**

**Author:**

Stewart Halliday  
Assistant Director  
Transformation & Change

**Chief Officer Responsible for the report: Steve Stewart Chief Executive**

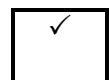
**Report  
Approved**



**Date** 14 September  
2015

**Wards Affected:** *List wards or tick box to indicate all*

**All**

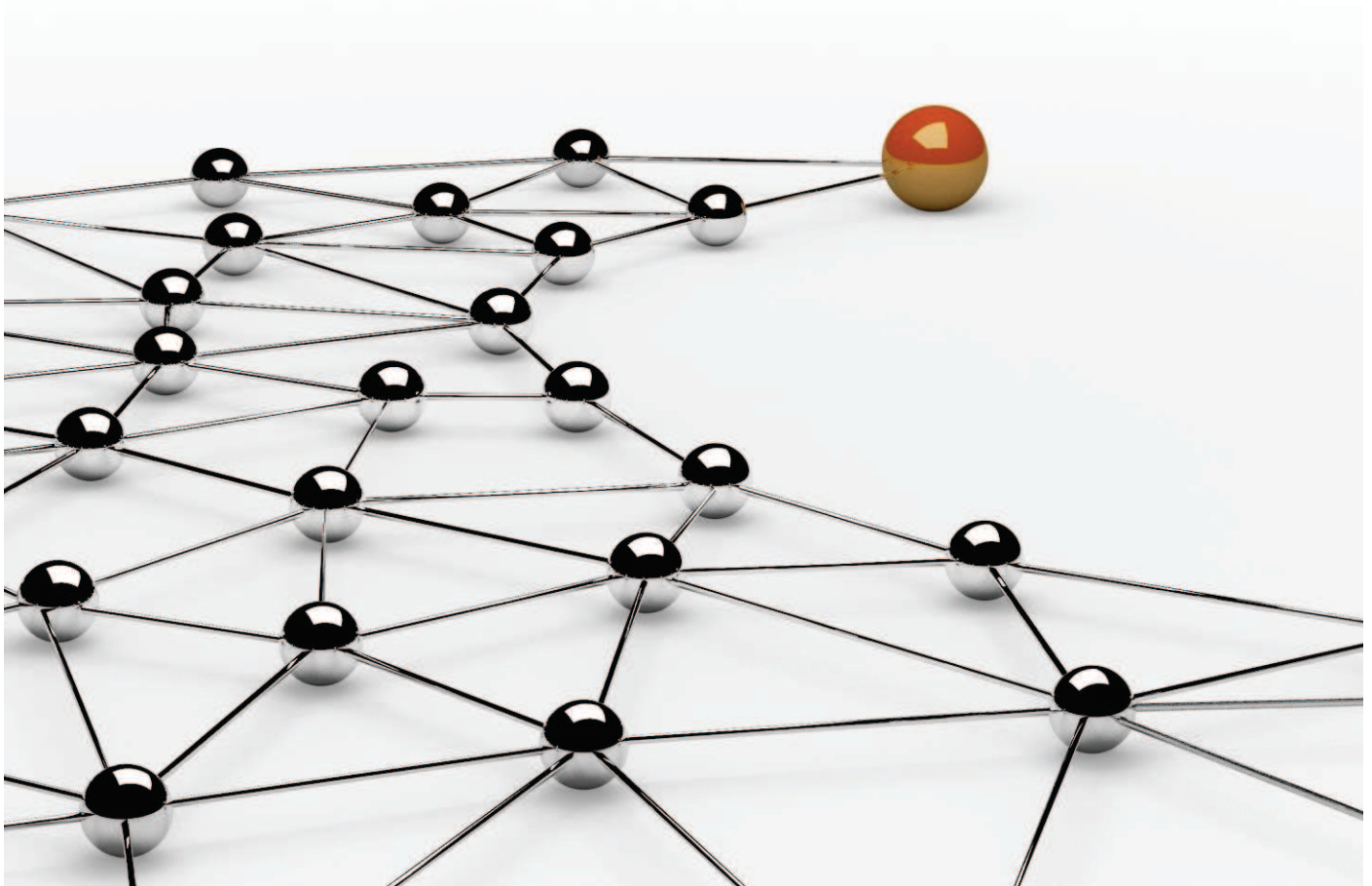


**For further information please contact the author of the report**

# Outcomes from the Objection and Closure of the 2013/14 Audit

City of York Council – year ended 31 March 2014

September 2015



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*Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and we take no responsibility to any member or officer in their individual capacity or to any third party.*

*Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.*

## 01 Executive summary

A local government elector exercised his right to object to the Council's 2013/14 accounts in relation to the penalty charge income collected on the Lendal Bridge and Coppergate traffic schemes. In summary, the objection was that the income was unlawful, and that the auditor should apply to the Courts for a declaration to that effect. It also asked the auditor to issue a public interest report.

We determined the objection on 31 July 2015. Our decision was that we were not persuaded that the item of account was unlawful and therefore we would not seek a declaration from the Courts. We also concluded that, if we had been persuaded that the item of account was unlawful, we would still not have been minded to seek a declaration from the Courts.

Although not an issue raised by the objector, we also considered whether it was reasonable that the Council had made settlement payments relating to penalty charge notices where the Council contended that the income was lawful. On this point, we provisionally concluded that we would not be minded to challenge the Council's actions.

This report provides more detail of our decision in relation to the objection and the reasons for that decision.

The report also explains the process for closing the 2013/14 audit. A certificate was issued closing the audit on 7 September 2015.

The costs relating to the objection are required to be borne by the Council. The cost is £33,381 plus VAT, made up of our fees of £25,666 plus VAT and specialist legal advice of £7,715 plus VAT.

## 02 Outcomes from the Objection to the 2013/14 Accounts

### Background to the Objection to the accounts

In Appendix A, we have summarised in general terms the basis for an objection to the accounts, the procedures the auditor must follow and the possible outcomes. The remainder of this section relates to the specifics of the case at City of York Council in relation to the 2013/14 audit.

On 12 September 2014 we were notified by a local elector of an objection to the Council's accounts in relation to the receipts arising from penalty charge notices for Lendal Bridge and Coppergate. The local elector asked that we apply to the Courts to seek a declaration that an item of account (ie. the penalty charge income) was contrary to law, and that we made a report in the public interest on this matter.

The income relating to the penalty charge notices was £1.8m, which was below the level of materiality for our opinion on the financial statements. In view of this, we issued an unqualified opinion on the 2013/14 financial statements on 30 September 2014, but we were unable to certify completion of the audit until the objection had been determined.

During October 2014 and November 2014 we collected representations from the objector, their nominated representative, the National Motorists Action Group (NMAG), and the Council, and we took our own preliminary legal advice.

On 17 November 2014, the objection that had been made to the accounts was withdrawn.

On 25 November 2014, another local elector has made an objection on similar grounds, using the same nominated representative.

We continued with our work to determine the objection. We also had to respond to events as they unfolded. For example, following a change in political leadership in the Council in December 2014, the process for making settlements in relation to the Lendal Bridge scheme was reviewed in January 2015, and the Chief Adjudicator of the Traffic Penalty Tribunal published an important review decision in relation to Coppergate on 24 April 2015.

The issues raised were complex and we needed to take our own legal advice.

On 25 June 2015 we shared the Material Documents and Statement of Facts and Chronology with the objector, their representative and the Council.

Following consideration of further representations from the objector and their representative, we issued a Decision Letter and Statement of Reasons on 31 July 2015. This letter is attached in Appendix B, although some personal details have been redacted.

### Summary of outcomes

Our Decision Letter and Statement of Reasons sets out the outcomes of the objection in detail, including the decisions reached and the reasons for those decisions.

In summary:

- on balance the objection did not provide sufficient reason to consider that the penalty charge income received by the Council in relation to the Lendal Bridge and Coppergate schemes in the 2013/14 financial year was unlawful. In particular, the Council did have the powers to make the traffic orders, the traffic orders were valid, and the Council was entitled to issue penalty charge notices and account for this income in its 2013/14 financial statements. The Traffic Adjudicator's findings about the inadequacy of the signage were not in our view a sufficient basis to conclude that the traffic order was generally unenforceable, or, even more so, that there were any unlawful items of account in relation to penalty charge income;
- consequently, we determined not to apply to the Courts to seek a declaration that an item of account is contrary to law because our discretion to do so only arises where we have identified an item of account contrary to law, which is not the case here; and
- even if we had considered the item of account to be contrary to law we were not minded to exercise the discretion to apply to the courts because of the subsequent actions taken by the Council and our view that the benefits that might be secured by such an application would be disproportionate to the costs to public funds which would result.

We also considered the question of whether the Council could legitimately make settlement payments to individuals who subsequently contended their penalty charge notices when the income collected was not unlawful.

Our comments in relation to this are a provisional view, as we are unable to fetter our discretion should an objection subsequently be made to the 2014/15 accounts in relation to these issues or new information subsequently come to light. Our provisional view was that, based on the information at hand, we would not be minded to challenge the Council's decision to make settlement payments to motorists who contested their penalty charge notices.

### **Wider considerations**

Our decision in relation to the objection was based on a consideration of the specific issue of whether the penalty charge income was a lawful item of account, and not the broader issues around the governance and management of the schemes. The Council suffered reputational damage and incurred significant officer time and other costs in dealing with the Lendal Bridge and Coppergate traffic schemes.

We noted that the Council commissioned an independent review of the governance and management of the Lendal Bridge closure scheme in April 2014, the results of which became publicly available in November 2014. The review, conducted by Crown Management Solutions Ltd, was critical of aspects of the governance of the decision-making process, consultation and project management.

The findings of the review and officers' response to them has fed into wider action to improve the governance and management of major projects and this area of risk has been a focus for attention by the Audit and Governance Committee in 2015. More widely, following the formation of a new administration after the May 2015 local elections, revised governance arrangements have been put in place, with the stated intention of increasing transparency of decision-making on major issues.

In view of our work on the objection and these wider developments, we included the governance and management of major projects as a significant risk that would be addressed in our 2014/15 audit work on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We report the results of that work in our 2014/15 Audit Completion Report elsewhere on the Committee's agenda.

### 03 Closure of the 2013/14 Audit

As highlighted in the previous section, we issued an unqualified opinion on the 2013/14 financial statements on 30 September 2014, but we were unable to certify completion of the audit until the objection had been determined.

Now that the objection has been determined, we have been able to issue our certificate which formally closes the 2013/14 audit.

The certificate was issued on 7 September 2015 and a copy is attached at Appendix C.

The certificate needs to be added to the Council's website alongside the certified version of the 2013/14 financial statements published on 30 September 2014. The Council is also required to advertise the completion of the audit and officers have the arrangements for this in hand.



## 04 Costs of the Objection to the 2013/14 Audit

The costs relating to an objection have to be met by the Council, including the costs of our legal advice. The total cost is £33,381 plus VAT. Of this, £25,666 plus VAT relates to our audit fees and £7,715 plus VAT relates to the costs of our legal advice.

All of our fees in relation to this matter are subject to approval by our regulator, Public Sector Audit Appointments Ltd, which has undertaken this role since the closure of the Audit Commission.

## Appendix A – Background to an Objection to the Accounts

### Introduction

This appendix sets out the basis for an objection to the accounts, the procedures the auditor must follow and the possible outcomes. It is drawn from the Audit Commission publication *Councils Accounts, A Guide to Your Rights* and separate guidance provided to auditors when they are considering a challenge to the accounts.

### What is an Objection to the accounts?

It is a legal right for any local government elector to ask the external auditor to apply to the High Court for a declaration that an item of account is unlawful, or to issue an immediate report in the public interest.

The local government elector can only object to a specific item in the accounts.

They must tell the external auditor which item in the accounts they object to and why they think the item is unlawful, or why they think that a public interest report should be made about it.

They must provide the external auditor with the evidence they have to support their objection.

Simply disagreeing with income or spending does not make it unlawful. An unlawful item of account is one, for example, that records spending or income that the council:

- had no right to spend or receive;
- spent or received without powers to do so;
- took from, or added to, the wrong fund or account; or
- spent on something that they had the power to spend on, but the decision to spend the money was unreasonable or irrational.

'Unreasonable' has a special meaning in law. A council acts 'unreasonably' or 'irrationally' when its actions are so unreasonable that no reasonable person could have made that decision.

### Background and the role of the auditor

Citizens' rights to question the auditor about a local government body's accounts and/or object to items of account are a unique feature of the local government audit regime.

The elector must be a local elector of the council in question. However, they have a right to appoint a representative who does not have to meet this requirement.

In determining objections and exercising their statutory powers, auditors are acting in a quasi-judicial capacity. Their decisions may be challenged through the courts.

Given the quasi-judicial and statutory nature of these functions, the auditor must comply with public law requirements and therefore:

- adopt a fair and impartial process;
- where exercising discretion, consider all relevant considerations and discount irrelevant considerations;
- ensure he or she has properly understood the relevant law; and
- ensure the decision is rational and that adequate reasons are given to explain it.

It is essential in terms of procedural fairness that the audited body and the individuals involved are able to see the material information on which the auditor will make his or her decision and make comment and representations on that material. Sharing material information and inviting representations on it is required in public law as the auditor is exercising quasi-judicial powers.

Sharing information enables relevant parties to:

- comment on the information;
- identify any gaps or inaccuracies; and
- make further submissions on the issues in the light of this information.

In deciding the issue or objection the auditor will usually proceed in two stages:

- first, the auditor is considering the substance of the issue or objection itself. For example, considering whether there is an unlawful item of account, because the audited body acted *ultra vires*, or that the audited body breached standing orders; and
- secondly, the auditor decides what, if any, action should be taken in response to the issue or objection.

The auditor's decision must have followed a fair process, be broadly reasonable and based on the relevant evidence. Auditors must have taken into account the relevant factors, ignored irrelevant ones and taken into account any submissions and representations received.

The relevant factors the auditor should consider when deciding what action (if any) to take include:

- the cost, against the benefits, of taking a particular course of action;
- the significance of the issue;
- what the proportionate response would be;
- whether there are any issues of principle or legal interpretation that need to be determined;
- which action would be in the public interest;
- whether the issue is likely to reoccur; and
- what course of action (if any) would make a difference for the future.

The possible outcomes from deciding on an issue or objection may include one or more of the following:

- take no action;
- refer the issue to an appropriate body to consider;
- write a letter to the audited body setting out matters which the auditor wants to draw to the audited body's attention;
- include matters in the Annual Audit Letter so that they are brought to the attention of the council's elected members and officers;
- make statutory recommendations (Section 11 of the Audit Commission Act 1998, as transitionally saved (the Act));
- issue a public interest report (Section 8 of the Act);
- apply to the court for a declaration (Section 17 of the Act);
- serve an advisory notice (Section 19 A-C of the Act); or
- seek judicial review of a decision of the audited body (Section 24 of the Act).

The auditor must record the reasons for the decision and must also inform the objector, involved parties and the council of the reasons for the decision. Common law may require in certain circumstances that reasons for a decision are given to those affected by it. This is in addition to the right in a formal objection procedure to ask for a Statement of Reasons under Section 17(4) of the Audit Commission Act 1998.

Please note that strictly speaking a Statement of Reasons may only be requested by an objector who sought a declaration under Section 17 or at least raised the issue of an alleged item of account contrary to law. Strictly speaking moreover it may only be requested after receiving the auditor's decision. However, in practice, most auditors dealing with objections choose to provide a Statement of Reasons at the point of decision, without one being requested, so as to simplify the process and at the same time to ensure that the common law requirements as to reasons are met.

### **Is there a right of appeal against an auditor's decision?**

If a local government elector has asked the auditor to issue a report in the public interest and they decide not to do so, there is no right of appeal against that decision.

If a local government elector has asked the external auditor to apply to the court for a declaration that an item of account is unlawful and disagrees with the external auditor's decision not to do so, they do have the right of appeal but they would have to take the matter to court themselves. There are time limits that apply for an appeal to be filed with the High Court.

## Appendix B – Decision Letter and Statement of Reasons

Name and address of Local Elector has been redacted

Direct line +44 (0) 191 383 6300

Email [gareth.davies@mazars.co.uk](mailto:gareth.davies@mazars.co.uk)

31 July 2015

Dear **Name of Local Elector has been redacted**

### **City of York Council: audit of accounts for the year ended 31 March 2014 Objection to the Accounts – Decision Letter and Statement of Reasons**

I am writing to advise you of my decision and the reasons for my decision on your objection to the accounts of City of York Council for year ended 31 March 2014.

#### **Your objection**

Your objection is set out in your e-mail of 25 November 2014 and has been the subject of subsequent correspondence between us and your representative, the National Motorists Action Group.

Your e-mail complied with the statutory requirements for a notice of objection to the Council's accounts for the year ended 31 March 2014 and it asked that:

- I apply to the court under section 17 of the Audit Commission Act 1998, as transitionally saved, for a declaration that all penalty charge income arising from traffic restrictions to Lendal Bridge and Coppergate are an unlawful item of account, because the penalty charge notices were wrongly issued to motorists for an alleged contravention of an invalid bus lane and therefore without lawful power to do so; and,
- I issue a public interest report in relation to these matters.

#### **Work carried out**

In the course of my enquiries I have considered:

- the written submissions of you, your representative and the Council, whether specifically referred to in this letter or not;
- the material documents as previously shared with you and other interested parties;
- relevant legal advice obtained by the Council; and,

- relevant statute and case law.

I have also taken my own legal advice on the powers and duties of councils involved in these matters.

## Background and sequence of events

In the following section I discuss matters that occurred both during and after the financial year 2013/14. Although your objection only relates to the accounts ending 31 March 2014, some subsequent events are relevant to the view I have taken on those accounts. Insofar as I have expressed a view in relation to events that took place in the financial year 2014/15, these are provisional only as I have yet to finalise the audit for that year of account.

In 2013, City of York Council introduced two Traffic Orders in relation to restrictions in Coppergate and Lendal Bridge respectively. The York (Coppergate) (Local Bus Priority) Traffic Order 2013 came into effect on 1 August 2013 (hereinafter referred to as the Coppergate traffic order or scheme). The York (Station Avenue / Lendal Bridge / Museum Street) (Local Bus Priority) (Experimental) Traffic Order 2013 was an experimental measure to try and reduce city centre congestion and improve traffic flows, and came into effect on 17 August 2013 (hereinafter referred to as the Lendal Bridge traffic order or scheme).

After a short grace period, the Council began to enforce the traffic restrictions and issued penalty charge notices where the restrictions were contravened by motorists. Over the whole period of the Lendal Bridge traffic restrictions the Council issued 48,525 penalty charge notices.

A number of appeals were made by motorists to the Traffic Penalty Tribunal in relation to both schemes.

On 28 March 2014, the Traffic Adjudicator issued a decision in an appeal brought by Mr Nigel Rhodes. The decision was in favour of Mr Rhodes who was consequently not liable to pay the penalty charge which had arisen in relation to Coppergate. Given the number of appeals in relation to Lendal Bridge and Coppergate, the Traffic Adjudicator sought to “issue a consolidated decision dealing with generic issues common to both restrictions and the particular issues about the signing at each of them”.

In the decision, the Traffic Adjudicator stated that:

*“In my judgement notwithstanding the designation in the Traffic Order neither Coppergate nor Lendal Bridge can sensibly be described as a bus lane, street or gate but rather the roads are part of a general traffic scheme from which non-exempt vehicles are restricted at certain times and where buses are just one of the excepted categories or classes of vehicle.*

*Clearly the Council has power to impose these restrictions but because Schedule 7 of the TMA [refers to the Traffic Management Act 2004] has not been fully implemented civil enforcement does not apply and there is no power to issue a PCN.”*

This decision was widely interpreted as questioning the legal basis for the scheme, and the decision and its consequences received considerable press and media coverage.

The Council continued to contend that it had acted lawfully, that the two Traffic Orders were valid and that they had been properly enforced.

On 1 April 2014, the Council instructed Mr Timothy Straker, QC to advise on the Council's response to the Traffic Adjudicator's decision. The Council's legal advice concluded that the Traffic Adjudicator's decision 'appears defective'. The Council then applied to the Traffic Penalty Tribunal for an internal review of the Traffic Adjudicator's decision of 28 March 2014. The review request was made on 10 April 2014.

However, on the 8 April 2014, the Council Leader, under delegated powers, decided to lift the restrictions on the Lendal Bridge scheme from 12 April 2014. In effect, the Lendal Bridge trial was ended and enforcement ceased.

Enforcement activity also ceased on the Coppergate scheme, although this Traffic Order and the traffic restrictions were left in place.

On 5 August 2014, the Cabinet received a report on the Lendal Bridge and Coppergate Traffic Regulation Orders, which highlighted there were no statutory deadlines for the Traffic Adjudicator to reach a review decision, that the Lendal Bridge scheme had ended 3 months ago and that the passage of time and "uncertainty" was creating an ongoing impact on individuals and on the reputation of the Council.

As a result of this report, the Cabinet determined:

- to withdraw the application to the Traffic Adjudicator to review the decision in relation to Lendal Bridge, but to continue as regards Coppergate; and,
- that, where members of the public contested their penalty charge notice in relation to the Lendal Bridge scheme, arrangements would be made to make a settlement payment equivalent to the value of the fine paid.

The Council sought and followed legal advice from Mr Timothy Straker QC before taking this course of action.

On 11 December 2014, a new Council Leader was elected and a Council motion was passed "to ask Cabinet to extend the 31<sup>st</sup> December deadline and to instruct officers to put in place a system for automatically repaying all Lendal Bridge fines."

The Council sought additional legal advice from Mr Timothy Straker QC, who advised that it would not be appropriate to seek out and automatically repay all of the Lendal Bridge fines, not least because of the Council's contention that it had acted lawfully.

As a result of this advice, Cabinet received a report on 20 January 2015, and decided to write to everybody who had received a penalty charge notice to make them aware of the settlement process, but not to introduce a system of automatic repayments. The deadline for motorists to contest a penalty charge notice was extended to 31 December 2015.

Subsequently, on 24 April 2015, the Chief Adjudicator of the Traffic Penalty Tribunal published the review decision in relation to Coppergate. The Chief Adjudicator found that the Coppergate Traffic Regulation Order was valid and that the Council was in principle entitled to enforce the Order. However, the Chief Adjudicator still found errors in the signage, and consequently, the appeal by the Council was dismissed.

In financial terms, the gross penalty charge income from the Lendal Bridge and Coppergate schemes reflected in the 2013/14 accounts was £1,802,000, with costs of £718,000, resulting in net income of £1,084,000. In the 2013/14 financial statements, the Council set aside the full gross penalty charge income figure of £1,802,000. Of this amount, £708,000 was established as a provision and the remainder as an earmarked reserve.

By the end of May 2015, the Council had repaid 30,287 of the 48,525 penalty charge notices it had issued in relation to the Lendal Bridge scheme.

Of the £1,802,000 penalty charge income, £387,000 relates to the Coppergate scheme.

## Findings

In order to determine your objection I have considered whether the penalty charge income received by the Council in relation to the two schemes in the 2013/14 financial year was lawful.

Your reason for challenging the lawfulness of the penalty charge income as stated in your email of 25 November 2014 was that “all of their penalty charge notices issued may well be contrary to legislation, having been issued for an alleged contravention of a non-existent bus lane, and therefore without lawful power”, which is a reference to the Traffic Adjudicator’s decision in the Rhodes appeal of 28 March 2014. Your representative also raised various points about the inadequacy of the signage used in the schemes, which it argued also rendered the income unlawful. In addition, you sought a public interest report about what you saw as the Council’s misuse of the penalty charge income that it had collected, in that there was an “attempt to confiscate as much as possible of their unlawfully-derived penalty charge income for the Council’s own purposes”.

I sought the Council’s representations in response to your objection, and the Council’s response stated that:

*“The key issue relevant to the Notice of Objection is whether the monies obtained through issuing Penalty Charge Notices (PCNs) under the Coppergate and Lendal Traffic Regulation Orders were lawfully obtained. The Council maintains that the monies were obtained lawfully.”*

The Council states that the traffic orders were valid, and that the penalty charge notices were therefore lawfully issued. The Council’s view is that the Council would be within its powers to retain all of the monies it had obtained, apart from those from the small number that have been successfully appealed to the Traffic Penalty Tribunal and which the Traffic Penalty Tribunal has directed the Council to repay.

I have also sought evidence on the relevant steps taken by the Council in relation to its decision. I found that:

- the Council sought appropriate legal advice at each stage from Mr Timothy Straker QC;

- the substance of this legal advice was that the Traffic Adjudicator's decision of 28 March 2014 appeared inadequate and did not provide good reason to consider that the Council's Traffic Orders in respect of both the Lendal Bridge scheme and Coppergate Scheme were invalid or unenforceable. In particular, the advice was that the Adjudicator had erred in concluding that the relevant highways could not be categorised as bus lanes because of the number of other types of vehicle permitted to use them, which was contrary to the relevant legislation and case law. The advice also concluded that in any event it was beyond the Adjudicator's jurisdiction to question the validity of the relevant traffic orders, which is not one of the statutory grounds of appeal that the Adjudicator may consider; and,
- the Council followed the legal advice that it received.

I also note the Chief Adjudicator's review decision on 24 April 2015. Although it relates specifically to the Coppergate scheme, it is also of relevance to the Lendal Bridge scheme, as similar issues apply to it in respect of the judgement of whether or not the traffic orders were enforceable as a bus lane.

The Chief Adjudicator's decision states that:

*"It follows that I dismiss Mr Knapp's ruling that Coppergate is not a bus lane and his finding that the enforcement of the contraventions of the TRO [Traffic Regulation Order] cannot be effected through the civil enforcement provisions of the Bus Lane Contraventions (Penalty Charges, Adjudication and Enforcement) (England) Regulations 2005."*

I sought my own legal advice in relation to these matters. My legal advice highlighted that:

- the Council does have the power to introduce traffic schemes such as those in Lendal Bridge and Coppergate;
- the Council has sought legal advice at appropriate times which confirms the validity of the traffic orders and consequently its power to enforce the restrictions through the issue of penalty charge notices; and,
- generally speaking the actions of local authorities are taken to be lawful unless a court declares otherwise. Even if the validity of the traffic orders had been considered by a court and had been struck down, it is not certain that penalty charge income would be unlawfully held.

Your representative has also raised various points alleging the inadequacy of the signage used for both schemes, and as noted above the Chief Adjudicator found the signage to be inadequate in the case of the appeal that she was considering. I also sought legal advice in relation to this. The effect of inadequate signage has been considered by the courts, in particular in the case of *Herron and others v Parking Adjudicator* [2011] EWCA Civ 905. Although the facts in the *Herron* case were not identical, the general principle from the case which is relevant here is that only a material flaw with the signage which resulted in a failure to achieve substantial compliance with the statutory requirements would affect the legality of the traffic order. Even where such material defects have been found, I am advised that there would still be an argument that any resulting penalty charge income would nevertheless be held lawfully. The Chief Adjudicator's findings in the appeal about the inadequacy of the signage are not in our view a sufficient basis to conclude that the traffic order was generally unenforceable, or, even more so, that there were any unlawful items of account in relation to PCN income.



Taking all of these considerations into account, I have concluded on balance that your objection has not provided me with sufficient reason to consider that the penalty charge income received by the Council in relation to the two schemes in the 2013/14 financial year was unlawful. Consequently I have not identified any relevant items of account which I consider to be contrary to law. In particular I consider that the Council has followed proper processes in relation to its decisions at each stage, the Council did have the powers to make the Lendal Bridge and Coppergate traffic orders, the traffic orders were valid (I accept the Council's legal advice that it was beyond the Adjudicator's jurisdiction to question the validity of the relevant traffic orders), and that consequently the Council was entitled to issue penalty charge notices and account for this income in its 2013/14 financial statements.

### Other considerations

I have considered the actions taken by the Council in the following financial year 2014/15 in relation to making settlement payments equivalent to penalty charge notice fines where motorists contest their penalty charge notice.

There were two key decisions made by the Council in relation to settlement payments:

- 5 August 2014, where Cabinet determined that it was prepared to make settlement payments where motorists contested their penalty charge notice; and,
- 20 January 2015, where the Cabinet determined that the Council would write to everybody who had received a penalty charge notice to make them aware of the settlement process, but not to introduce a system of automatic repayments.

The question I have addressed is, if the Lendal Bridge and Coppergate traffic orders were lawful and properly enforceable, which the Council has contended throughout and is consistent with its own legal advice and with my own findings, on what basis could the Council then legitimately make settlement payments to individuals who subsequently contended their penalty charge notices?

My comments in relation to this are a provisional view, as I am unable to fetter my discretion should an objection subsequently be made to the 2014/15 accounts in relation to these issues or new information subsequently come to light. My provisional view is that, based on the information at hand, I would not be minded to challenge the Council's decision to make settlement payments to motorists who contested their penalty charge notices.

The key points leading me to this provisional view are:

- when the Council made settlement payments in relation to income it considered to be lawful, the Council was seeking to act pragmatically to a situation that had arisen from the Traffic Adjudicator's decision of 28 March 2014;
- the Council was concerned about the uncertainty that was resulting from the delay in the Chief Adjudicator's review decision and also as to the perceived legality of the traffic schemes and the damage that this was creating both for individuals and for the Council's reputation;

- it was a balancing act for the Council to weigh the foregone penalty charge income against the negative impact in terms of uncertainty if continuing to resist refunds, but in retrospect, the Council's concerns around the length of the delay were supported by the fact that the Chief Adjudicator's review decision in relation to Coppergate was not made until 24 April 2015, almost nine months after the first decision by the Cabinet to make settlement payments on 5 August 2014; and,
- although it is possible to question aspects of the Council's actions, I do not find that the actions were so unreasonable as to render the decision to make settlement payments irrational.

### **Application to Court: decision**

My decision is that I will not apply to the Courts to seek a declaration that an item of account is contrary to law under Section 17 (1) of the Audit Commission Act 1998, as transitionally saved. The reason for this is that my discretion to do so only arises where I have identified an item of account contrary to law, which is not the case here.

For your information, if I had found that the penalty charge income was unlawful, I would have to consider whether there was any merit in me applying to the court for a declaration that the item is contrary to law. Under Section 17(1) of the Audit Commission Act 1998, as transitionally saved, I have discretion as to whether or not to seek such a declaration. Based on the information I have considered, I would not have been minded to seek a declaration in relation to the penalty charge income in the accounts to which you have objected. The reasons for this include:

- the Council ceased enforcement activity on both schemes in the light of the Traffic Adjudicator's decision of 28 March 2014 and has abandoned the Lendal Bridge scheme and hence the issue is largely historical and unlikely to be repeated;
- the Council has sought appropriate legal advice throughout and followed that advice, and has taken care to proceed responsibly as issues have developed;
- although the Council included the penalty charge income in its 2013/14 accounts, it also set aside and provided for the repayment of the gross amount, if that was subsequently shown to be necessary; and
- the benefits that might be secured by such an application would be disproportionate to the costs to public funds which would result.

### **Public Interest Report**

Whether or not to issue a report in the public interest is a matter for me in the exercise of my discretion.

In this instance I do not intend to issue a report in the public interest. The principal reason for this is that I have concluded that the penalty charge income that was the subject of your objection is not an unlawful item of account.

I also note that any recommendations that I do intend to make to the Council in relation to these matters can be made in a normal audit report. I therefore intend to report my findings in relation to the objection directly to the Council's Audit and Governance Committee and this report will be made publicly available through the agenda papers for this committee in due course.

In addition, I will summarise my findings in my Annual Audit Letter, which I will issue to the Council in October 2015, and which will also be a public document.

### **Rights of Appeal**

You have a statutory right of appeal to the court against my decision not to make an application to the court for a declaration that an item of account is contrary to law, see Section 17(4) of the Audit Commission Act 1998 as transitionally saved.

Any appeal must be commenced in the High Court. If you are considering making an appeal then you should seek your own legal advice, including as to the relevant procedure and time limit that apply.

I have copied this letter to City of York Council.

Yours sincerely

Gareth Davies  
*Partner*

cc: City of York Council

Name redacted, objector's representative

## Appendix C – Certificate closing the 2013/14 audit

### CITY OF YORK COUNCIL

#### **Certificate on the 2013/14 audit**

In our report dated 30 September 2014 on the 2013/14 statement of accounts, we explained that the audit could not be formally concluded on that date until consideration of matters brought to our attention by local authority electors had been completed. These matters have now been dealt with. No other matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion or on our value for money conclusion.

We certify that we have completed the audit of the accounts of City of York Council for 2013/14 in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Gareth Davies

For and on behalf of Mazars LLP

The Rivergreen Centre  
Aykley Heads  
Durham, DH1 5TS

7 September 2015



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**Audit and Governance Committee**

23 September 2015

Report of the Director of Customer &amp; Business Support Services

**Annual Financial Report - Statement of Accounts 2014/15****Summary**

1. This report presents a final set of accounts for 2014/15 to reflect changes made since the draft pre-audit accounts were presented to this committee on 29 July 2015.

**Background and Analysis**

2. The International Standard on Auditing (ISA) 260 requires the Council's External Auditor to report to those charged with governance any issues arising from the audit of the financial statements. It is also a statutory requirement that the Council approves the final statement of accounts after the audit and by 30<sup>th</sup> September each year.
3. The accounts attached at Annex A have been revised since the Audit & Governance Committee review in July 2015. A number of minor wording changes and rounding adjustments have been made. Only one item has been amended on the core statements, relating to an item included on the wrong service line. The overall totals remain the same.
4. It should be noted that these changes have no affect on the outturn position of the council as the changes made are accounting adjustments to ensure the accounts present a true and fair view.
5. The details of the changes made are included in section 5 of the Audit Completion Report. The 2014/15 audit is now substantially complete, and Mazars summarise their review of the accounts in their Audit Completion Report which is presented separately on the agenda for this meeting.
6. The annual production of the accounts is the subject of continuous review and, as usual, areas for improvement will be actioned as a

result of any issues identified this year. Any subsequent items identified in the last few days of the audit work will be reported verbally at the meeting.

7. The areas identified in 2014/15 will form the basis of a structured improvement programme in the build up to the production of next years accounts which will focus on:
  - (i) continued effective project planning to ensure deadlines are achieved, in particular planning for an earlier closedown in 2017/18
  - (ii) continued review of the bank reconciliation process to resolve mismatches between systems
  - (iii) training sessions and communication both within the finance team and across the Council to raise awareness
  - (iv) further review of the process of preparing working papers.

### **Consultation**

8. The report of the external auditor has been discussed with the relevant responsible officers. It is reported here for due consultation with those members charged with governance at the council.

### **Options**

9. Not applicable.

### **Corporate Priorities**

10. The Annual Financial Report provides a technical financial summary of the activities of the council and assists in providing the Council with a viable financial position on which to base future budget projections, as well as contributing to the overall effectiveness of the Council's governance and assurance arrangements.

### **Implications**

11. There are no financial, HR, equalities, legal, crime and disorder, IT or property implications arising from this report.

### **Risk Management**

12. Areas of risk identified throughout the annual accounts process are monitored and managed on an ongoing basis to ensure the statutory deadline is met.

13. The Council will fail to comply with legislative and best practice requirements to provide for a proper audit of the Council if it does not consider this report or approve and sign the Annual Financial Report.

**Recommendations**

14. Members are asked to

- (a) Note the matters set out in the Audit Completion Report presented by the external auditor

Reason

*To ensure the proper consideration of the opinion and conclusions of the external auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.*

- (b) Approve the amended Annual Financial Report at Annex A for signature by the chair from a resolution of this Committee in accordance with the Accounts and Audit Regulations 2003.
- (c) Approve the letter of representation for signature by the Director of CBSS as included in the Audit Completion Report

Reason

*To ensure compliance with the International Auditing Standards and any relevant legislative requirements.*

**Contact Details**

**Author:**

Debbie Mitchell  
Finance & Procurement  
Manager  
01904 551461

**Chief Officer Responsible for the report:**

Ian Floyd  
Director of Customer & Business  
Support Services

**Report  
Approved**



**Date** 14.9.15

**Specialist Implications Officers**

Not applicable

**Wards Affected:**

All

**For further information please contact the author of the report**

**Background Papers:**

Audit and Governance Committee 29 July 2015 – Pre-Audit Statement of Accounts 2014/15

**Annex**

Annex A – Final Statement of Accounts 2014/15





# Annual Financial Report 2014/15

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## ANNUAL FINANCIAL REPORT

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## **EXPLANATORY FOREWORD**

### **1. INTRODUCTION**

---

The purpose of the foreword is to provide an easily understandable guide to the most significant matters reported in City of York Council's accounts. The pages which follow are the Council's final accounts for the year ending 31 March 2015 with notes to give further details of the key figures. A summary of the purpose of each statement and an overview of the Council's financial position is shown in this section.

#### **Statement of Responsibilities**

This statement explains the differing responsibilities of the Council and the Director of Customer and Business Support Services in relation to the proper administration of the Council's financial affairs.

#### **Comprehensive Income and Expenditure Statement**

This statement shows the accounting cost in the year of providing services in accordance with international financial reporting standards (IFRS), rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

#### **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Council, 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 Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from 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 earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

#### **Balance Sheet**

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

### **Cash Flow Statement**

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

### **Accounting Policies**

This details the legislation and principles that are used in compiling the figures in the accounts. The accounts can be understood better if the policies followed in dealing with material items are explained.

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

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

### **Movement in Housing Revenue Account Reserve**

This statement shows how the deficit on the Housing Revenue Account Income and Expenditure Account for the year reconciles to the surplus for the year on the Statutory Housing Revenue Accounts.

### **Collection Fund**

This fund is an agent's statement that reflects the statutory obligation for billing authorities (i.e. City of York Council) to maintain a separate Collection Fund. The statement shows the transactions of the Council in relation to the collection from taxpayers and distribution to the Council, the Police and Crime Commissioner for North Yorkshire, North Yorkshire Fire and Rescue Authority, parish councils and central government of council tax and national non-domestic rates.

### **Glossary**

This is included to explain the technical terms used in the Accounts.

## **2. STRUCTURE OF THE COUNCIL'S ACCOUNTS**

---

The Council has to manage spending on services within a statutory framework, making sure that spending keeps within cash-limited budgets. This requires keeping:

- A General Fund to account for day-to-day spending on most Council services.
- A separate Housing Revenue Account.
- A separate Collection Fund Account.
- A capital programme to account for investment in assets needed for the delivery of Council services.



The way each of these is funded is also different:

- General Fund services are paid for from government grant, council tax and service charges.
- Housing income comes from housing rents.
- The Collection Fund is financed by income from taxpayers.
- The capital programme is funded in various ways including long-term borrowing, external finance, capital receipts from the sale of Council assets and from revenue.

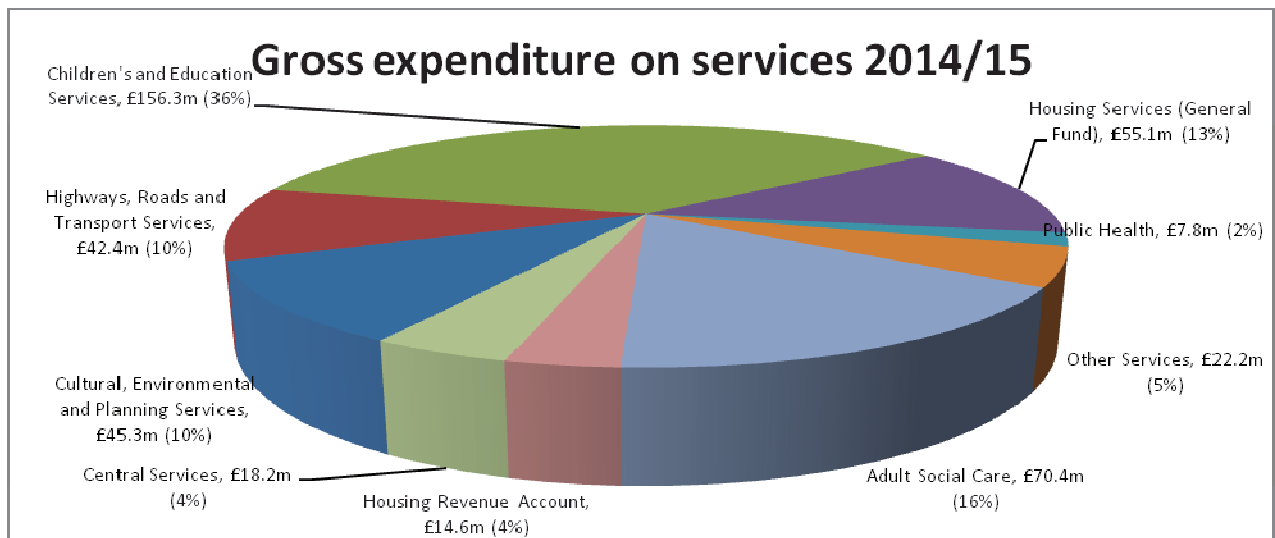
### 3. REVIEW OF THE COUNCIL'S FINANCIAL POSITION

Despite continuing pressures on public sector expenditure the Council has been able to maintain good financial health, under spending by £688k in 2014/15.

The Council's General Fund budget for its own net expenditure was set at £124.1m. To this sum the parish precepts added a further £0.6m. Included within the net underspend are several service areas where there have been significant budgetary pressures, for example additional costs have arisen due to demographic pressures in relation to adult social care.

These pressures have been mitigated by reduced expenditure or additional income in other areas, and this has been achieved through effective monitoring of the budget throughout the year to ensure that spending has remained within budget across the Council. Full details on the individual service areas position for 2014/15 were reported to Executive in July 2015.

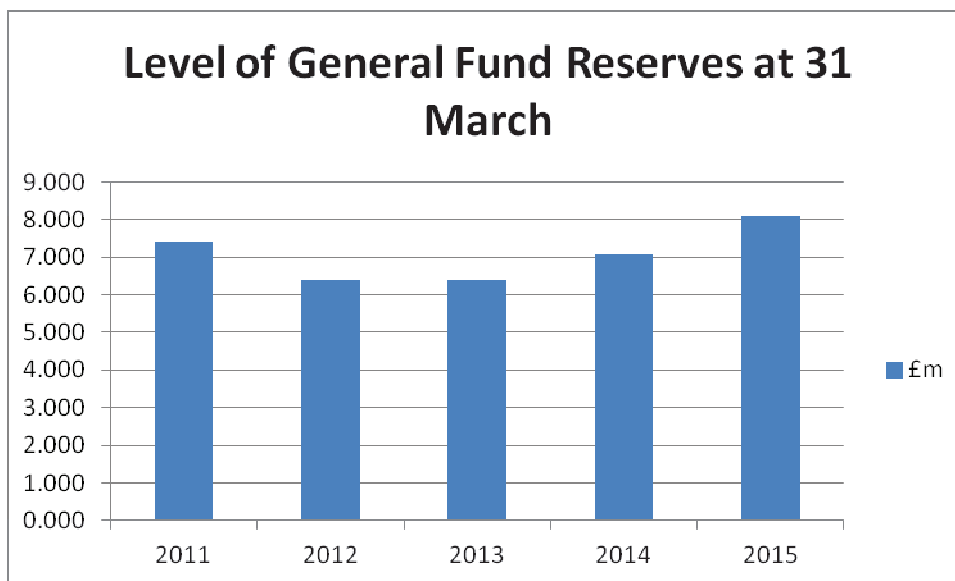
The Council's gross expenditure on services, as shown on the Income and Expenditure Account, was £432m and the following diagram shows this on a service by service basis:



## Reserves

At the end of the financial year 2014/15 the useable reserves stood at £96m, compared to £91.1m at the end of 2013/14. This increase is primarily due to an increase in right to buy receipts received in 2014/15 and a surplus on the HRA of £1.908m (further details of which can be found on note 4 below). Useable reserves also include the Council's General Fund balance of £13.1m, of which individual school balances account for £5m. In compliance with the Education Reform Act 1988, individual school balances will be carried forward into 2015/16.

The General Fund reserve is carefully monitored to ensure that it is maintained at a minimum prudent level to cover any unforeseen circumstances given the size of the Council's budget. The graph below shows the level of the general fund reserve (excluding the schools' accumulated reserves which are not available for any other use) over the last five years.



As part of setting the annual budget, the Director of Customer and Business Support Services undertakes a risk assessment to calculate a minimum level for the General Fund reserve, and this was incorporated into the Council budget reports. For 2014/15, this was a recommended level of £6.4m.

In order to provide a sound financial platform for the authority, and ensure it continues to maintain its overall financial health and is able to deal with any unforeseen events effectively, the 2014/15 budget ensured headroom of just under £1m within the reserve. It is considered that this approach should continue, and whilst the approved budget for 2015/16 already incorporates a reduction in the level of reserves from the current level, it will still ensure that the level is sufficient to assist the Council to meet the significant financial challenges it faces in coming year

#### 4. HOUSING REVENUE ACCOUNT (HRA)

---

The Local Government and Housing Act 1989 introduced many changes to the funding of the HRA and set the framework for ring-fencing the HRA, preventing the subsidisation of rents from the general income of the Council.

From 1 April 2001 the Council has been required to have both a business plan in place under the HRA Resource Accounting regulations and to report the HRA transactions in a specified format. The main objectives of this format are to encourage a more efficient use of housing assets, increase the transparency of the HRA and assist the Council to plan its housing strategy. This system ensures consistency with central government resource accounting structures and also promotes comparability between Councils.

In April 2012 the Localism Act introduced a significant change to the way that council housing is financed by dismantling the previous system of HRA subsidy and replacing it with a new system of self financing. This resulted in a number of changes which have a significant impact on the Council's HRA business plan and its stock retention strategy and involved the Council borrowing £122m to pay central government. This was a one off payment and in return the Council gets greater independence and responsibility for the management of its housing stock as it now has the ability to actively manage the debt and its financial impact on the HRA.

When the 2014/15 revenue estimates were approved, rents were increased by an average of £1.73 per week or 2.2%, in accordance with rent restructuring policy.

The HRA had an in year surplus of £1.908m. The account brought forward a surplus from 2013/14 which means that the final position is a surplus of £14.021m at the year-end (£12.113m at 1<sup>st</sup> April 2014), which is an increase of £1.341m from that originally budgeted for. In 2014/15 the most significant variances have resulted from:

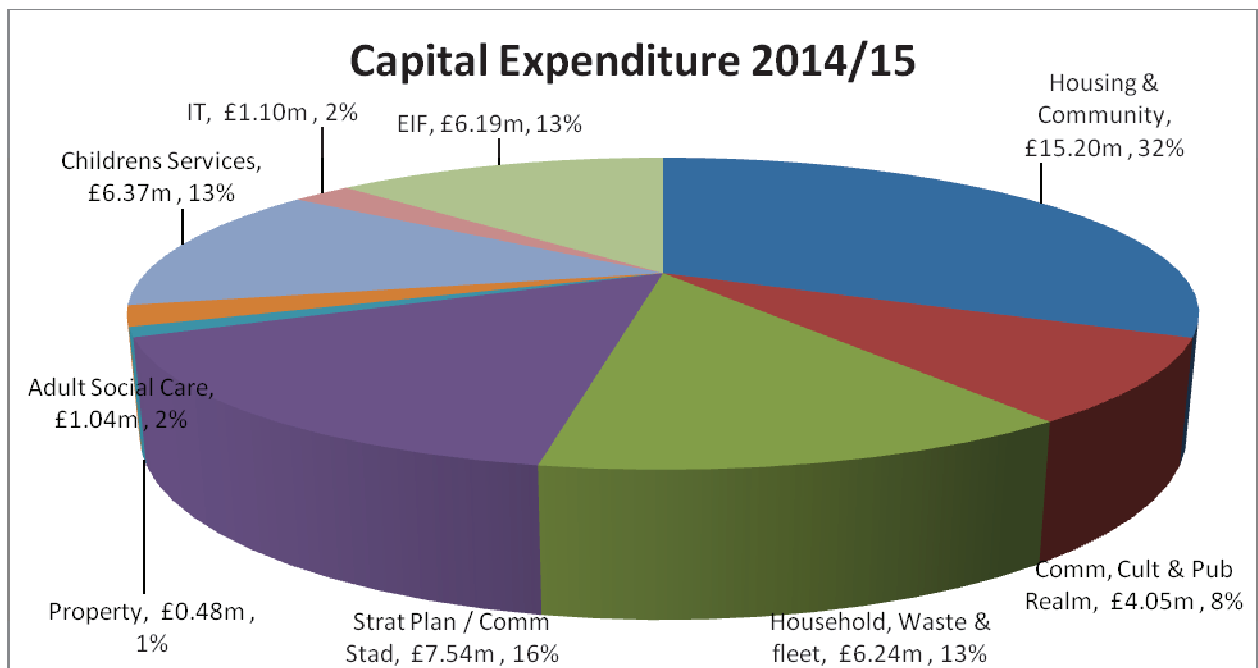
	£000's
(i) Increase in repair and maintenance costs	543
(ii) Reduced cost of providing temporary and sheltered accommodation	(89)
(iii) Decreased costs from departmental and support services	(285)
(iv) Reduced provision for bad debt	(273)
(v) Reduced revenue contribution to fund capital expenditure	(954)
(vi) Increased interest on cash balance	(55)
(vii) Reduction in voids	(69)
(viii) Increase in Fees and Charges	(27)
(ix) Decreased loan interest	(53)
(x) Decreased capital charges	(81)
(xi) Other minor variances	2
	<b>(1,341)</b>

**5. COLLECTION FUND**

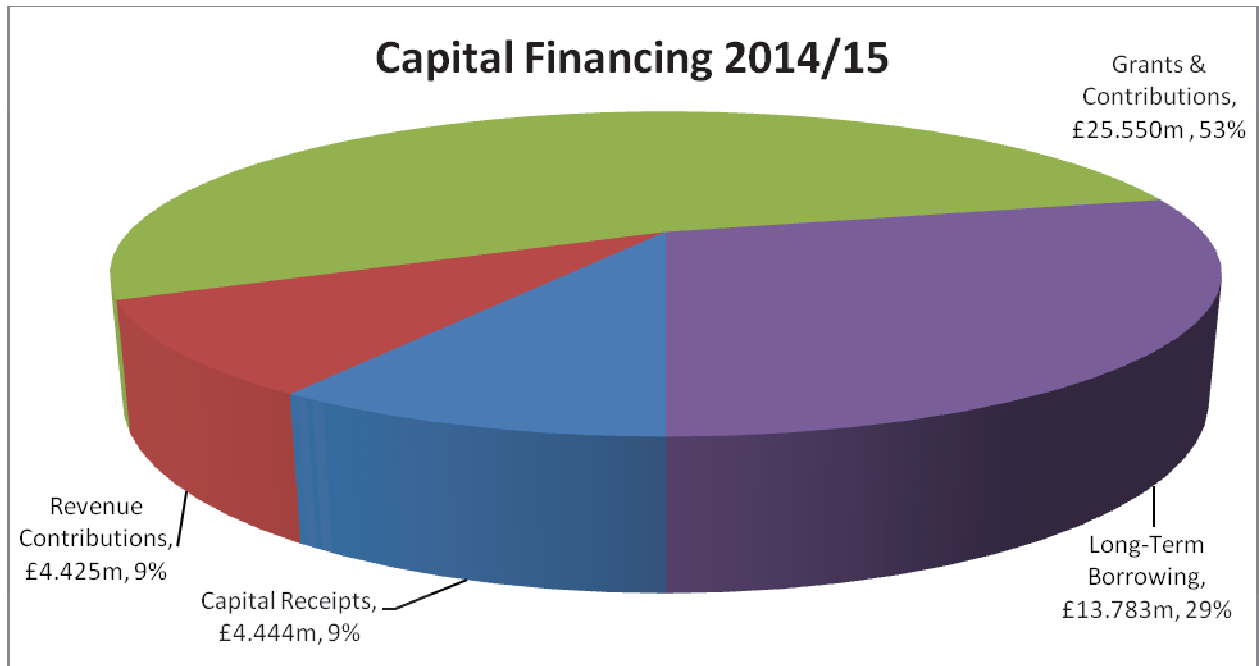
As outlined in the introduction, the Collection Fund is an agents statement. The account shows a surplus on Council Tax and a deficit on Business Rates at 31 March 2015. This deficit is due to the requirement to make a provision for backdated business rate appeals and will broadly be resolved over the coming years. 97.6% of the total sum collectable for 2014/15 Council Tax bills was received in the year. It should be noted that the majority of amounts not collected in year are collected in the following financial year. Similarly, the recovery on Business Rates was 98.2% of the 2014/15 bills.

**6. CAPITAL EXPENDITURE**

The original gross expenditure budget was £64.114m (2013/14 £66.844m), however, due to re-programming some of the work, the final budget was £47.085m (2013/14 £43.560m). Total expenditure on capital schemes in 2014/15 was £48.202m gross (2013/14 £44.618m). An analysis of where the money was spent in 2014/15 is shown diagrammatically below:



An analysis of the sources of funding is shown diagrammatically below:



The Council maintains a wide-ranging capital programme containing (including in year spend) initiatives such as:

- The delivery of the Local Transport Plan £2.435m (Strategic Planning)
- The modernisation and repairs to Council properties £8.465m (Housing and Community)
- Improvements to and expansion of schools and devolved capital works on a variety of schools £5.658m (Children's Services)
- The resurfacing, refurbishment and improvement of the Council's roads £5.615m (Household, Waste and Fleet)
- Work on Access York new Park and Ride sites and highways remodelling of £5.916m (Strategic Planning)

## **7. BORROWING FACILITIES AND CAPITAL BORROWING**

The ability to borrow is governed by the Local Government (Prudential Code for Capital Finance in Local Authorities) Act 2003. Under the Prudential Code local authorities are able to borrow for capital purposes provided that it is prudent, affordable and sustainable within the Prudential Indicators approved by the Council at its meeting during the annual budget process.

The three key indicators in respect of capital borrowing are the authorised limit, the operational boundary and the Capital Financing Requirement. The authorised limit is the level of external debt which cannot be breached under any circumstances. The operational boundary is a measure of the most money the Council would normally borrow at any time during the year. It may be exceeded temporarily, but a regular pattern of borrowing above this level should be avoided. The capital financing requirement is the Councils underlying need to borrow for capital purposes.

In February 2014, Budget Council approved (as part of the Treasury Management Strategy Statement) for all Prudential Indicators including the authorised limit, the operational boundary and the capital financing requirement. The limits are set out below:

	Opening Level £000's	Closing Level £000's
Authorised Limit	373,542	373,542
Operational Boundary	343,542	343,542
Long Term Debt	258,615	269,115
Capital Financing Requirement	311,758	317,392

(Note the capital financing requirement stated above excludes PFI and other borrowing facilities shown in note 42)

Although the Council may borrow from a variety of financial institutions, the majority of its long-term debt is borrowed from the Public Works Loan Board (PWLB). During 2014/15 the Council's long-term borrowing movements was as follows:

	2014/15 £000's	2013/14 £000's
Opening Borrowing at 1 April	<b>259,514</b>	261,425
Reversal of Interest Owed & Adj Carry Value 2010/11	<b>(898)</b>	(2,809)
Borrowing to fund capital schemes	<b>15,000</b>	0
Interest Owed on Long Term Debt at 31st March	<b>1,961</b>	1,849
Adjusted Carry Value of Loans due Debt Restructure	<b>(911)</b>	(951)
Loans maturing in the year	<b>(4,500)</b>	-
Closing Borrowing at 31 March	<b>270,165</b>	259,514
Authorised Limit for year	<b>373,542</b>	<b>351,274</b>
Operational Boundary for year	<b>343,542</b>	<b>321,274</b>

The 14/15 closing borrowing figure of £270.165m (£259.514m 13/14) is different to note 16 borrowings figure of £270.269m (£259.617m 13/14) by £103k, as the former does not include the Coppergate Bond of £2k and the loan to Veritau of £101k.

One PWLB loan of £4.5m was repaid in year and the Council draw down £15m of new debt in 14/15. In total at 31 March 2015 the Council's adjusted debt was £270.165 m (2013/14 £259.514m). Consequently, the Council did not exceed either the authorised limit of £373.542m or the operational boundary of £343.542m. The average rate of interest on all long-term loans at 1 April 2014 was 3.74% and at 31 March 2015 was 3.76%.

## 8. SIGNIFICANT POINTS TO NOTE IN RESPECT OF THE BALANCE SHEET

---

In 2014/15 there was a significant increase in the Council's share of the North Yorkshire Pension Fund deficit. This was due to the effect of changes in actuarial assumptions.

There has been a significant increase in the cash and cash equivalents value during 2014/15 by £25.532m (13/14 £27.526m). The increase reflects the early receipt of a variety of grants and contributions ahead of their profiled spend dates thus creating a temporary cash surplus.

Depreciation in 2014/15 was £22.196m (13/14 £22.491m), overall revaluation loss of £10.621m (13/14 revaluation loss £20.661m) and capital expenditure contributing to the asset value by £48.203m (13/14 £44.618m).

Included within the net revaluation loss of £10.621m, is a revaluation gain in relation to Council Dwellings of £13.919m and a revaluation loss in relation to other land & buildings of £24.046m. The primary driver of the loss is the revaluation on completion of the two new park & ride sites - Poppleton Bar & Askham Bar.

## 9. FUTURE DEVELOPMENTS

---

The Council's Medium Term Financial Strategy is set within a robust and well established planning framework and is based on an analysis of the key influences on the financial position and an assessment of the main financial risks facing the Council. This framework has enabled the Council to deliver significant performance improvements in many areas, whilst maintaining effective control and use of its limited financial resources. The Council is however facing significant risks and pressures over the medium term and these are identified in the following key financial challenges:

### ***Continuing Reductions in Funding from Central Government***

It is almost certain that there will be further reductions in government funding, and the major challenge facing the council in coming years will be to secure further savings and for cost pressures to be managed effectively. In doing so, the council will also need to provide capacity for additional investment in unavoidable costs and priorities. The continued development of the Financial Strategy will ensure that the Council prepares effectively for these challenges.

### ***Economic Downturn***

#### ***This includes:***

- Pressures resulting from the impact on the performance of the Council's investments, an area which has traditionally provided strong support to the revenue budget
- higher demands for services as the economic situation directly impacts on Citizens and business

### ***Waste Management***

This will continue to be an area of significant cost pressure over the coming years as the Council manages the increases in Landfill Tax and the introduction of limits on Landfill Allowances.



## ***Service Pressures***

Increasing demands for services to the elderly, together with care services for both adults and children, continue to create financial pressures that the Council need to effectively manage as part of the financial planning process.

## ***Pension Fund Deficit***

Whilst the most recent triennial valuation maintained the same level of employers' contributions, the impact of the global financial problems on the investment returns of the Pension Fund continues. Any future increases in contribution rates will impact adversely on the Council's revenue budget.

## ***Capital Programme***

As a result of declining levels of capital receipts resulting from the economic downturn, the Council will be looking to increase revenue contributions and thereby provide necessary capacity into the Capital Programme.

## ***Rewiring Public Services Programme***

The Council's Medium Term Financial Plan sets out the scale of savings that will be required in future years, and these are projected at around some £10m per annum over the next few years. This means that the Council will need to consider difficult choices in terms of the services to provide and at what levels.

**INDEPENDENT AUDITOR'S REPORT**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY OF YORK COUNCIL****Opinion on the Council financial statements**

We have audited the financial statements of City of York 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, 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 City of York Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

**Respective responsibilities of the Director of Customer and Business Support Services and auditor**

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

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Customer and Business Support Services; 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. 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 City of York Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

**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 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 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council 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 Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources*****Respective responsibilities of the Council and the auditor***

The Council 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 Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Council 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 Council 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 Council 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, we are satisfied that, in all significant respects, *City of York 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 accounts of City of York Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Gareth Davies

For and on behalf of Mazars LLP

The Rivergreen Centre  
Aykley Heads  
Durham, DH1 5TS

30 September 2015

**STATEMENT OF ACCOUNTS**

**STATEMENT OF RESPONSIBILITIES**

**STATEMENT OF RESPONSIBILITIES**

**1. THE COUNCIL'S RESPONSIBILITIES**

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The Council 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 Council that officer is the Director of Customer and Business Support Services (section 151 officer).
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

**2. THE DIRECTOR OF CUSTOMER AND BUSINESS SUPPORT SERVICES RESPONSIBILITIES**

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The Director of Customer and Business Support Services is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Customer and Business Support Services has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the code.

The Director of Customer and Business Support Services has also:

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

**3. CERTIFICATION OF THE ACCOUNTS**

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I certify that the Statement of Accounts presents fairly the position of the City of York Council at 31 March 2015 and its income and expenditure for the year ended 31 March 2015. These audited accounts replace the un-audited statement of accounts previously published on 30 June 2015.

Signed ..... Dated 23/09/15

I.M. Floyd B. Sc. (Hons), CPFA

Director of Customer and Business Support Services

**4. APPROVAL OF THE ACCOUNTS**

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I certify that the Statement of Accounts has been approved by a resolution of the Audit & Governance Committee of City of York Council in accordance with the Accounts and Audit Regulations 2003 (as amended)

The Statement of Accounts was approved by Audit and Governance Committee on 23 September 2015.

On behalf of the Audit and Governance Committee

Signed ..... Dated 23/09/15

Cllr N Barnes

Chair, Audit and Governance Committee



**CORE FINANCIAL STATEMENTS**

**Comprehensive Income and Expenditure Statement**

		2014/15			2013/14		
	Note	Gross Exp. £000's	Income £000's	Net Exp. £000's	Gross Exp. £000's	Income £000's	Net Exp. £000's
<b>Service Costs</b>							
Central Services to the Public		18,150	(6,660)	11,490	20,623	(7,428)	13,195
Cultural Services		15,386	(1,547)	13,839	13,363	(1,903)	11,460
Environmental Services		22,554	(6,234)	16,320	22,637	(6,175)	16,462
Planning Services		7,321	(3,867)	3,454	6,844	(3,260)	3,584
Children's and Education Services		156,322	(128,312)	28,010	161,868	(128,402)	33,466
Highways, Roads and Transport Services		42,402	(12,568)	29,834	22,835	(13,009)	9,826
Local Authority Housing – (HRA)		14,558	(40,016)	(25,458)	38,744	(39,116)	(372)
Housing Services (General Fund)		55,052	(47,242)	7,810	56,116	(48,022)	8,094
Adult Social Care		70,427	(20,764)	49,663	73,460	(22,466)	50,994
Public Health		7,803	(7,739)	64	8,148	(7,018)	1,130
Corporate and Democratic Core		3,055	(76)	2,979	2,827	(74)	2,753
Non-Distributed Costs - Other		1,152	(37)	1,115	1,285	(2)	1,283
<b>Cost of Services</b>	(30)	<b>414,182</b>	<b>(275,062)</b>	<b>139,120</b>	<b>428,750</b>	<b>(276,875)</b>	<b>151,875</b>
Other Operating Expenditure	(9)			(2,401)			5
Financing and Investment Income and Expenditure	(10)			9,738			16,238
Taxation and Non-Specific Grant Income	(11)			(156,290)			(179,798)
<b>(Surplus)/Deficit on Provision of Services</b>	(30)			<b>(9,833)</b>			<b>(11,681)</b>
Revaluation (gains) on non current assets	(26)			(9,093)			(6,252)
Impairment losses on non current assets	(26)			3,754			2,117
Surplus/loss arising on the revaluation of available-for-sale financial assets				-			-
Re-measurement of net defined benefit/ liability	(49)			48,415			(120,652)
<b>Other Comprehensive Income and Expenditure</b>				<b>43,076</b>			<b>(124,787)</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>33,243</b>			<b>(136,468)</b>

**Movement in Reserves Statement**

	Note	General Fund Balance £000's	Earmarked General Fund Reserves £000's	Housing Revenue Account £000's	Earmarked HRA Reserves £000's	Major Repairs Reserve £000's	Capital Receipts Reserve £000's	Capital Grants Unapplied £000's	Total Usable Reserves £000's	Unusable Reserves £000's	Total Authority Reserves £000's
<b>Balance at 31 March 2013</b>		(11,920)	(18,469)	(12,730)	(5,370)	(2,661)	(1,536)	(7,352)	(60,038)	(230,555)	(290,593)
<b>Movement in Reserves during 2013/14</b>											
Surplus /(Deficit) on Provision of Services		(15,801)	-	4,120	-	-	-	-	(11,681)	-	(11,681)
Other Comprehensive Income and Expenditure movement		-	-	-	-	-	-	-	-	(124,787)	(124,787)
<b>Total Comprehensive Expenditure and Income</b>		<b>(15,801)</b>	<b>-</b>	<b>4,120</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,681)</b>	<b>(124,787)</b>	<b>(136,468)</b>
Adjustments between accounting basis & funding basis under regulations	(7)	(3,863)	-	(8,238)	-	(611)	(2,413)	(4,275)	(19,400)	19,400	-
Other Adjustments										(408)	(408)
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>(19,664)</b>	<b>-</b>	<b>(4,118)</b>	<b>-</b>	<b>(611)</b>	<b>(2,413)</b>	<b>(4,275)</b>	<b>(31,081)</b>	<b>(105,795)</b>	<b>(136,876)</b>
Transfers to/from Earmarked Reserves	(8)	20,119	(20,119)	4,735	(4,735)	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>		<b>455</b>	<b>(20,119)</b>	<b>617</b>	<b>(4,735)</b>	<b>(611)</b>	<b>(2,413)</b>	<b>(4,275)</b>	<b>(31,081)</b>	<b>(105,795)</b>	<b>(136,876)</b>
<b>Balance at 31 March 2014 carried forward</b>		<b>(11,465)</b>	<b>(38,588)</b>	<b>(12,113)</b>	<b>(10,105)</b>	<b>(3,272)</b>	<b>(3,949)</b>	<b>(11,627)</b>	<b>(91,119)</b>	<b>(336,350)</b>	<b>(427,469)</b>
<b>Balance at 1 April 2014</b>		<b>(11,465)</b>	<b>(38,588)</b>	<b>(12,113)</b>	<b>(10,105)</b>	<b>(3,272)</b>	<b>(3,949)</b>	<b>(11,627)</b>	<b>(91,119)</b>	<b>(336,350)</b>	<b>(427,469)</b>
<b>Movement in Reserves during 2014/15</b>											
Surplus /(Deficit) on Provision of Services		11,693	-	(21,526)	-	-	-	-	(9,833)	-	(9,833)
Other Comprehensive Income and Expenditure movement		-	-	-	-	-	-	-	-	43,076	43,076
<b>Total Comprehensive Expenditure and Income</b>		<b>11,693</b>	<b>-</b>	<b>(21,526)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9,832)</b>	<b>43,076</b>	<b>33,243</b>
Adjustments between accounting basis & funding basis under regulations	(7)	(12,350)	-	18,341	-	(71)	(1,715)	766	4,971	(4,971)	-
Other Adjustments											-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>(657)</b>	<b>-</b>	<b>(3,185)</b>	<b>-</b>	<b>(71)</b>	<b>(1,715)</b>	<b>766</b>	<b>(4,862)</b>	<b>38,105</b>	<b>33,244</b>
Transfers to/from Earmarked Reserves	(8)	(973)	973	1,277	(1,277)	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>		<b>(1,630)</b>	<b>973</b>	<b>(1,908)</b>	<b>(1,277)</b>	<b>(71)</b>	<b>(1,715)</b>	<b>766</b>	<b>(4,862)</b>	<b>38,105</b>	<b>33,244</b>
<b>Balance at 31 March 2015 carried forward</b>		<b>(13,095)</b>	<b>(37,615)</b>	<b>(14,021)</b>	<b>(11,382)</b>	<b>(3,343)</b>	<b>(5,664)</b>	<b>(10,861)</b>	<b>(95,981)</b>	<b>(298,245)</b>	<b>(394,225)</b>
<b>Split of General Fund Balance between Schools and GF</b>									<b>31-Mar-15</b>	<b>31-Mar-14</b>	
									<b>£000's</b>	<b>£000's</b>	
Amount of General Fund Balance held by governors under schemes to finance schools									(5,010)	(4,405)	
Amount of General Fund Balance generally available for new expenditure									(8,085)	(7,060)	
<b>Total General Fund Balance</b>									<b>(13,095)</b>	<b>(11,465)</b>	

**Balance Sheet**

	Note	31 March 2015	31 March 2014
		£000's	£000's
Property, Plant and Equipment	(12)	707,248	693,016
Investment Property	(14)	33,546	32,274
Intangible Assets	(15)	1,559	1,692
Heritage Assets	(13)	39,708	39,708
Long - Term Investments	(16)	1,255	1,215
Long - Term Debtors	(20)	5,945	5,807
<b>LONG - TERM ASSETS</b>		<b>789,261</b>	<b>773,712</b>
Short-Term Investments	(16)	5,000	10,000
Assets Held for Sale	(22)	2,677	4,074
Inventories	(17)	245	373
Short-Term Debtors	(19)	32,358	31,127
Cash and Cash Equivalents	(21)	62,171	36,639
<b>CURRENT ASSETS</b>		<b>102,451</b>	<b>82,213</b>
Short-Term Borrowing	(16) / (52)	(14,064)	(11,450)
Provisions due to be settled within 12 months	(24)	(9,254)	(12,014)
Short-Term Creditors	(23)	(40,832)	(34,227)
Other Short-Term Liabilities	(23)	0	(181)
<b>CURRENT LIABILITIES</b>		<b>(64,150)</b>	<b>(57,872)</b>
Long-Term Creditors	(16)	(3)	(5)
Provisions	(24)	(8,352)	(5,271)
Long-Term Borrowing	(16) / (52)	(256,204)	(248,167)
Other Long-Term Liabilities	(16)	(5,072)	(5,336)
Liability related to Defined Benefit Pension Scheme	(26) / (49)	(163,705)	(111,806)
<b>LONG-TERM LIABILITIES</b>		<b>(433,336)</b>	<b>(370,585)</b>
<b>NET ASSETS</b>		<b>394,226</b>	<b>427,469</b>
<b>RESERVES</b>			
<u>Usable Reserves</u>	(25)		
Capital Receipts Reserve		5,664	3,950
General Fund Balance		13,095	11,465
Housing Revenue Account Reserve		14,021	12,113
Major Repairs Reserve		3,343	3,272
Capital Grants Unapplied		10,861	11,627
Earmarked Reserves		48,997	48,693
		95,981	91,120
<u>Unusable Reserves</u>	(26)		
Revaluation Reserve		121,449	118,283
Capital Adjustment Account		345,810	340,101
Available-for-sale Financial Instruments Reserve		0	0
Financial Instruments Adjustment Account		(1,691)	(1,818)
Pensions Reserve		(163,705)	(111,806)
Collection Fund Adjustment Account		844	(3,592)
Employee Benefit Adjustment Account		(4,462)	(4,819)
		298,245	336,349
<b>TOTAL RESERVES</b>		<b>394,226</b>	<b>427,469</b>

**Cashflow Statement**

	Note	2014/15	2013/14
		£000's	£000's
Net (Surplus)/Deficit on the provision of Services		<b>(9,833)</b>	(11,681)
Adjustments to the Net (Surplus)/Deficit on the Provision of Services for non-cash movements	(27)	<b>(42,174)</b>	(58,055)
Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are investing and financing activities	(27)	<b>26,250</b>	35,571
Net Cash Flows from Operating Activities		<b>(25,757)</b>	(34,164)
Investing Activities	(28)	<b>12,340</b>	7,607
Financing Activities	(29)	<b>(12,115)</b>	(1,002)
Net (Increase)/Decrease in Cash and Cash Equivalents		<b>(25,532)</b>	(27,559)
Cash and Cash Equivalents at the beginning of the reporting period		<b>(36,639)</b>	(9,080)
Cash and Cash Equivalents at the end of the reporting period		<b>(62,171)</b>	(36,639)

**NOTES TO THE CORE FINANCIAL STATEMENTS**

## **1. ACCOUNTING POLICIES**

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### **I. General**

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Council 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 Council 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 issued by government.

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

### **II. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **III. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months 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 Council's cash management.

### **IV. Exceptional Items**

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

**V. 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 accounting estimates are accounted for prospectively, ie 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 about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

**VI. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed 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 fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. 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 Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the Minimum Revenue Provision (MRP) 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 between the two.

**VII. Employee Benefits*****Benefits Payable during Employment***

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or flexi-leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

***Termination Benefits***

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.



Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### ***Post Employment Benefits***

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pensions Scheme, administered by NHS Pensions.
- The Local Government Pensions Scheme, administered by North Yorkshire County Council.

All schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Public Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

### ***The Local Government Pension Scheme***

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the North Yorkshire Pension Fund (NYPF) attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – ie 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 projected earnings for current employees. Further information can be found in NYPF's Annual Report that is available upon request from Financial Services, County Hall, Northallerton, DL7 8AL.
- Liabilities are discounted to their value at current prices, calculating the discount rate as a weighted average of "spot yields" on AA rated corporate bonds. These weightings reflect more accurately the duration of the pension liabilities of the typical LGPS employers.
- The assets of the NYPF attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.
- The change in the net pensions liability is analysed into the following components:
  - 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 arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - net interest on the defined benefit liability ie net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of

time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- Re-measurement comprising
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- 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 – debited to the Pensions Reserve
- contributions paid to the NYPF – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the NYPF.

### **VIII. 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 where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

**IX. Financial Instruments****Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. Such instruments are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in 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. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the majority of the borrowings that the Council has, 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 for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**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
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

**Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in 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 that the Council has 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 for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to

the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of such an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Available-for-Sale Assets**

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

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 Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

### **Instruments Entered Into Before 1 April 2006**

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. We are not aware of any guarantees that would need to be reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is

needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

### **X. Foreign Currency Translation**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. There were no amounts in foreign currency outstanding at the year-end.

### **XI. 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 to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) 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. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **XII. Heritage Assets**

The Council's Heritage Assets are grouped into four main areas:

- (a) Heritage properties
- (b) Art Collection
- (c) Mansion House Collection and Civic Regalia
- (d) Museum Collections

All categories of heritage assets increase the knowledge, understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the

treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets, further detail is provided below.

The accounting policies in relation to intangible heritage assets are not included in this document as no intangible heritage assets have been identified. All heritage assets are tangible.

The Council's collections of heritage assets are accounted for as follows.

**Heritage properties** – assets are valued in accordance with the property RICS guidance and for heritage assets where a market value exists, the assets are valued at fair value market value. Where no market value exists, the value stated is replacement cost. All valuations are recorded on a valuation certificate.

The code recognises that it may not be possible to value all heritage assets due to their size and unique historical importance. Four such assets have been identified:

- (a) Medieval City Walls
- (b) Yorkshire Museum and Gardens and Hospitium
- (c) Abbey Walls – Marygate and Bootham
- (d) Roman Multangular Tower and adjoining Walls

**Art Collection** - including paintings (both oil and watercolour) and sketches, is reported in the Balance Sheet at insurance valuation which is based on market values.. The art collection is deemed to have indeterminate life and a high residual value, hence the Council does not consider it appropriate to charge depreciation.

The collection is relatively static and acquisitions and donations are rare. If acquisitions did occur they would initially be recognised at cost and donations would be recognised at valuation provided by external valuers and with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

**Mansion House Collection and Civic Regalia** – are recorded in the balance sheet using insurance valuations. This collection was last revalued in 2007 by a fine art external valuation expert. The valuation for the Mansion House Collection is deemed to be an appropriate insurance valuation at the current time. The insurance valuation for Civic Regalia has been increased to reflect changes in the cost of metal. The Regalia and items in the Mansion House are deemed to have indeterminate lives and the Council does not consider it appropriate to charge depreciation. The policy for acquisitions, made by purchase or donation, is the same as for the art collection.

**Museum Collections** – both Castle Museum and Yorkshire Museum are held in Trust but the collections are insured by the Council. For Castle Museum, the collection is of social history value and therefore has a relatively low insurance valuation which is included on the balance sheet. .

**Yorkshire Museum**, the Council considers that obtaining valuations for the vast majority of items and artefacts exhibited within the museum would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values. The Council does not recognise this collection of heritage assets on the Balance Sheet. The Council does not consider that reliable cost or valuation information can be obtained for items held as a result of archaeological investigations. The diverse nature of the assets held, the lack of comparable market values, the length of time the items have existed results in the Council not recognising these assets on the balance sheet. The Council does not (normally) make any purchases of archaeological items.

Acquisitions are again initially recognised at cost or, if bequeathed or donated at nil consideration, at valuation.

### **Heritage Assets – General**

**Impairment:** The carrying amounts of heritage assets are reviewed and where there is evidence of impairment eg where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity, it is recognised and measured in accordance with the Council's general policies on impairment – see note on impairment XX in this summary of accounting policies.

**Disposal:** disposal of heritage assets are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Heritage asset disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see note XX in this summary of accounting policies).

### **XIII. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **XIV. Interests in Companies and Other Entities**

The Council has interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures, but due to the values involved these do not require the Council to prepare Group Accounts. The following paragraphs list those companies and describe the nature of

the Council's interest. Further detail on these arrangements can be found with in the Related Parties note 41.

#### Yorwaste Limited

The share-holding for this company was formerly 100% owned by North Yorkshire County Council. As a consequence of the local government review City of York Council now owns 22.27% of the share-holding.

#### Yorkshire Purchasing Organisation

This organisation was established as a joint committee of Local Authorities in 1974 and City of York Council is one of the constituent thirteen member authorities.

#### City of York Trading Limited

The company was formed by the Council on 18<sup>th</sup> November 2011 and began trading in June 2012. It was established as a means of trading services that the Council is able to provide to other organisations and is 100% owned by the Council.

#### Veritau

Since 1 April 2009, internal audit, counter-fraud and information governance services have been provided by Veritau Limited. The company is jointly owned by City of York Council and North Yorkshire County Council, with each council holding 50% of the shares.

#### Science City York

Science City York is a company limited by guarantee of which the Council is the sole member. The company was established for the creation and growth of business and employment opportunities across York.

### **XV. Joint Arrangements**

Joint arrangements are arrangements by which two or more parties have joint control bound by contract. A Joint Arrangement can be classified as follows:

- A Joint Venture
- A Joint Operation
- 

#### Joint Venture

A joint Venture is an arrangement under which two or parties have contractually agreed to share control, such that decisions about the activities of the arrangement are given unanimous consent from all parties. The Council has 2 joint ventures which are not material and thus group accounts have not been produced

#### Joint Operation

A Joint Operation is an arrangement by which the parties that have joint control of the arrangement have the rights to the assets and obligations for the liabilities relating to the arrangement. All parties have joint control with decisions of the activities of the arrangement requiring unanimous consent from all parties. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.



**XVI. Inventories and Long Term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

**XVII. Investment Property**

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 to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially 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. Properties are not depreciated but are revalued annually by the Council's Property and Asset Management team (Royal Institute of Chartered Surveyors registered valuer) according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

**XVIII. 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 both land and buildings, the land and buildings elements are considered separately for classification.

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 is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue 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 between the two.

### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

### **The Council as Lessor**

#### **Finance Leases**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **XIX. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### **XX. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

The Council recognises schools in line with the provisions of the Code of Practice, consequently schools are recognised on the balance sheet only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council has the ability to employ the staff of the school and is able to set the admission criteria. With the clarification provided in this years code and issue of LAAP bulletin 100 the Council has undertaken a detailed review to assess the level of control it exercises in relation to both the VA & VC schools. The analysis undertaken considered the governing bodies majority appointment rights and concluded that in all cases the Council did not

exercise sufficient influence to warrant recognition of assets in relation to the schools on its balance sheet.

Accordingly the Council does not include the 9 Voluntary Aided or 10 Voluntary Controlled schools within its financial statements as the Council does not own the school assets. The Council does, however, include the playing fields where these are owned by the Council. All elements of the 39 Local Authority controlled schools are shown in the Council's financial statements.

## Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure and community assets – depreciated historical cost
- assets under construction – historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets:
  - – intangibles and equipment fair value market value,
  - – buildings and land determined as the amount that would be paid for the asset in its existing use (existing use value – 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 as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets 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. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are 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 that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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.

### **Componentisation**

All Property assets containing a building are split into two components - Land and Buildings. The buildings are then further reviewed to assess if there are additional components which should be recognised. This assessment is based on the value of the building and the value of the components. A materiality level has been set, below which this additional review will not be done. Only buildings with a valuation greater than £1m will be considered for componentisation, which accounts for approximately 85% of depreciation charged to the Comprehensive Income & Expenditure Account for buildings. The cost of the component should be at least 20% of the value of the building.

Components whose value is under this level will be considered if the circumstances are deemed appropriate. Componentisation will only be done either at the full 5 yearly valuations or when major capital improvements are undertaken.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are 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 that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over 5-10 years
- infrastructure – straight-line allocation over 40 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components will be depreciated separately.

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.

### **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to a housing disposal is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **XXI. Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI

contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For Schools PFI, the liability was written down by an initial capital contribution of £4.2m. Three schools are incorporated in the PFI scheme – Hob Moor, St Barnabas and St Oswalds. Hob Moor School is owned by the council, whereas the other schools are Voluntary Aided and belong to the church diocese.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council. This applies to Hob Moor School only. For St Oswalds and St Barnabas where the Council does not own the assets, the non current assets are recognised and written back out of the balance sheet.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

## **XXII. Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

#### **Provision for Back Pay Arising from Unequal Pay Claims**

The Council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the Council implemented its equal pay strategy.

#### **Provision for Lendal Bridge trial Claims/ Coppergate**

The Council has made a provision for the costs of settling claims for repayment of Penalty Charge Notices in relation to the trial traffic regulation of Lendal Bridge and Coppergate.

#### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

#### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **XXIII. Reserves**

The Council 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 in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

#### **Earmarked Reserves**

Amounts set aside for purposes falling outside the definition of provisions, e.g. for future policy purposes or to cover contingencies, have been accounted for as reserves. In line with the code the creation of a reserve is shown by an appropriation entry on the Movement in Reserves. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year, and shown in the Net Cost of Services in the Income and Expenditure Account. The use of the reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.



The earmarked reserves held by the Council are shown in the Core Statements and detailed in note 8. The major earmarked reserves include the Venture Fund, developer contribution in relation to the new Community Stadium and the HRA investment reserve. In 2013/14 a new earmarked reserve was included in relation to **Lendal Bridge**.

The Council established a **Venture Fund** with an initial capital of £4m. The Fund makes monies available for Council projects that have the ability to generate expenditure savings or increased income. Advances from the Fund are required to be repaid over an appropriate life of the project in relation to the life of the asset.

In April 2012 the Localism Act introduced a significant change to the way that council housing is financed by dismantling the previous system of HRA subsidy and introducing self-financing. As part of the self financing HRA business plan a reserve has been created for **HRA investment** in new-build/redevelopment opportunities.

There are also a number of **Miscellaneous Reserves** that comprise mainly legacies and donations given to the Council to fund future revenue expenditure.

### **Usable Reserves**

In addition to those funds under the Earmarked Reserves classification there are a number of usable reserves for specific and non specific purposes.

The Major Repairs Allowance (MRA), previously paid as part of HRA subsidy, provided councils with the resources needed to maintain the value of their housing stock over time. Councils are required to set up a **Major Repairs Reserve** (regulation 6(4A) of the Accounts and Audit Regulations 1996), and to transfer into it a sum not less than the MRA. From 1st April 2012 and the introduction of self financing, the council can continue to use MRA as a proxy for depreciation during the transitional period of 5 years. These funds are then available to councils for capital expenditure on HRA assets. They will have the flexibility to carry over any unspent MRA funds from one year to the next. The HRA may also benefit from any short-term investment of unspent funds.

### **Unusable Reserves**

Certain reserves are kept to manage the accounting processes for non-current assets and retirement benefits and that do not represent usable resources for the Council. These reserves are shown in Note 26 and include:

The **Pensions Reserve** (an unusable reserve) has been created as part of the accounting requirements of implementing IAS19, and is equal to the Pensions Liability shown in the Balance Sheet and shown in further detail in note 49.

## **XXIV. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **XXV. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

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

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The Code of Practice on Local Council Accounting in the United Kingdom 2015/16 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2015. If these had been adopted for the financial year 2014/15 there would be no material changes.

**IFRS 13 Fair Value Measurement** - This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13.

**IFRIC 21 Levies** - This standard provides guidance on levies imposed by government in the financial statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if a threshold is reached, or both.

**Annual Improvements to IFRS (2011 – 2013 cycle)** - These improvements are relatively minor and are mostly about providing clarification.

## **3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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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.

**Future Levels of Funding for local government** - The main critical judgement made in the Statement of Accounts is regarding the high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

**Pensions** - The Council has made estimates of net pay liability to pay pensions which depend on a number of complex judgements and projections supported by the actuary, which include; the discount rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected future returns on Pension Fund Assets

**Accounting for schools – Consolidation** - In line with the requirements of the Code of Practice on Group Accounts, all maintained schools are now considered to be entities controlled by the Council. Rather than prepare group accounts however, the income, expenditure, liabilities, reserves and cash flows of each schools are recognised in the Council's single entity accounts.

**Accounting for schools – Balance sheet recognition** – The Council recognises schools in line with the provisions of the Code of Practice, consequently schools are recognised on the balance sheet

only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council has the ability to employ the staff of the school and is able to set the admission criteria. With the clarification provided in this years code and issue of LAAP bulletin 100 the Council has undertaken a detailed review to assess the level of control it exercises in relation to both the VA & VC schools. The analysis undertaken considered the governing bodies majority appointment rights and concluded that in all cases the Council did not exercise sufficient influence to warrant recognition of assets in relation to the schools on its balance sheet.

**Accounting for schools – Transfer to Academy status** – When a school that is held on the Council's balance sheet transfers to Academy status the Council accounts for this as a disposal and subsequent creation of a finance lease (at nil consideration) on the date that the school converts to Academy status.

Further information on the treatment of Voluntary Aided and Voluntary Controlled schools can be found under Accounting Policies point XX

**Group Accounts Boundaries** – The council's group boundaries have been assessed using the criteria outlined in the Code of practice. It has not been considered material to prepare Group Accounts in 2014/15, however the Council has included an enhanced Related parties disclosure note to reflect the current relationships in place and provide further detail to aid the reader of the Accounts.

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

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The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

##### **Pensions**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

During 2014/15 the Council's actuaries advised that the net pension liability had increased by £51.899m. This is made up of:

- £48.415m actuarial changes
- £3.484m loss arising from employer contributions of £15.934m being less than the pension obligations of £19.418m

##### **Property, Plant & Equipment**

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate

makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.

## **5. MATERIAL ITEMS OF INCOME AND EXPENSE**

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For the purpose of this note, the Council considers material items to be those greater than £7.06m.

There are no material items of Income and Expenditure that are not disclosed elsewhere within the statement of Accounts.

## **6. EVENTS AFTER THE REPORTING PERIOD**

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The Statement of Accounts was authorised for issue by the Director of Customer and Business Support Services on 30 June 2015. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. There are no significant Events after the reporting period to report for 2014/15.

**7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The movement in reserves statement includes the totals shown in this note.

**Adjustments between Accounting Basis and Funding Basis under Regulations – 2014/15**

2014/15

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Charges for depreciation and impairment of non-current assets	(13,627)	-	(8,569)	-	-	-	22,196
Revaluation losses on Property Plant and Equipment	(24,707)	-	14,487	-	-	-	10,220
Movements in the market value of Investment Properties	1,751	-	-	-	-	-	(1,751)
Amortisation of intangible assets	(627)	-	-	-	-	-	627
Capital grants and contributions applied	17,868	-	403	-	-	-	(18,271)
Movement in the Donated Assets Account	-	-	-	-	-	-	-
Revenue expenditure funded from Capital under statute	(4,646)	-	-	-	-	-	4,646
Amounts of non-current assets written off on disposal or sale as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	(1,318)	-	(1,840)	-	-	-	3,158
<b>Insertion of items not debited or credited to the Comprehensive income and Expenditure Statement:</b>							
Statutory provision for the financing of capital investment	8,212	-	-	-	-	-	(8,212)
Capital expenditure charged against the General Fund and HRA balances	60	-	4,364	-	-	-	(4,424)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(766)	-	-	-	-	766	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	-	-
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	3,917	-	3,295	-	(7,212)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	-	4,445	-	(4,445)
Contribution from the Capital Receipts Reserve toward administrative costs of non-current asset disposals	-	-	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital receipts pool	-	-	(1,052)	-	1,052	-	-

2014/15	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-	-
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>							
Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-	-
<b>Adjustment primarily involving the Major Repairs Reserve:</b>							
Reversal of Major Repairs Allowance credited to the HRA	-	-	7,349	(7,349)	-	-	-
Non dwelling depreciation reversed to the MRR				-			
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	7,278	-	-	(7,278)
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	128	-	-	-	-	-	(128)
<b>Adjustment primarily involving the Pensions Reserve:</b>							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	15,493	-	441	-	-	-	(15,934)
Employer's pensions contributions and direct payments to pensioners payable in the year	(18,881)	-	(537)	-	-	-	19,418
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	4,435	-	-	-	-	-	(4,435)
<b>Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:</b>							
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-
<b>Adjustment primarily involving the Accumulated Absences Account:</b>							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	358	-	-	-	-	-	(358)
<b>Total Adjustments:</b>	<b>(12,350)</b>	<b>-</b>	<b>18,341</b>	<b>(71)</b>	<b>(1,715)</b>	<b>766</b>	<b>(4,971)</b>

**Adjustments between Accounting Basis and Funding Basis under Regulations – 2013/14**

2013/14

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Charges for depreciation and impairment of non-current assets	(14,093)	-	(8,398)	-	-	-	22,491
Revaluation losses on Property Plant and Equipment	(11,181)	-	(9,480)	-	-	-	20,661
Movements in the market value of Investment Properties	(237)	-	-	-	-	-	237
Amortisation of intangible assets	(707)	-	-	-	-	-	707
Capital grants and contributions applied	26,304	-	-	-	-	-	(26,304)
Movement in the Donated Assets Account	-	-	-	-	-	-	-
Revenue expenditure funded from Capital under statute	(3,548)	-	-	-	-	-	3,548
Amounts of non-current assets written off on disposal or sale as part of the gain/ loss on disposal to the							
Comprehensive Income and Expenditure Statement	(1,617)	-	(1,844)	-	-	-	3,461
<b>Insertion of items not debited or credited to the Comprehensive income and Expenditure Statement:</b>							
Statutory provision for the financing of capital investment	8,495	-	-	-	-	-	(8,495)
Capital expenditure charged against the							
General Fund and HRA balances	10	-	2,580	-	-	-	(2,590)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	4,275	-	-	-	-	(4,275)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	-	-
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	1,996	-	2,996	-	(4,992)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	-	1,623	-	(1,623)
Contribution from the Capital Receipts Reserve toward administrative costs of non-current asset disposals	-	-	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital receipts pool	-	-	(955)	-	955	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-	-
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>							
Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-	-

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustment primarily involving the Major Repairs Reserve:</b>							
Reversal of Major Repairs Allowance credited to the HRA	-	-	6,877	(6,877)	-	-	-
Non dwelling depreciation reversed to the MRR			274	(274)			
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	6,540	-	-	(6,540)
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	120	-	-	-	-	-	(120)
<b>Adjustment primarily involving the Pensions Reserve:</b>							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	15,801	-	418	-	-	-	(16,219)
Employer's pensions contributions and direct payments to pensioners payable in the year	(26,143)	-	(710)	-	-	-	26,853
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(3,594)		-	-	-	-	3,594
<b>Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:</b>							
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-
<b>Adjustment primarily involving the Accumulated Absences Account:</b>							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	256	-	4	-	-	-	(260)
<b>Total Adjustments:</b>	<b>(3,863)</b>	<b>-</b>	<b>(8,238)</b>	<b>(611)</b>	<b>(2,414)</b>	<b>(4,275)</b>	<b>19,401</b>



**8. TRANSFERS TO/FROM EARMARKED RESERVES**

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2014/15:

	Transfers Out During Year £000's	Transfers In During Year £000's	Net mov't During Year £000's	Balance at 31-Mar-15 £000's	Balance at 31-Mar-14 £000's
<b>General Fund</b>					
Investment Reserves	-	-	-	(1,208)	(1,208)
Venture Fund	272	(402)		(1,851)	(1,721)
Developers Contributions Unapplied	3,798	(3,022)		(21,205)	(21,981)
Insurance Fund	187	(548)		(625)	(264)
Bus Lane enforcement	377	-		(718)	(1,095)
Miscellaneous	5,941	(5,630)		(12,008)	(12,319)
Subtotal General Fund	10,575	(9,602)	973	(37,615)	(38,588)
<b>HRA</b>					
53rd Week Rent	117			117	-
HRA Investment Reserve	2,106	(3,500)		(11,499)	(10,105)
Subtotal HRA	2,223	(3,500)	(1,277)	(11,382)	(10,105)
<b>Total Earmarked Reserves</b>	<b>12,798</b>	<b>(13,103)</b>	<b>(302)</b>	<b>(48,997)</b>	<b>(48,693)</b>

Further information on the nature of the significant earmarked reserves are set out in note XXIII of the Accounting policies.

**9. OTHER OPERATING EXPENDITURE**

	2014/15 £'000's	2013/14 £'000's
Parish council precepts	601	580
Payments to the Government Housing Capital Receipts Pool	1,052	955
Gains/losses on the disposal of non-current assets	(4,054)	(1,530)
<b>Total</b>	<b>(2,401)</b>	<b>5</b>

**10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE**

	<b>2014/15</b>	2013/14
	<b>£'000's</b>	£'000's
Interest payable and similar charges	<b>10,013</b>	10,010
Net interest on the net defined benefit liability	<b>4,649</b>	8,912
Interest receivable and similar income	<b>(529)</b>	(329)
Income and expenditure in relation to investment properties and changes in their fair value	<b>(4,075)</b>	(2,055)
Other investment income	<b>(320)</b>	(300)
<b>Total</b>	<b>9,738</b>	16,238

**11. TAXATION AND NON SPECIFIC GRANT INCOME**

	<b>2014/15</b>	2013/14
	<b>£'000's</b>	£'000's
Council tax income	<b>(74,512)</b>	(71,438)
Non domestic rates	<b>(25,990)</b>	(18,718)
Non-ringfenced or government grants	<b>(40,476)</b>	(43,532)
Capital grants and contributions	<b>(15,312)</b>	(46,110)
<b>Total</b>	<b>(156,290)</b>	(179,798)

12. PROPERTY, PLANT AND EQUIPMENT

2014/15	Council Dwellings	Other Land & Buildings	Plant / Vehicle / Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets incl in PPE
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation (GCA)</b>									
At 1 April 2014	258,127	322,121	24,059	117,418	241	2,983	32,196	757,145	15,180
Additions	13,289	13,092	1,852	7,311	-	-	7,571	43,115	14
Acc Dep & Imp WO to GCA	(8,124)	(3,867)	-	-	-	(44)	-	(12,035)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	747	1,761	-	-	-	2,887	-	5,395	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	13,919	(24,046)	-	-	-	(8)	(347)	(10,482)	-
Derecognition - Disposals	(1,840)	-	(23)	-	-	-	-	(1,863)	-
Derecognition - Other	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	(653)	-	-	-	815	-	162	-
Assets reclassified (to)/from Investment Property	-	(136)	-	-	-	2,080	(1,601)	343	-
Other movements in Cost or Valuation	-	19,590	996	5,047	1	1,915	(27,727)	(178)	-
<b>At 31 March 2015</b>	<b>276,118</b>	<b>327,862</b>	<b>26,884</b>	<b>129,776</b>	<b>242</b>	<b>10,628</b>	<b>10,092</b>	<b>781,602</b>	<b>15,194</b>
<b>Accumulated Depreciation &amp; Impairment</b>									
At 1 April 2014	(8,124)	(25,104)	(12,797)	(18,105)	-	-	1	(64,129)	(1,405)
Depreciation Charge for 2014/15	(8,271)	(7,724)	(2,920)	(3,367)	(1)	-	-	(22,283)	(376)
Acc. Depreciation WO to GCA	8,124	3,867	-	-	-	44	-	12,035	-
Assets reclassified (to)/from Investment Property	-	-	-	-	-	-	-	-	-
Other movements in Depreciation and Impairment	-	44	-	-	-	(44)	-	-	-
Other Adjustment	-	6	17	-	-	-	-	23	-
<b>At 31 March 2015</b>	<b>(8,271)</b>	<b>(28,911)</b>	<b>(15,700)</b>	<b>(21,472)</b>	<b>(1)</b>	<b>-</b>	<b>1</b>	<b>(74,354)</b>	<b>(1,781)</b>
<b>Net Book Value</b>									
At 31 March 2015	267,847	298,951	11,184	108,304	241	10,628	10,093	707,248	13,413
At 31 March 2014	250,003	297,017	11,262	99,313	241	2,983	32,197	693,016	13,775

Comparative Movements in 2013/14

2013/14	Council Dwellings	Other Land & Buildings	Plant / Vehicle / Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets incl in PPE
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b><u>Cost or Valuation (GCA)</u></b>									
At 1 April 2013	259,769	322,488	21,405	112,425	-	3,613	22,620	742,320	15,167
Additions	8,965	6,880	1,922	4,360	-	29	18,733	40,889	13
Acc Dep & Imp WO to GCA	-	(2,857)	-	-	-	(124)	-	(2,981)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	762	1,232	-	-	241	950	-	3,185	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(9,525)	(6,948)	-	-	-	(2,387)	-	(18,860)	-
Derecognition - Disposals	(1,844)	(27)	-	-	-	(100)	-	(1,971)	-
Derecognition - Other	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	(3,629)	-	-	-	(2,029)	-	(5,658)	-
Assets reclassified (to)/from Investment Property	-	(411)	-	-	-	1,000	-	589	-
Other movements in Cost or Valuation	-	5,393	732	633	-	2,031	(9,157)	(368)	-
<b>At 31 March 2014</b>	<b>258,127</b>	<b>322,121</b>	<b>24,059</b>	<b>117,418</b>	<b>241</b>	<b>2,983</b>	<b>32,196</b>	<b>757,145</b>	<b>15,180</b>
<b><u>Accumulated Depreciation &amp; Impairment</u></b>									
At 1 April 2013	-	(20,013)	(9,914)	(14,966)	-	(55)	1	(44,947)	(1,022)
Depreciation Charge for 2013/14	(8,124)	(8,022)	(3,291)	(3,139)	-	-	-	(22,576)	(383)
Acc. Depreciation WO to GCA	-	2,857	-	-	-	124	-	2,981	-
Assets reclassified (to)/from Investment Property	-	5	-	-	-	-	-	5	-
Other movements in Depreciation and Impairment	-	69	-	-	-	(69)	-	-	-
Other Adjustment	-	-	408	-	-	-	-	408	-
<b>At 31 March 2014</b>	<b>(8,124)</b>	<b>(25,104)</b>	<b>(12,797)</b>	<b>(18,105)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>(64,129)</b>	<b>(1,405)</b>
<b><u>Net Book Value</u></b>									
At 31 March 2014	250,003	297,017	11,262	99,313	241	2,983	32,197	693,016	13,775
At 31 March 2013	259,769	302,475	11,491	97,459	-	3,558	22,621	697,373	14,145

### Depreciation

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

- Council Dwellings – 32 years (in line with MRA figure)
- Other Land and Buildings – 30-50 years (some exceptions apply)
- Vehicles, Plant, Furniture & Equipment – 5-10 years
- Infrastructure – 40 years

### 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 and future years budgeted to cost c£5.628m,. Similar commitments as 31 March 2014 were c£0.686m.

### Revaluations

The Council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. 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 Institute of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on depreciated cost.

The last full valuation of council dwellings was done in 2010/11 and the actual valuation figure is shown in the table below. Desktop reviews are done on the interim years, and the valuation from the 2014/15 desktop review for council dwellings was £264,669k.

	Council dwellings £000's	Other land and buildings £000's	Vehicles, plant etc. £000's	Infra-structure £000's	Surplus Assets £000's	TOTAL £000's
Carried at historical cost	-	-	-	-	-	-
Valued at Fair Value as at:						
31-Mar-15		66,937	-	-	9,024	75,961
31-Mar-14		56,525	-	-	534	57,059
31-Mar-13		79,798	-	-	235	80,033
31-Mar-12	-	230,658	-	-	4,720	235,378
31-Mar-11	259,768	62,706	-	-	168	322,642
Total Cost or Valuation	259,768	496,624	-	-	14,681	771,073

### 13. HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Heritage Properties	Art Collection	Mansion House Collection & Civic Regalia	Castle Museum Collections	TOTAL
	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>					
<b>1 April 2013</b>	<b>1,054</b>	<b>30,405</b>	<b>6,374</b>	<b>924</b>	<b>38,757</b>
Transfer to/from Property, Plant & Equip	14	-	-	-	14
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations	(3)	912	(28)	56	937
Impairment Losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment Losses / (reversals) recognised in the Surplus or Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
<b>31 March 2014</b>	<b>1,065</b>	<b>31,317</b>	<b>6,346</b>	<b>980</b>	<b>39,708</b>
<b>Cost or Valuation</b>					
1 April 2014	1,065	31,317	6,346	980	39,708
Transfer to/from Property, Plant & Equip	-	-	-	-	-
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations	-	-	-	-	-
Impairment Losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment Losses / (reversals) recognised in the Surplus or Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
<b>31 March 2015</b>	<b>1,065</b>	<b>31,317</b>	<b>6,346</b>	<b>980</b>	<b>39,708</b>

All heritage assets in the Council are tangible assets and have been reported at valuation rather than cost. The different heritage assets have been valued in accordance with the nature of the category.

#### Heritage Properties

The Council's valuer, values assets in accordance with the property RICS guidance and for heritage assets where a market value exists, the assets are valued at fair value market value. Where no market value exists, the value stated is replacement cost. All valuations are recorded on a valuation certificate.

The code recognises that it may not be possible to value all heritage assets due to their size and unique historical importance. Four such assets have been identified:

- (a) Medieval City Walls
- (b) Yorkshire Museum and Gardens and Hospitium
- (c) Abbey Walls – Marygate and Bootham
- (d) Roman Multangular Tower and adjoining Walls

**Art Collection**

The Council's collection of art is located at the City Art Gallery and is reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuation is reviewed periodically and used to update the values as necessary.

**Mansion House Collection and Civic Regalia**

An external Antiques & Fine Art valuer carried out a full valuation of the Mansion House and Civic Regalia in February 2007. The valuation for the Mansion House Collection remains current market value and is included at the Balance Sheet date.

The valuation details all contents of the Mansion House and details all items individually including furniture, pictures, works of art, ceramics, glass, clocks / barometers, porcelain etc. Specifically the Regalia include the Bowes Sword, the Emperor Sigismund's Sword, the Great Mace, the Lady Mayoress' staff of Honour, the Lord Mayor's gold chain of office.

**Museum Collections**

Both Castle Museum and Yorkshire Museum are incorporated into Museums Trust which is a separate charitable organisation. The Museums collections have been considered as part of the Council's heritage assets as the ownership / responsibility for the collections is with the Council.

The Castle Museum collection has a relatively low insurance valuation included on the Balance Sheet as the nature of the museum is that of a social history collection and therefore many items are of low value. Insurance valuations are reviewed periodically.

Yorkshire Museum collection has not been included on the Balance Sheet as no monetary value is available. There are many unique items held at Yorkshire Museum where it would be difficult to obtain an insurance valuation, for example. The CIPFA Code recognises that in some circumstances it is not possible to gain a valuation without considerable cost to the Council, where by it would not be beneficial to obtain one

**Additions/ Disposal of Heritage Assets**

There were no additions or disposals of heritage Assets in 2014/15 or 2013/14.

**14. INVESTMENT PROPERTY**

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	<b>2014/15</b>	2013/14
	<b>£000's</b>	£000's
Commercial rental income from investment property	<b>(2,490)</b>	(2,474)
Commercial direct operating expenses arising from investment property	<b>227</b>	182
Net Income	<b>(2,263)</b>	(2,292)

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.

	<b>2014/15</b>	2013/14
	<b>£000's</b>	£000's
Balance at start of the year	<b>32,274</b>	32,999
Additions	<b>86</b>	106
Disposals	<b>(160)</b>	-
Net gain or loss on Fair Value	<b>1,695</b>	(237)
Transfers:		
to/ from Inventories	-	-
to/ from Property, Plant & Equipment	<b>(349)</b>	(594)
to/ from Heritage Assets	-	-
to/ from Assets Held for Sale	-	-
Other changes	-	-
Balance at end of year	<b>33,546</b>	32,274

Included within this table is an Investment Property which has previously (in 2013/14) met the criteria for Asset Held for Sale, this asset has been disposed of in 2014/15 (value £160k).

## **15. INTANGIBLE ASSETS**

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets are purchased licenses and software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are:

	<b>Internally Generated Assets</b>	<b>Other Assets</b>
1 - 3 years	None	Schools & Children's Services, Corporate, Financial & Audit, Property, Legal, Highways, Environmental, Leisure, Adult Services
4 - 5 years	None	Schools & Children's Services, Corporate, Financial & Audit, Highways, Environmental, Leisure, Adult Services
6 - 10 years	None	Highways

The carrying amount of intangible assets is amortised on a straight-line basis and the amortisation charge in 2014/15 was £627k (2013/14 was £707k), contained in this figure is £15k relating to a HRA asset.

The movement on Intangible Asset balances during the year is shown in the following table:



	2014/15	Total	2013/14	Total
	Internally Generated Assets £000	Other Assets £000	Internally Generated Assets £000	Other Assets £000
Balance at start of year:				
- Gross carrying amounts		4,802	-	4,373
- Adjustment for assets now fully amortised		-	-	-
Category Adjustments		178	-	354
- Revised Gross carrying amounts		4,980	4,727	4,727
- Accumulated amortisation		(3,110)	-	(2,403)
Adjustment for assets now fully amortised		-	-	-
- Revised Accumulated amortisation		(3,110)	(2,403)	(2,403)
Net carrying amount at the start of the year	-	1,870	-	2,324
Additions:				
- Internal development	-	-	-	-
- Purchases	-	316	-	75
- Acquired through business combinations	-	-	-	-
Assets reclassified as held for sale	-	-	-	-
Other disposals	-	-	-	-
Revaluations increases or decreases	-	-	-	-
Impairment losses recognised or reversed directly in the Revaluation Reserve	-	-	-	-
Impairment losses recognised in the Surplus/ Deficit on the Provision of Services	-	-	-	-
Reversals of past impairment losses written back to the surplus/ Defect on the Provision of Services	-	-	-	-
Amortisation for the period	-	(627)	-	(707)
Other changes	-	-	-	-
Net carrying amount at the end of year	-	1,559	-	1,692
Comprising:				
- Gross carrying amounts	-	5,296	-	4,802
- Accumulated amortisation	-	(3,737)	-	(3,110)
	-	1,559	-	1,692

**16. FINANCIAL INSTRUMENTS**

Financial Instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Categories of financial Instruments**

The following categories of financial instrument are carried in the Balance Sheet.

	Long-Term		Short-Term	
	31-Mar-15	31-Mar-14	31-Mar-15	31-Mar-14
	£000's	£000's	£000's	£000's
<b>Investments</b>				
Loans and receivables			5,000	10,000
Available-for-sale financial assets	40			
Unquoted equity investment at cost	1,215	1,215		
Financial assets at fair value through profit and loss				
<b>Total Investments</b>	<b>1,255</b>	<b>1,215</b>	<b>5,000</b>	<b>10,000</b>
<b>Debtors</b>				
Loans and receivables	5,945	5,807		
Financial assets carried at contract amounts			26,273	26,273
<b>Total Debtors</b>	<b>5,945</b>	<b>5,807</b>	<b>26,273</b>	<b>26,273</b>
<b>Borrowings</b>				
Financial Liabilities at amortised cost	(256,204)	(248,164)	(14,064)	(11,453)
Financial Liabilities at fair value through profit and loss				
<b>Total Borrowings</b>	<b>(256,204)</b>	<b>(248,164)</b>	<b>(14,064)</b>	<b>(11,453)</b>
<b>Other Long Term Liabilities</b>				
PFI liabilities	(5,072)	(5,336)		
Finance lease liabilities	-	-		(181)
<b>Total other long term liabilities</b>	<b>(5,072)</b>	<b>(5,336)</b>	<b>-</b>	<b>(181)</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	(3)	(5)		
Financial liabilities carried at contract amount			(30,821)	(28,657)
<b>Total Creditors</b>	<b>(3)</b>	<b>(5)</b>	<b>(30,821)</b>	<b>(28,657)</b>

**Note 1** – Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

**Note 2** - Per the definition of International Accounting Standard 32 Financial Instruments – Presentation, cash is a financial asset. The above note does not include cash held by the authority that is either on call, instant access or on a notice period of 30 days or less, these amounts are shown separately to the above in Note 21 Cash and Cash Equivalents totalling in 2014/15 £62.171m (2013/14 £36.639m).

**Fair Values of Assets and Liabilities**

Financial liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For non PWLB loans (market loans) the comparative market rate has been applied to estimate their fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31-Mar-15		31-Mar-14	
	Carrying amount £000's	Fair value £000's	Carrying amount £000's	Fair Value £000's
PWLB debt	(249,963)	(315,386)	(239,311)	(258,068)
Non-PWLB debt	(20,305)	(22,377)	(20,306)	(21,604)
Total debt	(270,268)	(337,763)	(259,617)	(279,672)
Long term creditors	(3)	(3)	(5)	(5)
Total Financial liabilities	(270,271)	(337,766)	(259,622)	(279,677)

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date.

The differences are attributable to fixed interest instruments being held by the Council whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

	31-Mar-15		31-Mar-14	
	Carrying amount	Fair value	Carrying amount	Fair Value
	£000's	£000's	£000's	£000's
Money market loans < 1yr	60,628	60,628	44,176	44,176
Money market loans > 1yr			-	-
Bonds			-	-
Long term trade debtors	5,945	5,945	5,807	5,807
<b>Total Loans and receivables</b>	<b>66,573</b>	<b>66,573</b>	<b>49,983</b>	<b>49,983</b>

The fair values for loans and receivables have been determined by reference to similar practices, as above (where loans are greater than 1 year) to which provide a reasonable approximation for the fair value of a financial instrument and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each Balance Sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

#### Available for Sale Assets

Available for sale assets at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. The Councils £40k of equity shares in relation to the Municipal Bonds Agency are recognised at the transaction price at the purchase date, they will subsequently be measured in accordance with the fair value hierarchy as shares not held for trading.

### 17. INVENTORIES

	Consumable Stores		Maintenance Materials		Client Services Work in progress		Property Acquired or constructed for sale		Total	
	2014/15	2013/14 '£000's	2014/15	2013/14 '£000's	2014/15	2013/14 '£000's	2014/15	2013/14 '£000's	2014/15	2013/14 '£000's
<b>Balance Outstanding at 1 April</b>	<b>373</b>	411	-	-	-	-	-	-	<b>373</b>	411
Purchases	52	314	-	-	-	-	-	-	52	314
Recognised as an Expense in the										
Year	(108)	(352)	-	-	-	-	-	-	(108)	(352)
Written Off Balances	(72)	-	-	-	-	-	-	-	(72)	-
Reversals of Write Offs in Previous Years	-	-	-	-	-	-	-	-	-	-
<b>Balance Outstanding at 31 March</b>	<b>245</b>	373	-	-	-	-	-	-	<b>245</b>	373

**18. CONSTRUCTION CONTRACTS**

At 31 March 2015 the Council has no construction contracts in progress that requires revenue to be recognised in the accounting period. Accordingly no contingent assets or liabilities are required to be recorded.

**19. DEBTORS**

	<b>Balance at 31-Mar-15 £000's</b>	Balance at 31-Mar-14 £000's
Central Government Bodies	4,678	9,093
Other Local Authorities	1,091	526
NHS Bodies	4,403	1,945
Public Corporations	788	1,093
Other Entities and Individuals	28,251	24,442
	<b>39,211</b>	37,099
Provision for Bad and Doubtful Debts	<b>(6,853)</b>	(5,972)
<b>Total Debtors</b>	<b>32,358</b>	<b>31,127</b>

**20. LONG TERM DEBTORS**

	<b>Expenditure During Year £000's</b>	<b>Income During Year £000's</b>	<b>Balance at 31-Mar-15 £000's</b>	Balance at 31-Mar-14 £000's
Employee Loans	9	(115)	96	202
Council House Mortgages	-	-	2	2
Housing Act Advances	-	-	12	12
Prepayment - PFI scheme	-	(49)	798	847
PFI - Residual Value Asset	87	-	613	526
PFI - Sculpting Prepayment	156	-	2,793	2,637
Yorwaste Loan	-	-	1,000	1,000
Other	54	(4)	631	581
	<b>306</b>	<b>(168)</b>	<b>5,945</b>	5,807

**21. CASH AND CASH EQUIVALENTS**

The balance of Cash and Cash Equivalents is made up of the following elements:

	<b>Balance at 31-Mar-15 £000's</b>	Balance at 31-Mar-14 £000's
Cash Held by the Authority	<b>9,053</b>	6,318
Short Term Deposits	<b>55,628</b>	34,176
Bank Current Accounts	<b>(2,510)</b>	(3,856)
<b>Total Cash and Cash Equivalents</b>	<b>62,171</b>	36,639

**22. ASSETS HELD FOR SALE**

	<b>2014/15 £000's</b>	2013/14 £000's
<b>Balance outstanding at start of year</b>	<b>4,074</b>	1,756
<b>Assets newly classified as held for sale:</b>		
- Property, Plant and Equipment	<b>663</b>	5,918
- Investment Properties		
- Intangible Assets	-	-
- Other assets/ liabilities in disposal groups	-	-
Revaluation losses	<b>(139)</b>	(1,894)
Revaluation gains	<b>53</b>	44
Impairment losses	-	-
<b>Assets declassified as held for sale:</b>		
- Property, plant and Equipment	<b>(825)</b>	(260)
- Intangible Assets	-	-
- Other assets/ liabilities in disposal groups	-	-
Assets sold	<b>(1,149)</b>	(1,490)
Transfers from non-current to current	-	-
[Other movements]	-	-
<b>Balance outstanding at year-end</b>	<b>2,677</b>	4,074

**23. CREDITORS**

	<b>Balance at 31-Mar-15 £000's</b>	Balance at 31-Mar-14 £000's
Central Government Bodies	(4,646)	(5,208)
Other Local Authorities	(5,021)	(3,384)
NHS Bodies	(200)	(968)
Public Corporations	(1,540)	(25)
Other Entities and Individuals	(29,425)	(24,642)
<b>Total Creditors</b>	<b>(40,832)</b>	<b>(34,227)</b>
Other Short-Term Liabilities	-	(181)
<b>Total Short-Term Liabilities</b>	<b>(40,832)</b>	<b>(34,408)</b>

This note contains £17k (2013/14 £517k) of Capital Grants received in advance. Further details can be found in Note 40.

**24. PROVISIONS**

	Employee Absences £000's	Insurance Fund £000's	Equal Pay £000's	Business Rates £000's	Council Tax £000's	Lendal Bridge/ Coppergate £000's	Other Provisions £000's	Total £000's
<b>Balance at 1 April 2014</b>	(4,819)	(2,173)	(1,337)	(7,470)	(500)	(708)	(278)	(17,285)
Additional provisions made in 2014/15	(4,462)	(492)	-	(2,972)	-	(376)	(84)	(8,386)
Amounts Used In 2014/15	-	330	-	2,320	-	321	260	3,231
Unused amounts reversed in 2014/15	4,819	-	-	-	-	-	15	4,834
Unwinding of discounting in 2014/15	-	-	-	-	-	-	-	-
<b>Balance at 31 March 2015</b>	<b>(4,462)</b>	<b>(2,335)</b>	<b>(1,337)</b>	<b>(8,122)</b>	<b>(500)</b>	<b>(763)</b>	<b>(87)</b>	<b>(17,606)</b>

of which the following are due to be settled within 12 months:

	Employee Absences £000's	Insurance Fund £000's	Equal Pay £000's	Business Rates £000's	Council Tax £000's	Lendal Bridge/ Coppergate £000's	Other Provisions £000's	Total £000's
<b>Balance at 1 April 2014</b>	(4,819)	(289)	-	(5,970)	-	(708)	(228)	(12,014)
Additional provisions made in 2014/15	(4,462)	(59)	-	-	-	(376)	(84)	(4,981)
Amounts Used In 2014/15	-	56	-	2,320	-	321	225	2,922
Unused amounts reversed in 2014/15	4,819	-	-	-	-	-	-	4,819
Unwinding of discounting in 2014/15	-	-	-	-	-	-	-	-
<b>Balance at 31 March 2015</b>	<b>(4,462)</b>	<b>(292)</b>	<b>-</b>	<b>(3,650)</b>	<b>-</b>	<b>(763)</b>	<b>(87)</b>	<b>(9,254)</b>

**Employee Absences**

A provision to account for the changes made under IFRS whereby the Council accounts for any untaken leave owed to its employees.

**Insurance Fund**

The general insurance provision is based on information provided by the Council's insurers and is held to meet future potential liabilities in respect of claims outstanding but not received covering a period of several years.

**Equal Pay Claims**

The provision is in respect of potential payments to employees dependent upon the outcome of current and possible future legal action.

**Lendal Bridge/ Coppergate**

This provision is for the costs of settling claims for repayment of Penalty Charge Notices in relation to the trial traffic regulation of Lendal Bridge and Coppergate.

**Business Rates**

Provision in relation to backdated revaluations arising from the Business Rates retention scheme.

**Council Tax**

Provision to cover variations in Council Tax income, bad debts and the Council Tax Support Scheme. It should be noted that this provision and the one above have been reclassified from earmarked reserves.

**Other Provisions**

All other provisions are individually insignificant.

**25. USABLE RESERVES**

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

**26. UNUSABLE RESERVES**

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	<b>Balance at 2014/15 £000's</b>	Balance at 2013/14 £000's
Revaluation Reserve	<b>121,449</b>	118,283
Available for Sale Financial Instruments Reserve	-	-
Capital Adjustment Account	<b>345,810</b>	340,101
Financial Instruments Adjustment Account	<b>(1,691)</b>	(1,818)
Deferred Capital Receipts Reserve	-	-
Pensions Reserve	<b>(163,705)</b>	(111,806)
Collection Fund Adjustment Account	<b>844</b>	(3,592)
Accumulated Absences Account	<b>(4,462)</b>	(4,819)
<b>Total Unusable Reserves</b>	<b>298,245</b>	336,349



**Revaluation Reserve**

The Revaluation Reserve contains the gains made by the Council 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.

	2014/15		2013/14	
	£000's	£000's	£000's	£000's
<b>Balance at 1 April</b>		<b>(118,283)</b>		<b>(116,649)</b>
Upward revaluation of assets	(9,093)		(6,252)	
Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	3,754		2,117	
(Surplus)/deficit on revaluation of non-current assets not posted to the (Surplus) or Deficit on the Provision of Services		<b>(5,339)</b>		<b>(4,135)</b>
Difference between fair value depreciation and historical cost depreciation	1,893		2,086	
Accumulated gains on assets sold or scrapped	280		415	
Amount written off to the Capital Adjustment Account		2,173		2,501
<b>Balance at 31 March</b>		<b>(121,449)</b>		<b>(118,283)</b>

**Available for Sale Financial Instruments Reserve**

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The Council holds only one type of this investment (£40k of shares in the Municipal Bonds Agency) that has been recorded at its transaction price.

**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 Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that 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.

	2014/15 £000's	2013/14 £000's
<b>Balance at 1st April</b>	<b>(340,101)</b>	<b>(342,745)</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
Charges for depreciation and impairment of non current assets	22,196	22,491
Revaluation losses on Property, Plant and Equipment	10,220	20,661
Amortisation of intangible assets	627	707
Revenue expenditure funded from capital under Statute	4,646	3,548
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,158	3,461
Other Adjustment	-	(408)
	<b>40,847</b>	50,460
Adjusting amounts written out of the Revaluation Reserve	<b>(2,173)</b>	<b>(2,501)</b>
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>38,674</b>	<b>47,959</b>
<b>Capital financing applied in the year:</b>		
Use of the Capital Receipts Reserve to finance new capital expenditure	<b>(4,446)</b>	(1,623)
Use of the Major Repairs Reserve to finance new capital expenditure	<b>(7,278)</b>	(6,540)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	<b>(12,328)</b>	(26,304)
Application of grants to capital financing from the Capital Grants Unapplied Account	<b>(5,943)</b>	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	<b>(8,212)</b>	(8,495)
Statutory provision for the financing of the HRA subsidy		
Capital expenditure charged against the General Fund and HRA balances	<b>(4,425)</b>	(2,590)
	<b>(42,632)</b>	(45,552)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	<b>(1,751)</b>	237
<b>Balance at 31 March</b>	<b>(345,810)</b>	<b>(340,101)</b>

**Financial Instruments Adjustment Account**

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. [The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the liability balance on the Account at 31 March 2015 will be £1.691m (£1.818m 2013/14) charged to the General Fund over the next 12 years.

	2014/15		2013/14	
	£000's	£000's	£000's	£000's
<b>Balance at 1st April</b>		<b>1,818</b>		<b>1,938</b>
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(183)		(183)	
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements		56	63	
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		(127)		(120)
<b>Balance at 31st March</b>		<b>1,691</b>		<b>1,818</b>

**Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement 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 benefit earned to be financed as the Council 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 Council 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.

	<b>31-Mar-15</b>	31-Mar-14
	<b>£000's</b>	£000's
<b>Balance at 1 April</b>	<b>111,806</b>	221,824
Actuarial gains or losses on pensions assets and liabilities	<b>48,415</b>	(120,652)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	<b>19,418</b>	26,853
Employer's pensions contributions and direct payments to pensioners payable in the year.	<b>(15,934)</b>	(16,219)
<b>Balance at 31 March</b>	<b>163,705</b>	111,806

**Collection Fund Adjustment Account**

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

	<b>31-Mar-15</b>	31-Mar-14
	<b>£000's</b>	£000's
<b>Balance at 1 April</b>	<b>3,592</b>	(2)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	<b>(4,436)</b>	3,594
<b>Balance at 31 March</b>	<b>(844)</b>	<b>3,592</b>

**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, eg 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.

	<b>2014/15</b>		2013/14	
	<b>£000's</b>	<b>£000's</b>	£000's	£000's
<b>Balance at 1 April</b>		<b>4,819</b>		5,079
Settlement or cancellation of accrual made at the end of the preceding year	(4,819)		(5,079)	
Amounts accrued at the end of the current year	4,462		4,819	
		<b>(357)</b>		(260)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		-		-
<b>Balance at 31 March</b>		<b>4,462</b>		4,819

**27. CASHFLOW STATEMENT – OPERATING ACTIVITIES**

The cash flows for operating activities include the following items:

	<b>Balance at 31-Mar-15</b>	Balance at 31-Mar-14
	<b>£000's</b>	£000's
Interest received	<b>(509)</b>	(674)
Interest paid	<b>9,854</b>	13,776
Dividends received	<b>(290)</b>	(252)

The analysis for the adjustments to the net surplus or deficit on the provision of services for non cash movements is illustrated below:

	<b>31-Mar-15</b>	31-Mar-14
	<b>£000's</b>	£000's
Depreciation, Impairment and Amortisation of fixed assets	<b>(33,477)</b>	(44,007)
Increase/(decrease) in impairment for bad debt	<b>(874)</b>	1,488
Increase/(decrease) in stocks and works in progress	<b>(128)</b>	(38)
Increase/(decrease) in debtors	<b>1,890</b>	4,280
(Increase)/decrease in creditors	<b>(4,415)</b>	1,113
Pension Liability		
Net Charge to the CIES	<b>15,934</b>	16,219
Employers contributions to pension funds and direct payments to pensioners	<b>(19,418)</b>	(26,853)
Carrying amount of non-current assets sold	<b>(3,158)</b>	(3,462)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services		
Provisions	<b>(321)</b>	(6,812)
Movements in the value of investment properties	<b>1,751</b>	(237)
Movements in the value of Finance Leases and PFI	<b>82</b>	292
Movement in the MRR		-
Movement in the FIAA	<b>(40)</b>	(38)
Adjustment to the Net Surplus or Deficit on Provision of Services for non-cash movements	<b>(42,174)</b>	(58,055)

The analysis for the adjustments to the net surplus or deficit on the provision of services that are investing and financing activities are illustrated below:

	<b>31-Mar-15</b>	31-Mar-14
	<b>£000's</b>	£000's
Grants applied to the financing of capital expenditure	<b>19,037</b>	30,580
Proceeds from sale of property, plant and equipment, investment property and intangible assets	<b>7,213</b>	4,991
Adjustments for items included in the net surplus or deficit on the Provision of Services that are investing and financing activities	<b>26,250</b>	35,571

## **28. CASHFLOW STATEMENT – INVESTING ACTIVITIES**

	<b>Balance at 31-Mar-15</b>	Balance at 31-Mar-14
	<b>£000's</b>	£000's
Purchase of property, plant and equipment, investment property and intangible assets	<b>43,551</b>	40,983
Purchase of short-term and long-term investments	<b>(4,962)</b>	2,195
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	<b>(7,212)</b>	(4,991)
Proceeds from short-term and long-term investments	-	
Other receipts from investing activities	<b>(19,037)</b>	(30,580)
Net cash flows from investing activities	<b>12,340</b>	7,607

## **29. CASHFLOW STATEMENT - FINANCING ACTIVITIES**

	<b>Balance at 31-Mar-15</b>	Balance at 31-Mar-14
	<b>£000's</b>	£000's
Cash receipts of short-term and long-term borrowing	<b>(15,000)</b>	-
Other receipts from financing activities	<b>51</b>	131
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	<b>557</b>	758
Repayments of short-term and long-term borrowing	<b>4,500</b>	-
Other payments for financing activities	<b>(2,223)</b>	(1,891)
Net cash flows from financing activities	<b>(12,115)</b>	(1,002)

### 30. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Best Value Accounting Code of Practice*.

However, decisions about resource allocation are taken by the Council 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:

- no charges are made in relation to capital expenditure except depreciation (revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations 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 principal (directorates) recorded in the budget reports for the year is set out below.

2014/15	Health & Wellbeing £000's	Children Services, Education & Skills £000's	City & Environmental Services £000's	Communities & Neighbourhoods £000's	Customer & Business Support Services £000's	Office of the Chief Executive £000's	Corporate £000's	Total £000's
Employees	17,297	16,219	12,185	15,726	19,568	2,687	1,440	85,122
Supplies & Services	13,909	14,227	8,457	15,836	10,895	1,012	11,346	75,682
Internal Charges	6,476	14,277	6,975	10,264	6,747	235	-	44,974
Other Expenses	46,510	114,697	15,204	5,129	47,680	68	80,694	309,982
<b>Total Expenditure</b>	<b>84,192</b>	<b>159,420</b>	<b>42,821</b>	<b>46,955</b>	<b>84,890</b>	<b>4,002</b>	<b>93,480</b>	<b>515,760</b>
Fees, Charges & Other Income	(21,097)	(3,763)	(19,358)	(21,595)	(9,421)	(763)	(74,509)	(150,506)
Government Grants	(8,141)	(115,262)	(1,413)	(2,444)	(45,693)	(17)	(7,818)	(180,788)
Internal Charges	(3,375)	(14,703)	(5,869)	(6,792)	(26,999)	(2,850)	(383)	(60,971)
<b>Total Income</b>	<b>(32,613)</b>	<b>(133,728)</b>	<b>(26,640)</b>	<b>(30,831)</b>	<b>(82,113)</b>	<b>(3,630)</b>	<b>(82,710)</b>	<b>(392,265)</b>
<b>Net Expenditure</b>	<b>51,579</b>	<b>25,692</b>	<b>16,181</b>	<b>16,124</b>	<b>2,777</b>	<b>372</b>	<b>10,770</b>	<b>123,495</b>

2013/14	Health & Wellbeing £000's	Children Services, Education & Skills £000's	City & Environmental Services £000's	Communities & Neighbourhoods £000's	Customer & Business Support Services £000's	Office of the Chief Executive £000's	Corporate £000's	Total £000's
Employees	18,151	17,847	14,307	20,241	18,752	1,966	1,324	92,588
Supplies & Services	60,116	16,038	4,366	10,840	10,132	1,410	10,996	113,898
Internal Charges	-	-	-	-	-	-	69,413	69,413
Other Expenses	5,865	127,082	65,948	16,249	56,367	639	(20,038)	252,112
<b>Total Expenditure</b>	<b>84,132</b>	<b>160,967</b>	<b>84,621</b>	<b>47,330</b>	<b>85,251</b>	<b>4,015</b>	<b>61,695</b>	<b>528,011</b>
Fees, Charges & Other Income	(22,748)	(10,263)	(20,437)	(20,449)	(10,185)	(393)	(33,411)	(117,886)
Government Grants	(7,450)	(107,050)	(42,485)	(3,226)	(46,232)	-	(6,806)	(213,249)
Internal Charges	(250)	(16,564)	(5,820)	(7,939)	(24,821)	(1,467)	(12,552)	(69,413)
<b>Total Income</b>	<b>(30,448)</b>	<b>(133,877)</b>	<b>(68,742)</b>	<b>(31,614)</b>	<b>(81,238)</b>	<b>(1,860)</b>	<b>(52,769)</b>	<b>(400,548)</b>
<b>Net Expenditure</b>	<b>53,684</b>	<b>27,090</b>	<b>15,879</b>	<b>15,716</b>	<b>4,013</b>	<b>2,155</b>	<b>8,926</b>	<b>127,463</b>

#### 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.

	2014/15 £000	2013/14 £000
Net Expenditure in Directorate Analysis	<b>123,495</b>	127,463
Net expenditure of services and support services not included in the Analysis	<b>(13,913)</b>	
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	<b>32,108</b>	58,726
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	<b>(2,570)</b>	(34,314)
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>139,120</b>	151,875

#### 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.



2014/15

	Directorate Analysis £000	Amounts Not Reported To Management For Decision Making £000	Amounts Not Included In I&E £000	Cost Of Services £000	Corporate Amounts £000	Total £000
Employee Expenses	85,122	84,379	(238)	<b>169,263</b>	-	<b>169,263</b>
Other Service Expenses	375,432	42,773	(214,399)	<b>203,806</b>	10,232	<b>214,038</b>
Support Service Recharges	44,974	4,148	(49,122)	-	-	-
Depreciation, Amortisation & Impairment	-	30,881	-	<b>30,881</b>	-	<b>30,881</b>
Interest Payments	10,005	-	-	<b>10,005</b>	8	<b>10,013</b>
Transactions related to Investment properties	227	-	-	<b>227</b>	-	<b>227</b>
Pensions interest cost and expected return on pensions assets	-	-	-	-	4,649	<b>4,649</b>
Precepts & Levies	-	-	-	-	601	<b>601</b>
Payments to Housing Capital	-	-	-	-	1,052	<b>1,052</b>
Receipts Pool	-	-	-	-	1,318	<b>1,318</b>
Gain Or Loss On Disposal Of Fixed Assets	-	-	-	-	-	-
<b>Total Expenditure</b>	<b>515,760</b>	<b>162,181</b>	<b>(263,759)</b>	<b>414,182</b>	<b>17,860</b>	<b>432,042</b>
Fees, Charges & Other Service Income	(314,454)	(143,986)	200,218	<b>(258,222)</b>	(16,840)	<b>(275,062)</b>
Support Service Recharges	(60,971)	-	60,971	-	-	-
Transactions related to Investment properties	(4,302)	-	-	<b>(4,302)</b>	-	<b>(4,302)</b>
Surplus Or Deficit On Associates & Joint Ventures	-	-	-	-	-	-
Interest & Investment Income	(830)	-	-	<b>(830)</b>	(19)	<b>(849)</b>
Income From Council Tax & Business Rates	-	-	-	-	(100,502)	<b>(100,502)</b>
Government Grants & Contributions	(5,320)	-	-	<b>(5,320)</b>	(28,768)	<b>(34,088)</b>
Other Grants	(6,388)	-	-	<b>(6,388)</b>	-	<b>(6,388)</b>
Capital Grants	-	-	-	-	(15,312)	<b>(15,312)</b>
Gain Or Loss On Disposal Of Fixed Assets	-	-	-	-	(5,372)	<b>(5,372)</b>
<b>Total Income</b>	<b>(392,265)</b>	<b>(143,986)</b>	<b>261,189</b>	<b>(275,062)</b>	<b>(166,813)</b>	<b>(441,875)</b>
<b>Surplus Or Deficit On The Provision Of Services</b>	<b>123,495</b>	<b>18,195</b>	<b>(2,570)</b>	<b>139,120</b>	<b>(148,953)</b>	<b>(9,833)</b>

2013/14

	Directorate Analysis £000	Amounts Not Reported To Management For Decision Making £000	Amounts Not Included In I&E £000	Cost Of Services £000	Corporate Amounts £000	Total £000
Employee Expenses	92,588	10,084		<b>102,672</b>	(9,720)	<b>92,952</b>
Other Service Expenses	366,010	14,922	(78,796)	<b>302,136</b>	44,532	<b>346,668</b>
Support Service Recharges	69,413		(69,413)	-		-
Depreciation, Amortisation & Impairment		33,720		<b>33,720</b>		<b>33,720</b>
Interest Payments				-	10,010	<b>10,010</b>
Precepts & Levies				-	580	<b>580</b>
Payments to Housing Capital Receipts Pool				-	955	<b>955</b>
Gain Or Loss On Disposal Of Fixed Assets				-	(1,530)	<b>(1,530)</b>
<b>Total Expenditure</b>	<b>528,011</b>	<b>58,726</b>	<b>(148,209)</b>	<b>438,528</b>	<b>44,827</b>	<b>483,355</b>
Fees, Charges & Other Service Income	(187,299)		113,895	<b>(73,404)</b>	(58,125)	<b>(131,529)</b>
Surplus Or Deficit On Associates & Joint Ventures				-		-
Interest & Investment Income				-	(329)	<b>(329)</b>
Income From Council Tax				-	(71,438)	<b>(71,438)</b>
Government Grants & Contributions	(213,249)			<b>(213,249)</b>	(78,491)	<b>(291,740)</b>
<b>Total Income</b>	<b>(400,548)</b>	<b>-</b>	<b>113,895</b>	<b>(286,653)</b>	<b>(208,383)</b>	<b>(495,036)</b>
<b>Surplus Or Deficit On The Provision Of Services</b>	<b>127,463</b>	<b>58,726</b>	<b>(34,314)</b>	<b>151,875</b>	<b>(163,556)</b>	<b>(11,681)</b>

**31. ACQUIRED AND DISCONTINUED OPERATIONS**

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All council operations are categorised as continuing operations.

**32. TRADING OPERATIONS**

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The Council had no external trading operations in 2014/15. The Council has established a number of internal trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations.

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public (eg refuse collection), whilst others are support services to the Council's services to the public (eg schools catering). The expenditure of these operations is allocated or recharged to headings in Net Cost of Services.

**33. AGENCY SERVICES**

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The Council, as a billing Council, both bills and collects income on behalf of the central government, the Police and Crime Commissioner for North Yorkshire and the North Yorkshire Fire and Rescue Council for National Non-Domestic Rates and Council Tax. This statutory arrangement is treated in the Council's accounts as an agency agreement.

The Council provides payroll services for five schools (which includes four Academy schools), one college, City of York Trading, one District Council, and various small organisations mostly in the voluntary and sports sectors. These contracts are detailed in the table:

	<b>2014/15</b>	2013/14
	<b>£000's</b>	£000's
Expenditure incurred providing Payroll Services	<b>45</b>	44
Fee income earned	<b>(62)</b>	(52)
<b>Net Position</b>	<b>(17)</b>	(8)

**34. ROAD CHARGING SCHEMES**

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There were no schemes under the Transport Act 2000 in 2014/15, but these will continue to be considered by the Council in future years.

**35. POOLED BUDGETS**

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There were no pooled budgets in 2014/15, but these will continue to be considered by the Council in future years.

**36. MEMBERS ALLOWANCES**

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The Council paid the following amounts to members of the Council during the year.

	<b>2014/15</b>	2013/14
	<b>£000's</b>	£000's
Allowances	<b>540</b>	551
Expenses	<b>11</b>	10
<b>Total</b>	<b>551</b>	561

The Local Authorities (Members' Allowances) (England) Regulations 2003 include a requirement for local authorities to publicise the scheme for members' allowances and to disclose annually amounts paid to each member under such schemes. The information on amounts paid during 2014/15 will be released to the press during the summer and will identify that the Council spent £551k (2013/14 £561k) on members' allowances and expenses. Members receive payments that reflect the special responsibilities of the individual Member, together with a basic allowance. Other allowances received include those for telephones, internet and dependent care. Expenses are made up of travel and subsistence costs. The level of the basic and responsibility allowances are set by the Council after recommendations are received from the Cabinet, having regard to the review undertaken by the Council's independent remuneration panel. In addition to the allowances and expenses the Council has incurred a cost of £41k (2013/14 £41k) for members pensions contributions.

**37. OFFICERS REMUNERATION**

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Regulation 7 of the Accounts and Audit (England) Regulations 2011 contain requirements for the disclosure of the remuneration of higher paid officers. In addition it is also a requirement to disclose the number of employees, including teachers, whose total remuneration is above £50k in £5k increasing bands. The numbers in different bands are shown below.

The remuneration paid to the Council's senior employees in 2014/15 is as follows:

	Notes	Salaries, Fees and Allowances £000's	Expenses Allowances £000's	Compensation for Loss of Office £000's	Pension Contributions £000's	Total Remuneration including pension contributions £000's
Chief Executive		140	5	-	27	172
Director of Public Health and Wellbeing	1	78	1	45	10	134
Director of Children's Services Education and Skills		111	8	-	22	141
Director of Customer & Business Support Services		103	1	-	20	124
Director of Communities & Neighbourhoods		103	1	-	20	124
Director of City & Environmental Services	2	23	-	-	4	27
Assistant Director of Governance & ICT		74	-	-	15	89
Assistant Director of Transformation & Change (Acting Up)		67	-	-	-	67
Head of Economic Development	3	49	-	-	-	49
		748	16	45	118	927

No Bonus payments were made to any Senior Officers in the 2014-15 financial year.

**Note 1** – Director of Public Health and Wellbeing left the council 30/09/14. The post was replaced by an Interim Director of Public Health and an Interim Director of Adults Social Care, both of which were external contractors therefore not included in the note above, and were in place from 01/10/14

**Note 2** – Director of City & Environmental Services left the council 19/06/14, an Interim Director who was an external contractor therefore not included in the note above and was in place from 06/05/2014

**Note 3** – Head of Economic Development left the council 16/01/2015

The remuneration paid to the Council's senior employees in 2013/14 is as follows:

	Notes	Salaries, Fees and Allowances £000's	Expenses Allowances £000's	Compensation for Loss of Office £000's	Pension Contributions £000's	Total Remuneration including pension contributions £000's
Chief Executive		137	0	-	27	164
Director of Adults, Children & Education	1	68	0	-	13	81
Director of Children's Services Education & Skills	2	9	1	-	2	12
Director of Public Health & Wellbeing	3	149	-	-	20	169
Director of Communities & Neighbourhoods		103	0	-	20	123
Director of Customer & Business Support Services		103	0	-	20	123
Director of City and Environmental Services		92	3	-	18	113
Assistant Director Legal Governance & IT		73	-	-	14	87
Head of Economic Development		53	-	-	-	53
Head of Strategy Partnerships and Communication		54	-	-	0	54
		841	4	-	134	979

No Bonus payments were made to any Senior Officers in the 2013-14 financial year.

**Note 1** – Director of Adults, Children and Education left the Council on the 31<sup>st</sup> March 2013, an interim Director was in place between 01/04/2013 and 15/12/2013.

**Note 2** – The above post was replaced by a new Director of Children's services, Education & Skills from 03/03/2014.

**Note 3** – Director of Public Health & Well Being commenced on 01/04/2013.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	2014/15					2013/14				
	Officers Current	Officers Left during year	Teachers Current	Teachers left during year	Total	Officers Current	Officers Left during year	Teachers Current	Teachers left during year	Total
£50,000 - £54,999	36	2	35	0	73	34	2	32	2	70
£55,000 - £59,999	5	2	18	2	27	3	2	18	-	23
£60,000 - £64,999	3	3	19	1	26	2	1	11	-	14
£65,000 - £69,999	1	0	4	-	5	2	1	8	-	11
£70,000 - £74,999	6	1	2	-	9	5	1	2	-	8
£75,000 - £79,999	0	1	1	1	3	2	1	3	-	6
£80,000 - £84,999	1	-	7	-	8	-	-	2	-	2
£85,000 - £89,999	0	-	-	-	-	1	-	-	-	1
£90,000 - £94,999	-	-	2	-	2	-	-	1	-	1
£95,000 - £99,999	0	-	-	1	1	1	-	-	-	1
	<b>52</b>	<b>9</b>	<b>88</b>	<b>5</b>	<b>154</b>	<b>49</b>	<b>8</b>	<b>77</b>	<b>2</b>	<b>137</b>

Details of the Exit Packages / Termination benefits paid out to employees who were made redundant during the year are set out in the table below. This table shows the total number of compulsory and other redundancies/ departures and their total cost, broken down into incremental bands of £20k up to £80k. The total cost shown include payments made to the employees plus payments made to the relevant pension funds in year to compensate for "strain on the fund" costs resulting from the employees exit and resulting pension entitlement.

Exit package cost band (including special payments)	Number of Compulsory Redundancies		Number of other departures agreed		Number of redundancies		Total cost of exit packages in each band	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15 £000's	2013/14 £000's
£0- £20,000	44	33	71	83	115	116	721	1,023
£20,001 - £40,000	5	3	12	11	17	14	668	554
£40,001 - £60,000	-	-	3	1	3	1	190	50
£60,001 - £80,000	-	1	-	-	-	1	-	182
<b>Total</b>	<b>49</b>	<b>37</b>	<b>86</b>	<b>95</b>	<b>135</b>	<b>132</b>	<b>1,579</b>	<b>1,809</b>

The total cost of £1,579k (13/14 £1,809k) in the table above includes £1,220k (13/14 £1,294) for exit packages that have been charged to the Authorities Comprehensive Income and Expenditure Statement in the current year.

### **38. EXTERNAL AUDIT COSTS**

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

	<b>2014/15</b>	2013/14
	<b>£000's</b>	£000's
Fees payable to Mazars LLP with regard to external audit services carried out by the appointed auditor	<b>149</b>	145
Fees payable to Mazars LLP in respect of statutory inspection	-	-
Fees payable to the Mazars LLP for the certification of grant claims and returns	<b>18</b>	18
Fees payable in respect of other services provided by Mazars LLP	<b>6</b>	21
Rebate of fees received from the Audit Commission	<b>(11)</b>	(15)
	<b>162</b>	169

The above fees have been presented on an accruals basis, in line with Code requirements. The fees for other services payable in 2014/15 relate to the National Fraud Initiative and the audit of the Teachers' Pensions return; in 2013/14 relate to a review of Adult Social Care.

### **39. DEDICATED SCHOOLS GRANT**

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early years (England) Regulations 2011.

The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of the DSG receivable for 2014/15 are as follows:



	Central Expend- iture £000's	Individual Schools Budget £000's	DSG Total £000's
Final DSG for 2014/15 before Academy recoupment			111,090
Academy figure recouped for 2014/15			(10,619)
Total DSG after Academy recoupment for 2014/15			100,471
Brought forward from 2013/14			111
Carry forward to 2015/16 agreed in advance			-
DSG resources available for distribution in 2014/15	11,434	89,148	100,582
In year adjustments	-	-	-
<b>Final resources available for distribution in 2014/15</b>	<b>11,434</b>	<b>89,148</b>	<b>100,582</b>
Less actual central expenditure	(11,138)		(11,138)
Less actual ISB deployed to schools		(89,203)	(89,203)
Plus Local Authority contribution for 2014/15	-	-	-
<b>Carry forward to 2015/16 agreed in advance</b>	<b>296</b>	<b>(55)</b>	<b>241</b>

#### 40. GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

	2014/15 £000's	2013/14 £000's
<b>Credited to Taxation and Non Specific Grant Income</b>		
Demand on Collection Fund	(74,512)	(71,438)
Non-Domestic Rates	(25,989)	(18,719)
Revenue Support Grant	(28,768)	(34,870)
Capital Grants	(15,312)	(46,110)
New Homes Bonus	(3,071)	(2,433)
Business Rates Retention Grant	(1,876)	-
Other Government Grants	(5,349)	(6,228)
Other general grants	(1,413)	-
<b>TOTAL</b>	<b>(156,290)</b>	<b>(179,798)</b>
<b>Credited to Services</b>		
Dedicated Schools Grant Base	(100,350)	(100,325)
DWP Council Tax, Housing Benefit & Admin Grant	(43,975)	(45,459)

Public Health Grant	(7,305)	(6,667)
Other Education Funding Agency	(6,736)	(6,345)
Pupil Premium Grant	(4,621)	(3,682)
Education Services Grant	(2,870)	-
Skills Funding Agency	(1,241)	(1,299)
PFI Revenue Support	(1,186)	(1,186)
Universal infant Free Schools meals - revenue funding	(1,145)	-
E I & P Supporting People HRA Grant	(480)	-
CYC contribution to Safeguarding Board	(147)	-
Contribution from YOT	(50)	-
DWP Access to Work grant	(12)	(156)
Other Grants	(1,374)	(1,342)
Troubled Families	-	(388)
Additional Grant for Schools	-	(41)
<b>TOTAL</b>	<b>(171,492)</b>	<b>(166,890)</b>

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.

	<b>31-Mar-15</b>
	<b>£000's</b>
<b>Current Liabilities</b>	
<b>Grants Receipts in Advance (Capital Grants)</b>	
Miscellaneous other grants (capital)	-
S106 Contributions with conditions	17
<b>TOTAL</b>	<b>17</b>
<b>Grants Receipts in Advance (Revenue Grants)</b>	
Lead Flood Authority Grant	57
CRCNB Grant	8
Dept Education Social Work Program	5
University of York	31
Skills for Care Social worker funding	8
Wilf Ward Grants	7
Pupil Premium Grant	235
DCLG Delivering differently in N'hoods	90
Springboard Project	14
Leeds City Region	90
Education Misc Grants	25
York Apprenticeship graduation	4
Creative employment programme	66
SENDIASS	13
<b>TOTAL</b>	<b>653</b>

31-Mar-  
14  
£000's**Current Liabilities****Grants Receipts in Advance (Capital Grants)**

Grants Receipts in Advance (Capital Grants)

Miscellaneous other grants (capital)	500
S106 Contributions with conditions	17
<b>TOTAL</b>	<b>517</b>

**Grants Receipts in Advance (Revenue Grants)**

Better Bus Area Fund	172
Troubled Families	353
Education Misc Grants	34
DCLG NPG	10
SFA	8
<b>TOTAL</b>	<b>577</b>

**41. RELATED PARTIES**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government**

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (eg council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 30 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2015 are shown in Note 40.

**Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2014/15 is shown in Note 36.

During 2014/15, works and services to the value of £86k were commissioned from companies in which 1 member had an interest. Contracts were entered into in full compliance with the council's standing orders

Company name	No of Members that holds an interest	Value of works commissioned by the Council £000's	Value outstanding as at 31 March 2015 £000's
York Wheels	1	86	0

In addition, the Council paid grants totalling £2.9m to organisations in which 14 members had positions on the board or are trustees.

On 31st March 2014 the Community Equipment Loans Store and Telecare service was transferred to Be Independent, a Communities Interest Company. One member sits on the board of this company and services totalling £1.3m were commissioned during the year

No significant grants were made to organisations whose senior management included close members of the families of members.

In all instances, the grants and works/services commissioned were made with proper consideration of declarations of interest. Details of all these transactions are recorded in the Register of Members' Interest, open to public inspection at West Offices during office hours.

#### **Officers**

During 2014/15 no works and services of a significant value were commissioned from companies in which officers had an interest outside of their Council responsibilities. All contracts were entered into in full compliance with the council's standing orders

The Council did not pay any significant grants to voluntary organisations in which officers had positions on the governing body.

No payments were made to organisations whose senior management included close family members of elected members.

#### **Entities Controlled or Significantly Influenced by the Council**

The Council has interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures, but due to the values involved these do not require the Council to prepare Group Accounts.

For detailed information relating to Yorwaste Limited and Veritau Limited please see Long Term Investments note

The **Yorkshire Purchasing Organisation** was established as a joint committee of Local Authorities in 1974 and City of York Council is one of the constituent thirteen member authorities.

**Science City York** is a company limited by guarantee and is a non profit organisation. There is no share capital but the Council being the sole member is liable to contribute £1 in the event of the company being wound up. Transactions with the Council totalled £192k during the year. The Chief Executive of City of York Council is a member of the board. In May 2011, a subsidiary of Science City York was set up called SCY Enterprises Ltd. This is a wholly owned subsidiary of Science City York. During 2014/15 the Council reviewed alternative structures for delivery of those services currently the responsibility of Science City York.

**Make it York** is a company limited by shares, created on 1st April 2015, and the Council is the sole shareholder. Of the 12 directors, 2 will represent the Council and these representatives will be the Leader of the Council and the Chief Executive. Science City York and SCY Enterprises, a wholly owned subsidiary of Science City York, will be transferred to Make it York during 2015/16.

## **LONG TERM INVESTMENTS**

The Council holds a number of investments for the medium/long-term. They comprise mainly share investments in three companies: Yorwaste (£1.008m), York Science Park (£0.200m) Veritau (a nominal £1) and City of York Trading Ltd (a nominal £1). The shares are included in the balance sheet at nominal value. Other investments have been deposited to be realisable quickly, although the intention is to hold them for a medium/long-term.

### **Yorwaste**

The Council has, as a result of the local government reorganisation in the area at 1 April 1996, a 22.27% share-holding in Yorwaste Limited. The majority shareholder is North Yorkshire County Council who hold the remaining 77.73%. The Company's profit and loss account is not included as part of the Comprehensive Income & Expenditure Account, however dividend income of £nil (£29k 2013/14) is included as part of the Council's income for Cultural, Environmental and Planning Services. Similarly, the Company's assets and liabilities are not in the Consolidated Balance Sheet.

The Council has a contract with Yorwaste Limited for waste disposal services. Contract prices are negotiated on an arms length commercial basis. The total value of services received in the year was £6.891m (£6.418m 2013/14) including Landfill Tax, and at 31 March 2015 there was a creditor balance of £0.779m excluding vat (£0.560m excluding vat 2013/14).

In addition the Council provides services to Yorwaste Limited that totalled £0.536m (£0.519m during 2013/14). There was a debtor outstanding at 31 March 2014 of £0.083m (£0.178m 2013/14).

### **York Science Park**

City of York Council has owned shares in the company since 23 December 1999 and the nominal value of the shares is £1. The Council now holds 200 shares which represent less than 20% of the total share capital at £1.157m. The Council received no dividends or profits from York Science Park and holds no liability. There were no significant monetary transactions between the Council and the company during 2014/15.

### **Veritau**

Since 1 April 2009, internal audit, counter-fraud and information governance services have been provided by Veritau Limited. The company is jointly owned by City of York Council and North Yorkshire County Council, with each Council holding 50% of the shares. The Council is represented on the Board by the Director of Customer & Business Support Services and one Member of the Council.

The Council has a contract with Veritau Limited for the provision of internal audit, counter-fraud and information governance services. Contract prices are negotiated on an arms length commercial basis. The total value of services received in year was £642k (£624k in 13/14) and Veritau Limited paid the Council £10k (£15k in 2013/14). There were no outstanding balances at 31 March 2015.

**City of York Trading** was incorporated as a private company on the 18<sup>th</sup> November 2011 and the company is 100% owned by the Council. The Board of Directors for CYT is made up of the Customer and Business Support Management Team, a Member of the Council's Cabinet and an external Director. The company started trading in June 2013. The company provides temporary staff to the Council, schools and other external organisations. Transactions with the Council and Schools during the year included charges of approximately £5.3m (98 % of CYT income). The Council received income from providing support services, including payroll of £5.0m (93% of CYT's costs).

The values associated with these companies are not deemed to be material to provide group accounts.

**42. CAPITAL EXPENDITURE AND 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/PP 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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2014/15	2013/14
	£000's	£000's
<b>Opening Capital Financing Requirement</b>	<b>316,903</b>	<b>317,839</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	43,155	40,889
Investment Properties	86	106
Intangible Assets	316	75
Revenue Expenditure Funded from Capital under Statute Leases / PFI	4,646	3,548
HRA Self Financing payment		-
<b>Sources of Finance</b>		
Capital Receipts	<b>(4,446)</b>	(1,623)
Government grants and other contributions	<b>(25,549)</b>	(32,845)
Direct revenue contributions	<b>(4,425)</b>	(2,590)
MRP (Minimum Revenue Repayment)	<b>(8,212)</b>	(8,496)
Movement in Year	<b>5,571</b>	<b>(936)</b>
<b>Closing Capital Financing Requirement</b>	<b>322,474</b>	<b>316,903</b>
<b>Explanations of movement in year</b>		
Increase in underlying need to borrow (supported by government financial assistance)		304
Increase in underlying need to borrow (unsupported by government financial assistance)	<b>13,783</b>	7,256
Assets acquired under finance leases/PFI		-
HRA Self Financing payment		-
MRP/ loans fund principal	<b>(8,212)</b>	(8,496)
<b>Increase/ (decrease) in Capital Financing Requirement</b>	<b>5,571</b>	<b>(936)</b>

The Capital Financing Requirement increased in 2014/15 as a result of the level of borrowing required to fund capital expenditure being greater than the provision set aside for the repayment of debt.

### 43. LEASES

#### Council as Lessee

##### Finance Leases

The Council has not acquired any new assets under finance leases. Assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet. The Council does not currently hold any such assets:

	2014/15	2013/14
	£000's	£000's
Other Land and Buildings	-	-
Vehicles, Plant, Furniture and Equipment	-	121
	-	121

The Council is committed to making minimum payments under finance leases comprising settlement of the long-term liability for the interest in the assets acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. There are no minimum lease payments due in respect of finance leases:

	2014/15	2013/14
	£000's	£000's
Finance lease liabilities (net present value of minimum lease payments)		
- Current	-	181
- Non-current	-	-
Finance costs payable in future years	-	8
Minimum lease payments	-	189

The minimum lease payments are:

	Minimum lease payments		Finance lease liabilities	
	2014/15	2013/14	2014/15	2013/14
	£000's	£000's	£000's	£000's
Not later than one year	-	189	-	181
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
	-	189	-	181

Due to the short-term nature of the leases entered into by the Council, no contingent rents were payable by the Council in 2014/15 (2013/14 £0).

The Council has not sub-let any of the assets acquired under finance leases.

### Operating Leases

The Council has acquired the right to use a number of assets through entering into agreements with external suppliers. These agreements contain operating lease arrangements as well as maintenance charges and cost of materials. Examples of the assets that have been acquired include:

- Fleet of light commercial vehicles
- IT equipments in ICT managed services, typical lives of three years
- Photocopying equipments, typical lives of three years
- Various property assets, typical lives between 15 and 30 years

The future minimum lease payments due (including payments for non-lease elements) under non-cancellable leases in future years are:

	<b>31-Mar-15</b>	31-Mar-14
	<b>£000's</b>	£000's
Not later than one year	<b>867</b>	967
Later than one year and not later than five years	<b>1,771</b>	2,906
Later than five years	<b>243</b>	892
	<b>2,881</b>	4,765

The expenditure charged (including payments for non-lease elements) in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	<b>2014/15</b>	2013/14
	<b>£000's</b>	£000's
Minimum lease payments	<b>986</b>	967
Contingent rents	<b>43</b>	3
	<b>1,029</b>	970

### Council as Lessor

#### Finance Leases

The Council acts as lessor for a small number of property leases, with start dates between 1976 and 1994 and remaining lease terms of between 14 and 23 years. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end.



The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	<b>2014/15</b>	2013/14
	<b>£000's</b>	£000's
Finance lease debtor (net present value of minimum lease payments)		
- Current	<b>10</b>	12
- Non-current	<b>344</b>	336
Unearned finance income	<b>225</b>	234
Unguaranteed residual value of property		-
<b>Gross Investment in the lease</b>	<b>579</b>	582

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

	Gross Investment in the Lease		Minimum Lease payments	
	2014/15	2013/14	2014/15	2013/14
	£000's	£000's	£000's	£000's
Not later than one year	<b>29</b>	30	<b>10</b>	12
Later than one year and not later than five years	<b>116</b>	113	<b>47</b>	45
Later than five years	<b>434</b>	439	<b>296</b>	291
	<b>579</b>	582	<b>354</b>	348

The minimum lease payments include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15 contingent rents of £135k were receivable by the Council (2013/14 £137k).

### Operating Leases

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

- for the provision of community and leisure services.
- for income generation purposes

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

	2014/15	2013/14
	£000's	£000's
Not later than one year	1,979	2,030
Later than one year and not later than five years	5,641	5,248
Later than five years	14,661	15,231
	<b>22,281</b>	<b>22,509</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15 contingent rents of £1,040k were receivable by the Council (2013/14 £818k).

#### **44. PFI AND SIMILAR CONTRACTS**

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##### **PFI**

The Council has one PFI scheme for the provision of 3 primary schools with Sewell Education (York) Ltd. PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. The accounting requirements for PFI require that where ownership reverts to an entity at the end of the contract, PFI properties should be recognised on the Council's Balance Sheet along with a liability for the financing provided by the PFI operator. Payments made by the Council under a contract are generally charged to revenue to reflect the value of services received in each financial year and also relate to the repayment of the liability and finance costs associated with the asset. A prepayment of £4.032m was made prior to service commencement. Under the terms of the contract the Council has granted Sewell a licence for use of the land for 30 years.

##### **Property Plant and Equipment**

The asset used to provide the services at one of the schools is recognised on the Council's Balance Sheet. Movements in the value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 12. The other 2 schools are voluntary aided where the asset does not revert back to the Council at the end of the contract. These assets are not included on the face of the Balance Sheet and the associated costs have been removed.

##### **Payments**

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2015 (excluding any estimation of inflation and availability/ performance deductions) are as follows:

	Payment for Services £000's	Finance Payment £000's	Liability Repayment £000's	Total Payments £000's
Within 1 Yr	646	222	226	1,094
Between 2 Yrs and 5 Yrs	2,575	859	1,043	4,477
Between 6 Yrs and 10 Yrs	3,936	778	1,017	5,731
Between 11 Yrs and 15 Yrs	4,341	663	999	6,003
Between 16 Yrs and 20 Yrs	3,854	1,086	1,461	6,401
Between 21 Yrs and 25 Yrs	773	241	326	1,340
	16,125	3,849	5,072	25,046

The payments made to the contractor are described as unitary payments and they have been calculated to compensate the contractor for the fair value of the services they provide.

### **PPP**

The City Council has undertaken a joint procurement with North Yorkshire for a long term Waste Management Service Contract for the provision of landfill diversion services. The council's agreed a preferred bidder and signed a commercial contract with Amey Cespa in 2012. The contract allows for the council's waste to be dealt with a number of processes including mechanical sorting and treatment, Energy from Waste and Anaerobic Digestion. The contractor was required to achieve planning consent for its facility and propose a funding package to the councils. This was finally completed in summer 2014.

The City Council meeting (9th October 2014) approved to continue to financial close for the contract. Financial close for the project was achieved on 29th October 2014.

North Yorkshire County Council has entered into a contract with Amey Cespa and the City Council has entered into a Joint Waste Management Agreement with North Yorkshire which commits the City Council into the obligations set out in the main contract with Amey Cespa the main requirement being to provide a guaranteed minimum number of tonnes of municipal waste into the facility.

The contractor has 39 months to construct and commission the facilities at Allerton Park and full operation is anticipated to commence in early 2018. The contract is to provide the services once operational for 25 years

The Councils financial commitments under this are:

	CYC more than 1 year £000's
Liability payments	41,873
Finance payments	64,228
Operating costs	91,192
Total	197,293

**45. IMPAIRMENT LOSSES**

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Impairment losses are where a physical loss to the asset occurs. In comparison a revaluation loss is a reduction in market value of the asset. There was no impairment losses charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement during the year.

**46. CAPITALISATION OF BORROWING COSTS**

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No borrowing costs were capitalised during 2014/15.

**47. TERMINATION BENEFITS**

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The Council terminated the contracts of a number of employees in 2014/15, incurring liabilities of £1,579k (£1,809k in 2013/14). See Note 37 for further details of the number of exit packages and total cost per band. This sum is payable to officers across all of the Council's directorates.

**48. PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES**

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**Teachers Pension Scheme**

Teachers employed by the Council are members of the Teachers' Pension Scheme, which is administered by Capita Teachers' Pensions (CTP). It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of the Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme.

In 2014/15 the Council paid £6.118m (2013/14 £5.762m) to CTP in respect of teachers' retirement benefits, which represents 14.1% (2013/14, 14.1%) of teachers' pensionable pay. The contributions due to be paid in the next financial year are estimated to be £6.1m.

In addition the Council is responsible for the costs of any additional benefits awarded upon early retirement which are not the responsibility of the CTP. These amounted to £742k (2013/14 £731k) and are fully accrued in the pensions liability described in the figures that follow in Note 49. The Council is not liable to the scheme for any other entities obligation under the plan.

**NHS Staff Pension Scheme**

During 2013/14, NHS Staff have transferred to the Council. These staff have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2014/15, the Council paid £26k (2013/14 £51k) to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14% of pensionable pay. There were no contributions remaining payable at the year end. The contributions due to be paid in the next financial year are estimated to be £25k. The Council is not liable to the scheme for any other entities obligation under the plan.

**49. DEFINED BENEFIT PENSION SCHEMES**

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The Council offers retirement benefits to its employees as part of their employment terms and conditions. Although these benefits are not payable until the employees retire, the Council is committed to make the payments that will enable the cost of the benefits to be met. The future commitment for meeting these payments must be disclosed at the time that the employees earn their future entitlement. In other words, the cost of meeting these payments in the future when employees retire are disclosed in the accounts at the time that employees are working at the Council and are earning their future entitlement.

The Council participates in two schemes, the North Yorkshire Pension Fund and the Teachers Scheme. Brief details of the two pension schemes are shown in Policy 1 section VII of the Statement of Accounting Policies.

The liability for payment of pensions under the Teachers Pension scheme rests with the Department for Children, Schools and Families, and it is therefore classed as a multi-employer defined benefit scheme for which the liabilities of individual employers cannot be separated. It is therefore treated in the same way as a defined contribution scheme, and no additional disclosures are required. However, where benefits have been offered outside the scheme costs they have to be funded by the Council instead of the Teachers Pension scheme. Under the IAS19 reporting requirements these payments need to be treated as if they were part of a defined benefit scheme and have been included in all the information provided by the Actuaries.

The North Yorkshire Pension Fund, which is a Local Government Pension Scheme, is treated as a defined benefit scheme, since the Council's liabilities to its current and former employees can be identified within the fund, and the Council will be liable to meet these, irrespective of the future performance of the fund. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The information below relates to the cost of pension arrangements borne by this Council and included in the revenue accounts.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These

are mitigated to a certain extent by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts as required by statute in the accounting policies note.

**Transactions relating to post-employment benefits**

The costs of retirement benefits are recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	LGPS £000's	Teachers £000's	2014/15 Total £000's	£000's	LGPS £000's	2013/14 Teachers £000's	Total £000's	£000's
<b>Comprehensive Income and Expenditure Statement</b>								
<b>Cost of Services</b>								
Current service cost	13,940	-	<b>13,940</b>		16,579	-	<b>16,579</b>	
Past service cost	48	-	<b>48</b>		-	-	<b>-</b>	
Administration expenses	285	-	<b>285</b>		298	-	<b>298</b>	
(Gain) / Loss from settlements and curtailments	136	360	<b>496</b>		958	106	<b>1,064</b>	
	14,409	360		<b>14,769</b>	17,835	106		<b>17,941</b>
<b>Financing and Investment Income and Expenditure</b>								
Interest cost	22,417	523	<b>22,940</b>		22,871	472	<b>23,343</b>	
Expected return on assets in the scheme	(18,291)	-	<b>(18,291)</b>		(14,431)	-	<b>(14,431)</b>	
Net Interest expense	4,126	523		<b>4,649</b>	8,440	472		<b>8,912</b>
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>								
	18,535	883		<b>19,418</b>	26,275	578		<b>26,853</b>
<b>Other Post Employment Benefit Charged to Comprehensive I&amp;E statement</b>								
Remeasurement of the net defined benefit liability comprising:								
Return on plan assets (excluding the amount included in the net interest expense)	(45,401)			<b>(45,401)</b>	(43,506)			<b>(43,506)</b>
Actuarial gains and losses arising on changes in demographic assumptions	-			-	(916)	136		<b>(780)</b>
Actuarial gains and losses arising on changes in financial assumptions	92,565	1,251		<b>93,816</b>	(55,504)	(922)		<b>(56,426)</b>
Experience gains and losses				-	(20,283)	343		<b>(19,940)</b>
Actuarial gains and losses								

<b>Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	47,164	1,251	<b>48,415</b>	(120,209)	(443)	<b>(120,652)</b>
<b>Movement in Reserves statement</b>						
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(18,535)	(883)	<b>(19,418)</b>	(26,275)	(578)	<b>(26,853)</b>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>						
Employers' contributions payable to scheme	15,192	742	<b>15,934</b>	15,488	731	<b>16,219</b>

**Assets and Liabilities in Relation to Retirement Benefits**

The following analyses are all based on the annual updated position provided by the Fund's actuaries.

The reconciliation of present value of the scheme liabilities is as follows:

	As at 31-Mar-15		As at 31-Mar-14	
	Local Government Pension Scheme £000's	Unfunded Teachers Scheme £000's	Local Government Pension Scheme £000's	Unfunded Teachers Scheme £000's
Opening balance at 1 April	503,304	12,524	549,523	13,120
Current service cost	13,940	-	16,579	-
Interest cost	22,417	523	22,871	472
Contributions by scheme participants	4,591	-	4,684	-
Remeasurement (gains)/losses:				
Actuarial gains and losses arising on changes in demographic assumptions	-	-	(916)	136
Actuarial gains and losses arising on changes in financial assumptions	92,565	1,251	(55,504)	(922)
Experience gains and losses	-	-	(20,283)	343
Benefits/transfers paid	(14,908)	(742)	(14,608)	(731)
Past service costs	48	-	-	-
Curtailments	136	360	958	106
Settlements	-	-	-	-
Closing balance at 31 March	622,093	13,916	503,304	12,524

The reconciliation of the fair value of the scheme assets is as follows:

	As at 31-Mar-15		As at 31-Mar-14	
	Local Government Pension Scheme £000's	Unfunded Teachers Scheme £000's	Local Government Pension Scheme £000's	Unfunded Teachers Scheme £000's
Opening fair value of scheme assets	(404,022)	-	(340,819)	-
Interest income	(18,291)	-	(14,431)	-
Remeasurement gain	(45,401)	-	(43,506)	-
Administration expenses	285	-	298	-
Employer contributions	(15,192)	(742)	(15,488)	(731)
Contributions by scheme participants	(4,591)	-	(4,684)	-
Benefits/transfers paid	14,908	742	14,608	731
Settlements	-	-	-	-
Closing fair value of scheme assets	(472,304)	-	(404,022)	-

#### Scheme History – Pension Scheme assets and liabilities recognised in the balance sheet

The history of the liabilities and assets over the last five years has been:

	2010/11	2011/12	2012/13	2013/14	2014/15
	£000's	£000's	£000's	£000's	£000's
<u>Present Value of Liabilities</u>					
Local Government Pension Scheme	414,656	458,631	549,523	503,304	<b>622,093</b>
Unfunded Teachers Pensions	11,113	11,684	13,120	12,524	<b>13,916</b>
<u>Fair Value of Assets</u>					
Local Government Pension Scheme	(277,696)	(288,381)	(340,819)	(404,022)	<b>(472,304)</b>
<u>(Surplus)/Deficit in the Scheme</u>					
Local Government Pension Scheme	136,960	170,250	208,704	99,282	<b>149,789</b>
Unfunded Teachers Pensions	11,113	11,684	13,120	12,524	<b>13,916</b>
Net liability arising from defined benefit obligation	148,073	181,934	221,824	111,806	<b>163,705</b>



The liabilities show the underlying commitments that the Council has to pay, namely retirement benefits in the long-term. The total liability of £163.705m (2013/14 £111.806m) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet.

However, statutory arrangements for funding the deficit, in that the deficit will be made good by increasing the contributions over the remaining working life of employees as assessed by the Fund actuary, mean that the financial position of the Council remains healthy. The deficit on the North Yorkshire Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

**Basis for Estimating Assets and Liabilities**

In calculating the Council’s assets and liabilities Mercer Human Resource Consulting Ltd., an independent firm of actuaries who are the fund’s actuaries, had to make a number of assumptions about events and circumstances in the future. This means that the results of actuarial calculations are subject to uncertainties within a range of possible values. The liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The liabilities have been assessed by Mercer, with the estimates being based on the latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

	<b>As at 31-Mar-15</b>	As at 31-Mar-14
<b>Post Retirement Mortality Assumptions</b>		
Non-retired members (retiring in the future in normal health)	S1PA CMI 2012 1.5% Tables	S1PA CMI 2012 1.5% Tables
Current pensioners (retired in normal health)	S1PA CMI 2012 1.5% Tables	S1PA CMI 2012 1.5% Tables
<b>Life expectancy</b>		
Of a male future pensioner aged 65 in 20 years time	<b>25.4</b>	25.3
Of a female future pensioner aged 65 in 20 years time	<b>28</b>	27.8
Of a male current pensioner aged 65	<b>23.1</b>	23
Of a female current pensioner aged 65	<b>25.6</b>	25.5

The following shows the inflation factors used:

	As at 31-Mar- 15	As at 31-Mar- 15	As at 31-Mar- 14	As at 31-Mar- 14
	% pa LGPS	% pa UTS	% pa LGPS	% pa UTS
Rate of Inflation	2.0	2.0	2.4	2.4
Rate of increase in salaries	3.5	N/A	3.9	N/A
Rate of increase in pensions	2.0	2.0	2.4	2.4
Discount rate	3.3	3.1	4.5	4.3

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The method and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme

	Increase in assumption £'000	Decrease in assumption £'000
Longevity (increase in 1 year)	11,779	
Rate of inflation (increase by 0.1%)	12,249	
Rate of increase in salaries (increase by 0.1%)	2,998	
Rate of increase in pensions (increase by 0.1%)	12,249	
Rate for discounting scheme liabilities (increase by 0.1%)		(12,013)

**Impact on the Council's Cash Flows**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 27 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on the 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pensions Scheme in England and Wales may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earning schemes to pay pensions and other benefits to certain public servants.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2016 is £14.6m. The weighted average duration of the defined benefit obligation for scheme members is 20 years (20 years in 2013/14).

The Unfunded Teacher's Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets comprised:

	<b>As at 31-Mar- 15 £'000</b>	<b>Percentage Total of asset</b>	As at 31-Mar- 14 £'000	Percentage Total of asset
<b>Equities</b>				
UK quoted	<b>69,901</b>	<b>14.8</b>	82,421	20.4
UK quoted (unitised)	<b>131,773</b>	<b>27.9</b>	111,106	27.5
Global quoted	<b>68,484</b>	<b>14.5</b>	66,664	16.5
Emerging Markets (unitised)	<b>13,225</b>	<b>2.8</b>	10,505	2.6
<b>Bonds</b>				
UK Government fixed	<b>39,674</b>	<b>8.4</b>	20,605	5.1
UK Government indexed	<b>34,478</b>	<b>7.3</b>	26,665	6.6
Overseas Government fixed	<b>1,889</b>	<b>0.4</b>	2,020	0.5
Overseas Government indexed	<b>3,778</b>	<b>0.8</b>	808	0.2
UK Corporate (Unitised)	<b>26,921</b>	<b>5.7</b>	26,665	6.6
Euro Corporate (Unitised)	<b>3,306</b>	<b>0.7</b>	2,020	0.5
International Corporate (Unitised)	<b>1,889</b>	<b>0.4</b>	1,616	0.4
<b>Property</b>				
UK (Unitised)	<b>30,700</b>	<b>6.5</b>	18,989	4.7
<b>Alternatives</b>				
DGF (UK Unitised)	<b>40,618</b>	<b>8.6</b>	31,918	7.9
<b>Cash</b>				
Cash accounts	<b>5,195</b>	<b>1.1</b>	1,414	0.3
Net current assets	<b>472</b>	<b>0.1</b>	-	-
	<b>472,303</b>	<b>100.00</b>	404,022	100.00

The long-term rates of expected return on the investments are as follows:

	<b>As at 31-Mar-15 % pa</b>	As at 31-Mar-14 % pa
Equities	<b>6.50</b>	7.00
Government Bonds	<b>2.20</b>	3.40
Other Bonds	<b>2.90</b>	4.30
Property	<b>5.90</b>	6.20
Cash/liquidity	<b>0.50</b>	0.50
Other	N/A*	N/A*

\* Dependent on type of asset

#### **50. CONTINGENT LIABILITIES**

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No contingent Liabilities have been identified.

#### **51. CONTINGENT ASSETS**

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No contingent assets have been identified.

#### **52. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

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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 Council
- liquidity risk – the possibility that the Council 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 market movements.

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the *Local Government Act 2003* and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following 5 years limiting:

- The Council's overall borrowing;
- Its maximum and minimum exposures to fixed and variable rates;
- Its maximum and minimum exposures to the maturity structure of its debt;
- Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the annual Budget Council or before the start of the year to which they relate. These items are reported in the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, and through a mid year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Budget Council in February 2014 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for the 2014/15 was set at £373.542m. This figure is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary for 2014/15 was set at £343.542m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 116% and -16% based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt are contained within this note.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The Council uses the creditworthiness service provided by Capita Treasury Solutions Ltd. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard & Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2014/15 was approved by Budget Council in February 2014 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by Full Council.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £60.628m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2015 that this was likely to crystallise.

The following analysis summarises the Council's maximum exposure to credit risk on other financial assets, based on experience of default, adjusted to reflect current market conditions.

Maximum Exposure to Credit Risk

	Amount at 31-Mar-15	Historical Experience of Default	Historical Experience Adjusted for Market Conditions at 31-Mar-15	Estimated Maximum Exposure to Default and Uncollectability at 31-Mar-15	Estimated Maximum Exposure at 31-Mar-14
	£000's	%	%	£000's	£000's
Deposit with banks and financial institutions (Maturities <1yr therefore fair value is carrying amount)	60,628	-	-	-	-
Bonds	-	-	-	-	-
Customers	26,273	1.03	1.03	270	342
	<b>86,901</b>			<b>270</b>	<b>342</b>

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for its trade debtors, such that £4.811m of the £26.273m balance is past its due date for payment. The past its due date amounts can be analysed by age as follows:

	31-Mar-15	31-Mar-14
	£000's	£000's
Less than three months	1,775	956
three to six months	395	538
Six months to one year	635	623
More than one year	2,006	1,703
Total	<b>4,811</b>	<b>3,820</b>

### Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need and the PWLB and money markets for access to longer term funds. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial liabilities is as follows:

	<b>31-Mar-15</b>	31-Mar-14
	<b>£000's</b>	£000's
<b>Analysis of loans by maturity:</b>		
Interest Due within one year	<b>(1,961)</b>	(1,849)
Maturing within one year	<b>(12,103)</b>	(9,603)
Maturing in 1 - 2 years	<b>(7,000)</b>	(7,000)
Maturing in 2 - 5 years	<b>(21,000)</b>	(22,000)
Maturing in 5 - 10 years	<b>(41,315)</b>	(33,915)
Maturing in more than 10 years (average maturity 20 years)	<b>(187,800)</b>	(186,200)
Carrying Value Adjustment	<b>911</b>	951
<b>Total</b>	<b>(270,268)</b>	(259,616)

All trade and other payables (£30.821m) are due to be paid in less than one year and are not shown in the table above.

The table below shows the Council loans outstanding split by loan type / lender.

	Interest Rates Payable	<b>31-Mar-15</b>	31-Mar-14
		<b>£000's</b>	£000's
<b>Total Outstanding</b>			
Public Works Loan Board (PWLB)	2.500% - 4.750%	<b>(249,115)</b>	(238,615)
PWLB (Carrying Value Adjustment)		<b>911</b>	951
Royal Exchange Trust Co. Ltd	7.155%	<b>(10,000)</b>	(10,000)
Local Bonds		<b>(2)</b>	(3)
Short Term Loans		<b>(101)</b>	(101)
Dexia Bank LOBO	3.880%	<b>(5,000)</b>	(5,000)
RBS Bank LOBO	3.600%	<b>(5,000)</b>	(5,000)
Interest Owed on Long Term Debt at 31st March		<b>(1,961)</b>	(1,849)
<b>Total</b>		<b>(270,268)</b>	(259,617)

### Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period as approved by Council in the Treasury Management Strategy.

	Approved Min Limit 31-Mar- 15 %	Approved Max Limit 31-Mar- 15 %	Authority Actual at 31-Mar- 15 £000's	Authority Actual at 31-Mar- 15 %	Authority Actual at 31-Mar- 14 £000's	Authority Actual at 31-Mar- 14 %
Less than 1 year	0%	30%	<b>(14,064)</b>	<b>5%</b>	(11,453)	4%
Between 1 and 2 years	0%	30%	<b>(7,000)</b>	<b>3%</b>	(7,000)	3%
Between 2 and 5 years	0%	40%	<b>(21,000)</b>	<b>8%</b>	(22,000)	8%
Between 5 and 10 years	0%	40%	<b>(41,315)</b>	<b>15%</b>	(33,915)	13%
More than 10 years	30%	90%	<b>(187,800)</b>	<b>69%</b>	(186,200)	71%
<b>Total</b>			<b>(271,179)</b>		(260,568)	

### Market Risk

#### Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rate would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).



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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

If interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	<b>31-Mar-15</b>	31-Mar-14
	<b>£000's</b>	£000's
Increase in interest payable on variable rate borrowings	-	-
Increase in interest receivable on variable rate investments	<b>556</b>	492
Impact on Surplus or Deficit on the Provision of Services	-	-
Increase in government grant receivable for financing costs	-	-
Impact on Income and Expenditure Account	<b>556</b>	492
Share of overall impact credited to the HRA	<b>83</b>	74

Decrease in fair value of fixed rate borrowing liabilities

(no impact on surplus or deficit on the provision of services or other CIES)

<b>55,328</b>	12,297
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The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost

**Price risk** - The Council, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

#### **Foreign Exchange Risk**

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

**53. TRUST FUNDS**

The Council administers various trust/third party funds. These funds do not represent assets of the Council and are therefore not included in the Council's Balance Sheet. The balances of these funds are invested with the Council. There are over 20 funds; the table shows the movements in the year, with details on the main trusts following.

	<b>Expenditure</b>	<b>Income</b>	<b>Balance</b>	<b>Balance</b>
	<b>During Year</b>	<b>During Year</b>	<b>at 31-Mar-15</b>	<b>at 31-Mar-14</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Strensall & Towthorpe Village Trust	-	-	-	-
Haughton/Gardiner Trust		(1)	(55)	(54)
Staff Lottery	10		(31)	(41)
Edward Lamb Automoton Clock Legacy	-	-	(24)	(24)
Edmund Wilson Trust	1	(1)	(21)	(21)
Other Funds	21	(21)	(95)	(95)
	<b>32</b>	<b>(23)</b>	<b>(226)</b>	<b>(235)</b>

Edward Lamb donated the **James Cox Automoton Clock** to the Castle Museum in 1982. Mr. Lamb died on 2 May 1986 and in his will left a legacy of £6k to be used and applied by the Museum solely for the maintenance of the said clock.

The **Edmund Wilson Trust Fund** was established upon receipt of a legacy from Edmund Wilson. The fund contributed to the development and construction of Edmund Wilson Swimming Pool. The annual income from the remainder of the fund is distributed to local organisations for "the instruction, promotion and encouragement of all kinds of swimming" in York.

In August 2009 a new Trust Fund was established for the **Staff Lottery** Scheme, half of the money from ticket sales is paid out in prize money and the balance is used for funding staff benefits. Since the commencement of the staff lottery not all the funds have been used and the balance of staff contributions at the end of each year is transferred to a trust fund.

The **Haughton/Gardiner Trust** Fund was amended by 'power of resolution' on 8 August 2001, with consolidation being on 1 September 2002, from the original foundation regulated by will dated 23 July 1770. It also now incorporates six other funds. The income is to be used for the benefit of young people under 25, who are in need of financial assistance.

The **Strensall and Towthorpe** Village Trust Fund was transferred to City of York Council in 1996 following the local government review. The section 52 agreement (dated 12 April 1990) provides for a sports hall/facilities, administered by Strensall and Towthorpe Parish Council.

**SUPPLEMENTARY STATEMENTS**

**HOUSING REVENUE ACCOUNT**

	Note	2014/15 £000's	2013/14 £000's
<b>Income</b>			
Dwellings Rents	(3)	(32,063)	(31,389)
Non-dwelling rents		(613)	(599)
Charges for Services and Facilities		(973)	(894)
Contributions Towards Expenditure		(354)	(387)
Transfer from General Fund		-	-
<b>Total Income</b>		<b>(34,003)</b>	<b>(33,269)</b>
<b>Expenditure</b>			
Repairs and maintenance		6,826	6,751
Supervision and management		7,305	7,707
Rents, Rates, Taxes and Other Charges		253	223
Depreciation and Impairment of non-current assets	(8)	(5,918)	17,943
Debt Management Costs		55	51
Movement in the allowance for bad debts	(4)	206	159
Sums directed by the Secretary of State that are expenditure in accordance with the Code		-	-
Exceptional Items		-	-
<b>Total Expenditure</b>		<b>8,727</b>	<b>32,834</b>
<b>Net Cost of Services included in the Comprehensive Income and Expenditure Statement</b>			
		<b>(25,276)</b>	<b>(435)</b>
<u>Share of Corporate Costs</u>			
HRA share of Corporate and Democratic Core		87	74
HRA share of other amounts included in the Council			
Net Cost of Services but not allocated to specific services		12	26
<b>Net Cost of HRA Services</b>			
		<b>(25,177)</b>	<b>(335)</b>
<b>HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</b>			
Payments to the Government Housing Capital Receipts pool		1,053	955
(Gain) or loss on sale of HRA non-current assets		(1,455)	(1,152)
Interest payable and similar charges		4,567	4,572
Interest and investment income		(216)	(136)
Pensions interest cost and expected return on pension assets	(6)	120	228
Capital grants and contributions receivable		(403)	-
<b>(Surplus)/Deficit on Provision of Services</b>		<b>(21,511)</b>	<b>4,132</b>

	2014/15 £000's	£000's	2013/14 £000's	£000's
<b>Balance on the HRA at the end of the previous year</b>		<b>(12,113)</b>		<b>(12,730)</b>
(Surplus)/Deficit for the year on the HRA Income and Expenditure Statement	<b>(21,511)</b>		4,132	
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>				
Depreciation and impairment charges	<b>5,918</b>		(17,943)	
Revaluation charges			62	
Capital grants applied in year				
Non-current assets written off	<b>(1,840)</b>		(1,844)	
Capital Expenditure funded by the HRA	<b>4,364</b>		2,580	
Income from non-current asset sales	<b>3,295</b>		2,996	
Transfer from Capital Receipts Reserve	<b>(1,052)</b>		(955)	
Transfer to Capital Receipts Reserve	-		-	
Depreciation costs met by MRR	<b>7,349</b>		7,151	
Retirement benefits	<b>441</b>		418	
Pension payments	<b>(537)</b>		(710)	
Applied grants transferred to CAA	<b>403</b>			
Transfer from Capital Adjustment Account				
Accumulated absences	<b>(18)</b>	-	5	-
<b>Net Increase/Decrease before Transfers to or from reserves</b>	<b>(3,188)</b>	-	(4,108)	-
Transfers to/(from) reserves	<b>1,280</b>		4,725	
<b>(Increase)/Decrease in Year on the HRA</b>		<b>(1,908)</b>		<b>617</b>
<b>Balance on the HRA at the end of the current year</b>		<b>(14,021)</b>		<b>(12,113)</b>

## 1. SIGNIFICANCE OF THE STATUTORY HOUSING REVENUE ACCOUNT

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There is a surplus of £21.511m (2013/14 deficit of £4.132m) on the Housing Revenue Account Income and Expenditure Account this decreases to a surplus of £1.908m (2013/14 deficit of £617k) for the year on the Statutory Housing Revenue Account. This is explained as follows.

The HRA Income and Expenditure Account shows the economic cost in the year of providing housing services in accordance with IFRS, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Reserve.

The surplus or deficit on the HRA Income and Expenditure Account is the best measure of the Council's operating financial performance for the year for HRA services. However, the statutory surplus or deficit on the Statutory HRA is also an important amount since it indicates whether the Council added to or drew from the brought forward balance on its Statutory HRA Reserve during the year. This, in turn, affects the amount of the balance on the HRA that the Council can take into account when determining its spending plans on HRA services for the following year.

## 2. LEGISLATIVE BACKGROUND

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The Housing Revenue Account (HRA) shows the major elements of housing revenue expenditure to reflect the Council's activities as landlord: maintenance, administration and capital financing costs, and how these are met by rents and other income. There is also a statutory requirement to show revenue financing of any HRA capital expenditure within the account.

The Local Government and Housing Account 1989 sets out the framework for ring-fencing the HRA, thereby preventing rents being subsidised from the general income of the Council and vice versa.

## 3. GROSS RENTS

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Gross rent income is the total amount due for the year after allowance for voids of £246k (2013/14 £218k) which represents 0.76% (2013/14 0.69%) of the gross rent income including charges for services. Average rents in March 2014 were £75.18 (2013 £72.07) a week. In April an increase of 4.95% (2013 4.36%) was applied increasing the average rent at that time by £3.72 (2013/14 £3.14).

Assistance with rents is available under the Housing Benefits Scheme for those on low incomes. The cost of rebates granted is met by the Council's General Fund not by the HRA.

	2014/15	2013/14
	£000's	£000's
Rents due from Tenants	<b>(13,882)</b>	(13,125)
Rents remitted by Rent Rebates through the Housing Benefit System	<b>(18,181)</b>	(18,264)
<b>Total Rent Income</b>	<b>(32,063)</b>	(31,389)

The Council was responsible for managing 7,796 (2013/14 7,848) dwellings at 31 March. In addition to this total are 225 (2013/14 207) properties that the Council manages on behalf of a Housing Association and 55 (2013/14 80) properties on behalf of private landlords through the social lettings agency, Yorhome, although these properties are not part of the HRA stock.

The HRA stock was made up as shown in the following table:

	Pre 1919	1919/ 1944	1945/ 1964	After 1964	Total
Low Rise Flats	-	539	647	729	1,915
Medium Rise Flats	4	3	826	755	1,588
Houses and Bungalows	18	2,081	1,507	687	4,293
	22	2,623	2,980	2,171	7,796

The movement in the stock in the year can be analysed as follows:

	2014/15			2013/14		
	Houses/ Bungalows	Flats	Total	Houses/ Bungalows	Flats	Total
<b>Operational Stock</b>						
Balance at 1 April	4,325	3,523	7,848	4,359	3,541	7,900
Sales	(33)	(19)	(52)	(34)	(19)	(53)
New Builds/Conversions	-	-	-	-	1	1
Acquisitions	1	-	1	-	-	-
Awaiting Demolitions	-	-	-	-	-	-
Dwellings declared surplus	-	-	-	-	-	-
Dwellings reprovided with Housing Association	-	-	-	-	-	-
Re-categorisation To General Fund	-	-	-	-	-	-
To HRA non-housing stock	(1)	-	(1)	-	-	-
Balance at 31 March	4,292	3,504	7,796	4,325	3,523	7,848



#### 4. PROVISION FOR BAD/DOUBTFUL DEBTS

A provision is made for bad and doubtful debts in accordance with the HRA (Arrears of Rent and Charges) Directions 1990. During 2014/15 rent arrears as a proportion of gross rent income have increased from 2.86% of the amount due to 3.04%. The rent arrears figures are as follows:

		<b>2014/15</b>	2013/14
		<b>£000's</b>	£000's
Arrears at 31 March	- Current tenants	<b>659</b>	546
	- Former tenants	<b>317</b>	351
Amounts Written Off during the Year		<b>120</b>	131
Increased/(Reduced) Provision during the Year		<b>175</b>	158
Provision for Bad and Doubtful Debts		<b>702</b>	647

The rent arrears as a proportion of gross rent income split between current and former tenants is shown in the following table:

	<b>2014/15</b>	2013/14
	<b>%</b>	%
Dwelling rent arrears as a % of gross rent debit		
- Current tenants	<b>2.06%</b>	1.74%
- Former tenants	<b>0.99%</b>	1.12%
	<b>3.04%</b>	2.86%

A bad and doubtful debt provision is made for debts outstanding on rechargeable repairs. The arrears figures are as follows:

	<b>2014/15</b>	2013/14
	<b>£000's</b>	£000's
Arrears at 31 March	<b>13</b>	15
Amounts Written Off during the Year	<b>5</b>	8
Increased/(Reduced) Provision during the Year	<b>10</b>	6
Provision for Bad and Doubtful Debts	<b>18</b>	13

## 5. HRA SHARE OF CORPORATE AND DEMOCRATIC CORE (CDC)

The Code of Practice requires that the HRA includes a proportion of the corporate costs of the Council (CDC). However these costs are not permitted to be a cost to the Statutory HRA and so are reversed out in the Statement of Movement on the Housing Revenue Account.

## 6. IAS19 TRANSACTIONS FOR THE HRA

The HRA share of pension adjustments is based on the proportion of employees charged to the HRA.

The IAS19 transactions included in the HRA are shown in the following table:

	2014/15		2013/14
	£000's	£000's	£000's
<b>Income and Expenditure Account Entries</b>			
<b>Net Cost of HRA Services</b>			
Current service cost	404		448
Past service cost	1		
Curtailment Cost	12		26
		<b>417</b>	<b>474</b>
<b>Financing and Investment Income and Expenditure</b>			
Interest cost	650		618
Expected return on assets in the scheme	(530)		(390)
		<b>120</b>	<b>228</b>
<b>Net Charge to the Income and Expenditure Account</b>		<b>537</b>	<b>702</b>
<b>Statement of Movement on the Housing Revenue Account Balance Entries</b>			
Reversal of net charges made for retirement benefits			
Contribution to/(from) Pensions Reserve		<b>441</b>	418
Actual amount charged to the Housing Revenue Account for Pensions in the year		<b>(537)</b>	(702)

## 7. CONTRIBUTION TO/(FROM) MAJOR REPAIRS RESERVE (MRR)

Councils are required by an amendment to the Accounts and Audit Regulations 1996, to establish and maintain an MRR. The main credit to the reserve is an amount equivalent to the total depreciation charges for all HRA assets. The Item 8 Credit and Item 8 Debit (General) Determination from April 2012 (Item 8 determination), for a transitional period, permits the difference between a notional Major Repairs Allowance (MRA) and depreciation (where dwelling depreciation is greater than the MRA) to be charged to the MRR such that the notional MRA becomes the charge against the HRA balance. Councils are also able to charge capital expenditure directly to the reserve. The following table shows the depreciation charged during the year:

	2014/15 £000's	2013/14 £000's
Dwellings	8,271	8,124
Other Land and Buildings	282	274
Intangible assets	15	-
Infrastructure	1	1
	<b>8,569</b>	8,399
Depcn adj for reversal of revaluation loss - Dwellings	435	-
	<b>9,004</b>	8,399
Reversal of Revaluation loss/Impairment	<b>(14,922)</b>	9,544
	<b>(5,918)</b>	17,943

The following table shows the transfer to the HRA in the year.

	2014/15 £000's	2013/14 £000's
Depreciation on other HRA assets	-	-
Depreciation on dwellings higher than MRA	<b>(1,204)</b>	(1,249)
Total Transfer from MRR	<b>(1,204)</b>	(1,249)

As well as the depreciation credit which must be transferred back to the HRA, councils can also charge capital expenditure directly to the MRR. The following table shows the movement in the year:

	2014/15 £000's	2013/14 £000's
Balance at 1 April	<b>(3,272)</b>	(2,661)
Depreciation on HRA dwellings	<b>(8,271)</b>	(8,124)
Depreciation on other HRA assets	<b>(282)</b>	(275)
Transfer to HRA during the financial year	<b>1,204</b>	1,249
Capital expenditure on houses within the HRA charged to the reserve	<b>7,278</b>	6,539
Balance at 31 March	<b>(3,343)</b>	(3,272)

## 8. MOVEMENT OF FIXED ASSETS

The HRA owns land, houses and other property where the value is included in the Council's balance sheet. The Council dwellings are revalued annually on 1st April to comply with Housing Resource Accounting requirements. The analysis of the movement on the HRA element of the tangible fixed assets is as follows:

### 2014/15 Movement of Fixed Assets

	Council dwellings £000's	Other land and buildings £000's	Vehicles, plant furniture & equipment £000's	Infra-structure Assets £000's	Communi-ty Assets £000's	Surplus £000's	Assets under Cons-truction £000's	Total Property, plant & Equipment £000's	PFI Assets included in Property, plant & equipment £000's
<b>Cost or Valuation (GCA)</b>									
At 1 April 2014	258,127	7,903	-	17	-	4	-	266,051	-
Category Transfer	-	-	-	-	-	-	-	-	-
<b>Revised 1 April 2014</b>	<b>258,127</b>	<b>7,903</b>	<b>-</b>	<b>17</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>266,051</b>	<b>-</b>
Additions	13,289	-	-	-	-	-	-	13,289	-
Acc Dep & Imp WO to GCA	(8,124)	(258)	-	-	-	-	-	(8,382)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	747	418	-	-	-	-	-	1,165	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	13,919	568	-	-	-	-	-	14,487	-
Derecognition - Disposals	(1,840)	-	-	-	-	-	-	(1,840)	-
Derecognition - Other	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	(135)	-	-	-	(10)	-	(145)	-
Assets reclassified (to)/from Investment Property	-	-	-	-	-	10	-	10	-
Other movements in Cost or Valuation	-	-	-	-	-	-	-	-	-
<b>At 31 March 2015</b>	<b>276,118</b>	<b>8,496</b>	<b>-</b>	<b>17</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>284,635</b>	<b>-</b>
<b>Accumulated Depreciation &amp; Impairment</b>									
At 1 April 2014	(8,124)	(26)	-	(3)	-	-	-	(8,153)	-
Category Transfer	-	-	-	-	-	-	-	-	-
Revised 1 April 2014	(8,124)	(26)	-	(3)	-	-	-	(8,153)	-
Depreciation Charge for 2014/15	(8,271)	(281)	-	(1)	-	-	-	(8,553)	-
Acc. Depreciation WO to GCA	8,124	258	-	-	-	-	-	8,382	-
Other movements in Depreciation and Impairment	-	-	-	-	-	-	-	-	-
<b>At 31 March 2015</b>	<b>(8,271)</b>	<b>(49)</b>	<b>-</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,324)</b>	<b>-</b>
<b>Net Book Value</b>									
At 31 March 2015	267,847	8,447	-	13	-	4	-	276,311	-
At 31 March 2014	250,003	7,877	-	14	-	4	-	257,898	-

## 2013/14 Movement of Fixed Assets

	Council dwellings £000's	Other land and buildings £000's	Vehicles, plant furniture & equipment £000's	Infra-structure Assets £000's	Communi-ty Assets £000's	Surplus £000's	Assets under Cons-truction £000's	Total Property, plant & Equipment £000's	PFI Assets included in Property, plant & equipment £000's
<b>Cost or Valuation (GCA)</b>									
At 1 April 2013	259,769	7,886	-	17	-	4	-	<b>267,665</b>	-
Category Transfer	-	-	-	-	-	-	-	-	-
<b>Revised 1 April 2013</b>	<b>259,769</b>	<b>7,886</b>	<b>-</b>	<b>17</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>267,676</b>	<b>-</b>
Additions	8,965	79	-	-	-	-	-	<b>9,044</b>	-
Acc Dep & Imp WO to GCA	-	(257)	-	-	-	-	-	<b>(257)</b>	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	762	201	-	-	-	-	-	<b>963</b>	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(9,525)	(19)	-	-	-	-	-	<b>(9,544)</b>	-
Derecognition - Disposals	(1,844)	-	-	-	-	-	-	<b>(1,844)</b>	-
Derecognition - Other	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	(80)	-	-	-	-	-	<b>(80)</b>	-
Assets reclassified (to)/from Investment Property	-	42	-	-	-	-	-	<b>42</b>	-
Other movements in Cost or Valuation	-	51	-	-	-	-	-	<b>51</b>	-
<b>At 31 March 2014</b>	<b>258,127</b>	<b>7,903</b>	<b>-</b>	<b>17</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>266,051</b>	<b>-</b>
<b>Accumulated Depreciation &amp; Impairment</b>									
At 1 April 2013	-	(9)	-	(2)	-	-	-	<b>(11)</b>	-
Category Transfer	-	-	-	-	-	-	-	-	-
Revised 1 April 2013	-	(9)	-	(2)	-	-	-	<b>(11)</b>	-
Depreciation Charge for 2013/14	(8,124)	(274)	-	(1)	-	-	-	<b>(8,399)</b>	-
Acc. Depreciation WO to GCA	-	257	-	-	-	-	-	<b>257</b>	-
Other movements in Depreciation and Impairment	-	-	-	-	-	-	-	-	-
<b>At 31 March 2014</b>	<b>(8,124)</b>	<b>(26)</b>	<b>-</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,153)</b>	<b>-</b>
Net Book Value									
At 31 March 2014	250,003	7,877	-	14	-	4	-	<b>257,898</b>	-
At 31 March 2013	259,769	7,877	-	15	-	4	-	<b>267,665</b>	-

## 9. VACANT POSSESSION VALUE OF COUNCIL DWELLINGS

In accordance with the Department for Communities and Local Government guidance, council house valuations are reduced from an open market value by a regional adjustment factor in recognition of their status as social housing. From 1 April 2010 the adjustment factor was increased from 53% to 69%, meaning that council houses from 2010/11 are included at 31% of the open market valuation. The council recognises council dwellings at a value of £267.847m (2013/14 £250.003m) on the balance sheet. The vacant possession value of the council dwellings at 1 April 2014 was £827.623m (2013/14 £813.341m). The difference between vacant possession value and balance sheet value of dwellings shows the economic cost to government of providing council housing at less than market rents.

## 10. SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

The capital expenditure to be financed in 2014/15 is £13.387m (2013/14 £9.119m). The analysis of the expenditure and the sources of financing used are set out in the following table:

	2014/15					2013/14				
	Dwellings	Infra-structure	Equipment	Intangibles	Total	Dwellings	Infra-structure	Equipment	Intangibles	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>Total capital expenditure</b>		-			-	6,759	-	33		6,792
<b>Financing</b>										
Borrowing	-	-	-	-	-	-	-	-	-	-
Capital Receipts	(158)	-	-	-	(158)	-	-	-	-	-
Major Repairs Reserve	(7,278)	-	-	-	(7,278)	(6,539)	-	-	-	(6,539)
Grants Revenue Contributions	(1,587)	-	-	-	(1,587)	-	-	-	-	-
	(4,265)	-	-	(99)	(4,364)	(2,482)	-	(98)	-	(2,580)
	(13,288)	-	-	(99)	(13,387)	(9,021)	-	(98)	-	(9,119)

## 11. CAPITAL RECEIPTS

In accordance with Part 1 of the Local Government Act 2003 housing capital receipts are subject to capital pooling requirements. A proportion of dwelling receipts can be retained with the remainder paid to the Government. However, 100% of the value of land sales may be retained if it is to be used for affordable housing. The receipts received can be analysed as follows:

	2014/15			2013/14		
	Council			Council		
	Dwellings £000's	Land £000's	Total £000's	Dwellings £000's	Land £000's	Total £000's
Sales proceeds	(3,248)	(40)	(3,288)	(2,992)		(2,992)
less: administrative costs			-			-
Net proceeds	(3,248)	(40)	(3,288)	(2,992)	-	(2,992)
Right to buy discount repaid	(5)		(5)			-
Mortgage principal repaid	(2)		(2)	(4)		(4)
	(3,255)	(40)	(3,295)	(2,996)	-	(2,996)
of which:						
Usable	(2,202)	(40)	(2,242)	(2,041)		(2,041)
Payable to Housing Pooled Capital Receipts	(1,053)		(1,053)	(955)		(955)
	(3,255)	(40)	(3,295)	(2,996)	-	(2,996)

## 12. INVESTMENT PROPERTIES

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:

	2014/15 £000's	2013/14 £000's
Balance 1 April	2,435	2,477
<b>Additions:</b>		
Acquisitions	-	-
Enhancements	-	-
<b>Disposals</b>	-	-
Net gain or loss on Fair Value		
<b>Transfers:</b>		
From Held for Sale		
To / From Property, Plant & Equipment	(10)	(42)
Other changes	-	-
Balance 31 March	2,425	2,435

**13. ASSETS HELD FOR SALE**

The following table summarises the movement in HRA assets held for sale over the year:

Description	2014/15 £000's	2013/14 £000's
Balance outstanding at Start of Year	<b>80</b>	-
<b>Assets newly classified as Held for Sale :</b>		
Property, Plant and Equipment	<b>145</b>	80
Newly Acquired Assets	-	-
Revaluation Losses	-	-
Revaluation Gains	-	-
Impairment Losses	-	-
<b>Assets declassified as Held for Sale:</b>		
Property, Plant and Equipment	-	-
Investment Properties	-	-
Other Transfers	-	-
Assets Sold	<b>80</b>	-
Transfers from Non-Current to Current	-	-
Changes to Plan to Sell	-	-
Balance outstanding at End of Year	<b>145</b>	80



**COLLECTION FUND**

## INCOME AND EXPENDITURE ACCOUNT

	Note	2014/15 Business Rates £000	2014/15 Council Tax £000	2014/15 Total £000	2013/14 Total £000
<b>Income</b>					
Council Tax Receivable	2	-	(92,241)	(92,241)	(88,347)
Business Rates Receivable	3	(103,429)	-	(103,429)	(95,879)
<b>Total Income</b>		<b>(103,429)</b>	<b>(92,241)</b>	<b>(195,670)</b>	<b>(184,226)</b>
<b>Expenditure</b>					
Apportionment of Prior Year Surplus					
Central Government		14	-	14	-
City of York Council		14	-	14	-
Police & Crime Commissioner North Yorkshire		-	-	-	-
North Yorkshire Fire & Rescue Authority		0	-	0	-
		28	-	28	-
Precepts, Demands and Shares					
Central Government		46,897	-	46,897	46,289
City of York Council		45,959	71,768	117,727	115,073
Parish Councils		-	601	601	580
Police & Crime Commissioner North Yorkshire		-	12,846	12,846	12,466
North Yorkshire Fire & Rescue Authority		938	3,900	4,838	4,710
		93,794	89,114	182,909	179,118
Charges to Collection Fund					
Write Offs		325	284	609	592
Increase/(Decrease) in Bad Debt Provision		559	188	747	(109)
Increase/(Decrease) in Provision for Appeals		3,517	2	3,519	12,184
Cost of Collection		295	-	295	296
Transitional Protection		206	-	206	432
		4,903	474	5,377	13,395
<b>Total Expenditure</b>		<b>98,725</b>	<b>89,587</b>	<b>188,312</b>	<b>192,514</b>
<b>(Surplus)/Deficit Arising In Year</b>		<b>(4,704 )</b>	<b>(2,653)</b>	<b>(7,358)</b>	<b>8,288</b>
(Surplus)/Deficit Brought Forward		9,704	(1,418)	8,286	(3)
<b>(Surplus)/Deficit Carried Forward</b>		<b>5,000</b>	<b>(4,072)</b>	<b>928</b>	<b>8,286</b>

## 1. LEGISLATIVE BACKGROUND

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This fund is an agent's statement that reflects the statutory obligation, under the Local Government Finance Act 1988, for billing authorities (i.e. City of York Council) to maintain a separate Collection Fund. This is a fund specifically for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR or uniform business rates).

The statement shows the transactions of the Council in relation to the collection from taxpayers of sums due for council tax and NNDR, and their distribution to the Council, Police and Crime Commissioner North Yorkshire, North Yorkshire Fire and Rescue, parish councils and central government.

## 2. COUNCIL TAX

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The Council Tax is a charge on domestic property. Each property has been independently valued and put into one of eight bands (A to H). The charge for each property is calculated by reference to the 'band' charge.

The Council Tax base for 2014/15 was 61,574.84 (61,785.28 in 2013/14).

In order to calculate the charge to be levied the estimated number of properties for each band for the year is converted to a Band D Equivalent figure (e.g. 20 band H properties is equivalent to 40 band D properties -  $20 \times 18/9$ ). A new band, band A reduced, has been introduced by the government to allow a discount to be given to those people who are entitled to a one-band discount but who live in a band A property.

This gives the tax base for the Council. The valuation bands, the Band D equivalent figures originally estimated for the year, the year-end Band D equivalent figures and the 2014/15 charges are included in the table below.

In addition, the government makes a contribution for properties classed as "Crown" properties in lieu of paying Council Tax. These contributed £459k (2013/14 £479k) to the Council Tax income.

Property Band	Property Value		Estimated Chargeable dwellings	Proportion of Band D	Estimated Tax Base	Average Charge In Year
A reduced	up to	£40,000	9.72	5/9	5.40	£807.16
A	up to	£40,000	6,041.86	6/9	4,027.91	£968.59
B	£40,000 to	£52,000	17,442.87	7/9	13,566.68	£1,130.03
C	£52,000 to	£68,000	20,579.90	8/9	18,293.24	£1,291.46
D	£68,000 to	£88,000	10,788.32	9/9	10,788.32	£1,452.89
E	£88,000 to	£120,000	6,373.01	11/9	7,789.23	£1,775.75
F	£120,000 to	£160,000	2,945.81	13/9	4,255.07	£2,098.62
G	£160,000 to	£320,000	1,438.12	15/9	2,396.86	£2,421.48
H	over	£320,000	64.02	18/9	128.04	£2,905.78
TOTAL			65,683.63		61,250.74	
Crown Properties					324.10	

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Tax Base for the calculation of Council Tax
61,574.84

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Outstanding arrears that are irrecoverable are written off against the provision for bad and doubtful debts made in prior years, although wherever possible action continues to be taken to recover as much of these sums as possible. During the year arrears of £284k (2013/14 £135k) were written off against the provision for bad/doubtful debts. An annual assessment of the level of arrears and their age and recoverability, the amount to be provided as provision for future write-offs and the value of outstanding appeals against the council tax band that has been awarded for new properties is undertaken. Following this exercise the level of provision set-aside against bad debts on the current level of arrears was increased by £188k (increase in 2013/14 of £254k).

### 3. INCOME FROM BUSINESS RATES

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Under the arrangements for business rates, the Council collects NNDR for its area based on the local rateable value multiplied by a uniform rate. The rateable value at 31 March 2015 was 247,678,158 (2013/14 240,218,340) and the rate for 2014/15 was 48.2p (2013/14 47.1p), with a reduction to 47.1p (2013/14 46.2p) for small businesses. The Council has no control over these values.

The current business rates retention scheme aims to give Council's a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection rates. Instead of paying NNDR to a central pool, local authorities retain a proportion of the collectable rates due. In the case of York the local share is 49% and the remainder is distributed to the preceptors and in the case of York these are 50% to Central Government and 1% to North Yorkshire Fire and Rescue Authority (NYFRA).

The business rates shares payable for 2014/15 were estimated before the start of the financial year as £46.897m (£46.289m in 2013/14) to Central Government, £0.938m (£0.926m in 2013/14) to NYFRA and £45.959m (£45.363m in 2013/14) to City of York Council. These sums have been paid in 2014/15 and charged to the collection fund in year.

The total income from business rate payers collected in 2014/15 was £103.429m (£95.879m in 2013/14). This sum includes £0.206m of transitional protection payments from ratepayers, which under government regulation should have a neutral impact on the business rate retention scheme. This sum has to be repaid to Central Government and therefore increases payments to Central Government to £47.103m.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by the Valuation Office Agency (VAO) and hence business rates outstanding as at 31 March 2015. As such, authorities are required to make a provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. The increase in provision charged to the collection fund for 2014/15 has been calculated at £3.517m.

**4. DISTRIBUTION OF YEAR END (SURPLUS)/DEFICIT**

As set out in note 1 the year-end (surplus)/deficit is distributed to Central Government, City of York Council, the Police and Crime Commissioner for North Yorkshire (NYPCC) and the North Yorkshire Fire and Rescue Council (NYFRA).

	<b>2014/15 Business Rates £'s</b>	<b>2014/15 Council Tax £'s</b>	<b>2014/15 Total £'s</b>	<b>2013/14 Total £'s</b>
Central Government	<b>2,500,017</b>		<b>2,500,017</b>	4,852,062
City of York Council	<b>2,450,017</b>	<b>(3,293,806)</b>	<b>(843,789)</b>	3,605,104
Police & Crime Commissioner North Yorks		<b>(596,714)</b>	<b>(596,714)</b>	(205,823)
North Yorkshire Fire and Rescue Authority	<b>50,000</b>	<b>(181,143)</b>	<b>(131,143)</b>	34,560
	<b>5,000,034</b>	<b>(4,071,663)</b>	<b>928,371</b>	8,285,903

**ANNUAL GOVERNANCE STATEMENT**

## 1. Scope of Responsibility

City of York Council (the council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded 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 also responsible for putting in place proper arrangements for the governance of its affairs, which facilitate the effective exercise of the council's functions and which includes arrangements for the management of risk.

The council has approved and adopted a code of corporate governance, which is consistent with the principles of CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* and the recently published addendum. A copy of the code is in the council's Constitution and on the council's website. This statement explains how the council has complied with the code and also meets the requirements of the Accounts and Audit Regulations to review the systems of internal control and prepare an annual governance statement.

## 2. The Purpose of the Governance Framework

Corporate governance is the system by which the council directs and controls its functions and relates to the communities it serves. The framework for corporate governance recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) identifies six underlying principles of good governance. These principles have been taken from the *Good Governance* framework and adapted for local authorities. They are defined as follows:

- focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- developing the capacity and capability of members and officers to be effective
- engaging with local people and other stakeholders to ensure robust public accountability.

The extent to which the principles of corporate governance are embedded into the culture of the council will be assessed in this statement. Furthermore the council has to be able to demonstrate that it is complying with these principles.

The governance framework comprises the systems and processes, culture and values, by which the council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the council 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 policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to

manage them efficiently, effectively and economically.

**The Purpose of the Governance Framework cont'd**

The governance framework has been in place at the council for the year ended 31 March 2015 and up to the date of approval of the Statement of Accounts for 2014/15.

**3. The Council's Governance Framework**

The requirement to have a robust governance framework and sound system of internal control covers all of the council's activities. The internal control environment within the council consists of a number of different key elements, which taken together contribute to the overall corporate governance framework. The key elements of the governance framework within the council consist of strategic planning processes, political and managerial structures and processes, management and decision making processes, policies and guidance, financial management, compliance arrangements, risk management, internal audit, counter fraud activities, performance management, consultation and communication methods and partnership working arrangements.

Strategic Planning Processes

The council has in place a strategic planning process, informed by community and member consultation, that reflects political and community objectives and acts as the basis for corporate prioritisation. The council's Council Plan expresses the council's priorities until 2015 and priorities and associated milestones are refreshed each year. A new Council plan will be developed following the recent local elections. The council has also developed a standard directorate and service planning process which integrates priority setting with resource allocation and performance management.

Political and Managerial Structures and Processes

The full Council is responsible for agreeing overall policies and setting the budget. The Executive, which meets monthly, is responsible for decision making within the policy and budget framework set by full Council. The Corporate Management Team (CMT), which meets weekly, has responsibility for implementing council policies and decisions, providing advice to members and for coordinating the use of resources and the work of the council's directorates. The Executive and CMT monitor and review council activity to ensure corporate compliance with governance, legal and financial requirements. The Chief Finance Officer (Director of CBSS) (Customer and Business Support Services) and the Monitoring Officer (Head of Legal and ICT) review reports before they are presented to the Executive to ensure that all legal, financial and other governance issues have been adequately considered.

The council implemented new scrutiny arrangements during 2009/10 and continues to seek to develop and improve these arrangements.

There is an Audit and Governance Committee which acts as the responsible body charged with governance on behalf of the Council. In doing so it provides independent assurance on the adequacy of the risk management framework and the associated control environment, independent scrutiny of the council's financial and non-financial performance to the extent that it affects the council's exposure to risk and weakens the control environment, it oversees the financial reporting process and approves the Final Statement of Accounts.

A Joint Standards Committee comprising members of the City Council and Parish Councils is responsible for promoting good ethical governance within the organisation and within local Parish Councils. The Standards Committee is also responsible for adjudicating in cases where a



complaint is made against a Member of either, the City of York Council, or the parish councils within its administrative boundary. The council has appointed independent persons to assist in making decisions on complaints and in promotion of high standards generally.

#### **The Council's Governance Framework cont'd**

During the year the Local Government Association (LGA) carried out a peer review into member-officer relations. This resulted in members signing up to an Action plan to address the recommendations set out in the report.

The Office of the Surveillance Commissioners undertook a periodic inspection of the Council's surveillance arrangements and found:

“Overall the City of York Council is compliant with the legislation and its officers are enthusiastic that they remain so”. The OSC made recommendations for further improvement which are being implemented

The Council is committed to making further improvements in Information Governance, and has asked the Information Commissioner to carry out an Audit during 2015 to identify any further improvements that can be made.

The Audit and Governance and Standards Committees have committed to working together to improve the oversight of corporate governance

#### Management and Decision Making Processes

As part of the refreshed strategic council plan, a core organisational capability is included as a priority theme, ensuring that the organisation is adequately equipped to deal with financial, organisational, employee and Customer priorities. The Council has a Workforce Strategy which sets out the way the Council will develop the skills of our staff to effectively deliver our priorities.

Corporate management and leadership at officer level is led by CMT, and is supported and developed through the Corporate Leadership Group (CMT plus Assistant Directors). Decisions are operated in accordance with the Council's constitution.

#### Policies and Guidance

Specific policies and written guidance exist to support the corporate governance arrangements and include:

- The council's Constitution
- Codes of Conduct for Council Members and Council Officers
- Protocol on Officer/Member Relations
- Financial Regulations and Procurement Rules
- Member and Officer Schemes of delegation
- Registers of Council Members' interests, gifts and hospitality
- Registers of Council Officers' interests, gifts and hospitality
- Corporate policies, for example those relating to Whistle blowing, the Prosecution of Fraud and Corruption and dealing with complaints
- Asset Management Plan
- Strategic Risk Register
- The Council's Business Model (2009 version).

Many codes and protocols form part of the constitution and are monitored for effectiveness by the

Officer Governance Group . Amendments to the constitution are normally scrutinised by the Audit & Governance Committee prior to approval by full Council.

### Financial Management

The Director of Customer & Business Support Services (as the Section 151 Officer) has the overall statutory responsibility for the proper administration of the council's financial affairs, including making arrangements for appropriate systems of financial control.

#### **The Council's Governance Framework cont'd**

The council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) in that:

- he is a key member of the Corporate Management Team, helping it to develop and implement strategy and to resource and deliver the council's strategic objectives sustainably and in the public interest;
- he is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and aligned with the council's financial strategy; and
- he leads the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

In delivering these responsibilities:

- he leads and directs a finance function that is resourced to be fit for purpose; and
- he is professionally qualified and suitably experienced.

The council operates a system of delegated financial management within a corporate framework of standards and financial regulations, comprehensive budgetary control systems, regular management information, administrative procedures (including the segregation of duties) and management supervision. The financial management system includes:

- A Medium Term Financial Plan highlighting key financial risks and pressures on a 5 year rolling basis
- An annual budget cycle incorporating Council approval for revenue and capital budgets as well as treasury management strategies
- Annual Accounts supporting stewardship responsibilities, which are subjected to external audit and which follow best professional practice as set out in the Chartered Institute of Public Finance and Accountancy's guidance and International Financial Reporting Standards
- Joint budget and performance monitoring as outlined in the section on Performance Management below.

### Compliance Arrangements

Ongoing monitoring and review of the council's activities is undertaken by the following officers to ensure compliance with relevant policies, procedures, laws and regulations:

- The Section 151 Officer
- The Monitoring Officer
- The Head of Internal Audit
- Finance officers and other relevant service managers.

The Council's Monitoring Officer has a statutory responsibility for ensuring that the council acts lawfully and without maladministration.

Compliance with the council's governance arrangements is subject to ongoing scrutiny by the external auditors, Mazars and other external agencies. The Officer Governance Group (OGG) also monitors, reviews and manages the development of the council's corporate governance arrangements. The group includes the Section 151 Officer, the Monitoring Officer and the Head of Internal Audit as well as other key corporate officers and is responsible for drafting the Annual Governance Statement on behalf of the Audit & Governance Committee.

### **The Council's Governance Framework cont'd**

#### Risk Management

The council has adopted a formal system of Risk Management. Although responsibility for the identification and management of risks rests with service managers, corporate arrangements are co-ordinated by the Risk Management Service to ensure that:

- the council's assets are adequately protected
- losses resulting from hazards and claims against the council are mitigated through the effective use of risk control measures
- service managers are adequately supported in the discharge of their responsibilities in respect of risk management.

The system of risk management includes the maintenance of a risk register, to which all directorates have access. The risk register includes corporate, operational, project and partnership risks, in accordance with best practice in local government. The risk register is used to monitor risks and identify appropriate action plans to mitigate risks. Relevant staff within the Council have also received training, guidance and support in risk management principles. These risk management arrangements and the Corporate Risk Register containing the Council's key strategic risks are monitored by CMT and the Audit & Governance Committee.

#### Internal Audit and Fraud

The council also operates internal audit and fraud investigation functions in accordance with the Accounts and Audit Regulations and the Public Sector Internal Audit Standards. The service in 2014/15 was provided by Veritau Limited, a shared service company established by the City of York and North Yorkshire Councils. Veritau's Internal Audit & Counter Fraud Team undertakes an annual programme of review covering financial and operational systems and including systems, regularity, and probity audits designed to give assurance to members and managers on the effectiveness of the governance, risk management and control environment operating within the council. Through its work the team also provides assurance to the Section 151 Officer in discharging his statutory review and reporting responsibilities. In addition the team:

- provides advice and assistance to managers in the design, implementation and operation of controls
- helps to maintain the council's counter fraud arrangements including policy framework
- supports managers in the prevention and detection of fraud, corruption and other irregularities.

#### Performance Management

The council recognises the importance of effective performance management arrangements and established the Business Intelligence Hub, within the Office of the Chief Executive. It has a Performance Management Framework (PMF), which sets out the formal arrangements for effective performance management at a directorate and corporate level, including both service and finance based monitoring. Each directorate reports finance and performance monitoring progress to members through the established Scrutiny arrangements.

Finance and Performance monitoring is reported regularly at CMT and Executive, and there is ongoing regular discussion of financial performance at CMT to ensure that the Council is able to manage the major savings programmes.

### **The Council's Governance Framework cont'd**

#### Consultation and Communication Methods

The council communicates the vision of its purpose and intended outcomes for all stakeholders to enable accountability and encourage open consultation. To enable this, analysis of the council's stakeholders is undertaken and relevant and effective channels of communication are developed. The Council has in place an Engagement Strategy. Examples of communication and consultation include:

- communication of community and corporate strategies
- publishing an annual Statement of Accounts and Performance Report to inform stakeholders and services users of the previous year's achievements and outcomes
- the annual report on the performance of the scrutiny function
- opportunities for the public to engage effectively with the council including attending meetings
- public consultation events – in the Council offices, public transport and supermarkets
- regular residents' surveys
- publications such as Your Voice and Your Ward
- involvement in devolved budget decision-making at ward level
- budget and other consultation processes
- customer feedback through the council's complaints procedure or other direct service feedback processes.

#### Partnership working arrangements

The overall governance framework established by the council contributes to effective partnership and joint working arrangements.. The council has developed methodology and protocols during the year to ensure that partnerships operate effectively across the Council.

### **4. Review of Effectiveness**

The council has responsibility for conducting, at least annually, a review of the effectiveness of its systems of internal control. In preparing this Statement a review of corporate governance arrangements and the effectiveness of the council's systems of internal control has been undertaken. This review has been co-ordinated by the Officer Governance Group, which comprises the Director of Customer & Business Support Services (the Section 151 Officer), the Assistant Director of Customer & Business Support Services - Governance & ICT (the Monitoring Officer), and the Head of Internal Audit (Veritau Ltd). The review included consideration of:

- the adequacy and effectiveness of key controls, both within individual directorates and across the council
- any control weaknesses or issues identified and included on the Disclosure Statements signed by the Section 151 Officer and Monitoring Officer

- any control weaknesses or issues identified and included in the annual report of the Head of Internal Audit, presented to the council's Audit and Governance Committee
- significant issues and recommendations included in reports received from the external auditors, Mazars/ or other inspection agencies
- the results of internal audit and fraud investigation work undertaken during the period
- the views of those members and officers charged with responsibility for governance, together with managers who have responsibility for decision making, the delivery of services and ownership of risks
- the council's risk register and any other issues highlighted through the Council's risk management arrangements
- the outcomes of service improvement reviews and performance management processes
- progress in dealing with control issues identified in the 2013/14 Annual Governance Statement.
- The councils counter fraud strategy and the level of conformance to the CIPFA code of practice on managing the risk of fraud and corruption

Having considered all the principles, we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

## 5. Significant Governance Issues

### General Comments and Financial Matters

The following are general matters that attention is drawn to, but which are not specifically considered as a weakness in Governance. They relate to overarching issues, or specific matters which the Council's Statement of Accounts will address.

- **Financial Pressures** - The financial pressures facing the Council naturally represent a potential risk to the Council's overall Governance arrangements. Savings have been made in recent years in many areas that form a part of the Governance Framework, including reductions in finance, ICT, performance, ward committees, Democratic services, and internal audit, and significant further savings across all areas will be required which themselves increase risks. Whilst crucial elements of the framework will be prioritised, there will be a need to keep under review the overall impact of the budget reductions to ensure that the overall Governance Framework remains effective.
- **Significant Matters within the accounts (e.g. liabilities)** - As first highlighted within the 2013/14 AGS there are ongoing issues in respect of Lendal Bridge/ Coppergate in terms of repayment of fine income which has been subject to public interest. The Committee received a report on Lendal Bridge during the year, and the financial issues will continue to be considered/ addressed as part of the preparation of the Statement of Accounts and reports to the Executive.

### Review of 2013/14 Significant Issues

- (i) Areas no longer considered a major concern

A review has been undertaken of the significant internal control issues that were contained within the 2013/14 AGS. The following items have all made significant progress/improvement and are no longer considered to be significant concerns:

- **Partnership Governance** – The Committee received a progress report during the year setting out the work that has taken place to ensure the council has a methodology and approach to ensure that partnerships across the council continue to operate effectively.
- **Adult Social Care**- The Committee received two update reports during the year updating Members on the progress being made by Adult Social Care as part of their Action Plan in response to External Audit recommendations and continuing demographic growth and financial constraints. In taking this item off it reflects progress against the review undertaken by External Audit. It does not however mean that there are not significant financial/operational issues associated with Adult Social Care, but these issues are more a general financial risk than a specific control/governance issue.

(ii) Areas where concerns still remain

The following areas were included in the 2013/14 AGS as significant Governance matters, and whilst there has been progress made, there remains some concerns/ongoing risks. The progress is identified below, along with the recommended actions.

- **Information security** – The council has worked to communicate its Information security policies during the year, however, due to the nature of the issue there remains ongoing risks in terms of the control of data, particularly in electronic form, and risks of financial, service and reputational damage. It is therefore recommended that the Committee continue to receive reports on this matter though out the year.
- **Absence Management Process** – The Committee received a report during the year setting out actions planned to address improvements required in the Council wide process for accurately reporting and managing absences. Further time is required however to embed the improvements desired, therefore it is recommended Members receive a further report during the year to confirm sufficient improvements have been made.

#### New Issues

One new area has been identified through the effectiveness review at Section 4 above and is outlined below with details of the plans which will be monitored by the OGG, and the Audit and Governance Committee during 2015/16 for evidence of improvement:

- **Role of Scrutiny/ Executive/Audit Committee in managing risk/ major projects**  
Improvements are considered necessary to the role Scrutiny/ Executive/Audit Committee play in proactively managing the risks and governance issues, and monitoring progress, around all major projects.  
It is recommended that the Committee receive a report during the year addressing potential improvements that can be made and implemented.

In summary:

- Good progress has been made to address a range of issues identified in last year's Annual Governance Statement, and details of the work done have been reported to the Committee during the last 12 months.
- The following areas are identified as major areas requiring focus by the Committee in the next 12 months :-
  - Information Security,
  - Absence Management
  - Role of Scrutiny/ Executive/Audit Committee in managing risk/ major projects

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed  Dated 20/08/15  
S Stewart  
Acting Chief Executive

Signed  Dated 20/08/15  
Cllr C Steward  
Leader of the Council

GLOSSARY



### **Accounting Concepts**

The fundamental accounting principles that are applied to ensure that the Statement of Accounts 'present fairly' the financial performance and position of the Council.

### **Accounting Period**

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the balance sheet date, 31 March.

### **Accounting Policies**

Accounting Policies and estimation techniques are the principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are to be reflected in its financial statements. An accounting policy will, for example, specify the estimation basis for accruals where there is uncertainty over the amount.

### **Accruals**

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

### **Accruals Basis**

The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made

### **Actuarial Gains and Losses**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses which arise because either events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) or the actuarial assumptions have changed.

### **Agency**

The provision of services by one body (the Agent) on behalf of, and generally reimbursed by, the responsible body.

### **Amortisation**

The gradual elimination of a debt by periodic payments over a specified number of years.

### **Appropriation of Land or Buildings**

The transfer of a holding of land or buildings from one service area to another, at current market value.

### **Asset**

Something of worth which is measurable in monetary terms. These are normally divided into current assets and fixed assets.

### **Assets Under Construction**

This is the value of work on uncompleted tangible fixed assets at the balance sheet date.

## **Authorised Limit**

The level of external debt that the Council may have. This limit cannot be breached in any circumstances and is set annually by the Council.

## **Balance Sheet**

A statement of the recorded assets, liabilities and other balances of the Council at the end of the accounting period.

## **CDS**

Credit Default Swap

## **Capital Charge**

A charge to service revenue accounts to reflect the cost of utilising fixed assets in the provision of services.

## **Capital Expenditure**

Expenditure on the acquisition of fixed assets that will be of use or benefit to the Council in providing its services beyond the year of account or expenditure that adds to, and does not merely maintain, an existing fixed asset.

## **Capital Expenditure charged to Revenue Account (CERA)**

A method of financing capital expenditure in the accounting period rather than over a number of years.

## **Capital Financing**

The method by which money is raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing (CERA), usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

## **Capital Adjustment Account**

The balance on this account principally represents amounts set aside from revenue accounts, capital receipts used to finance capital expenditure and the excess of depreciation over the Minimum Revenue Provision.

## **Capital Programme**

The capital schemes the Council intends to carry out over a specified time period.

## **Capital Receipts**

Money received from the sale of fixed assets, or other money received towards capital expenditure. A specified proportion of this may be used to finance new capital expenditure.

## **Cash Flow Statement**

A statement summarising the inflows and outflows of cash, arising from transactions between the Council and third parties, for revenue and capital purposes.

## **Charging Council**

The Council responsible for administering the Collection Fund, including raising bills for and collecting the appropriate council tax and national non-domestic rates (NNDR).

## **Cipfa Accounting Code of Practice**

Guidance issued by CIPFA to ensure Local Authorities comply with IFRS.

## **Collection Fund**

A fund administered by the Charging Authorities into which is paid council tax and NNDR income and outstanding community charge income. Precepts are paid from the fund to Precepting Authorities, including the Charging Council, and the NNDR collected is paid to the Government.

## ***Commutation Option***

This is an option available from 6 April 2006 to members of the North Yorkshire Pension Fund to take a larger lump sum on retirement in exchange for a smaller future pension payment.

## **Community Assets**

Assets that the Council intends to hold in perpetuity that have no determinable useful life, or that may have restrictions on their disposal. Examples of such items are parks, historic buildings and the bar walls.

## **Community Charge**

A flat rate charge which was payable by all registered chargepayers within the Council's area. The income from the charge was used to finance a proportion of the Council's expenditure.

## **Consistency**

The concept that the accounting treatment of like items, within an accounting period, and from one period to the next, is the same.

## **Contingent Asset**

A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

## **Contingent Liability**

A possible liability that can be the result of either a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control or a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

## **Corporate and Democratic Core**

The corporate and democratic core comprises all activities that the Council engages in specifically because it is an elected, multi-purpose Council. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. The code of practice, therefore, does not require these costs to be apportioned to services.

**Council Tax**

A charge on residential property within the Council's area to finance a proportion of the Council's expenditure.

**Council Tax Requirement**

This is the estimated revenue expenditure on General Fund services that needed to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves.

**Creditors**

Amounts owed by the Council for work done, goods received or services rendered within the accounting period but for which payment was not made at the balance sheet date.

**Current Assets**

Assets that can be expected to be consumed or realised (cease to have material value) during the next accounting period.

**Current Liabilities**

Amounts that will become due or could be called upon during the next accounting period.

**Current Service Cost**

The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.

**Curtailement**

For a defined benefit pension scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments can include termination of employees' services earlier than expected (due to ceasing an activity) and termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

**Debtors**

Amounts due to the Council for goods or services provided within the accounting period but not received at the balance sheet date.

**Deferred Consideration**

Expenditure which is determined precisely at the time of the acquisition of an asset, but where the payment is delayed for a defined period.

**Deferred Credits**

Amounts due to the Council from the sale of fixed assets that are not receivable immediately on sale, but will be received in instalments over agreed periods of time.

### **Deferred Debtors**

Amounts due to the Council that are not expected to be repaid in full within the next accounting period.

### **Deferred Liabilities**

These are liabilities which, by arrangement, are payable beyond the next year, either at some point in the future or by an annual sum over a period of time.

### **Defined Benefit Pension Scheme**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

### **Defined Contribution Pension Scheme**

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

### **Depreciation**

The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing-out, using up or other reduction in the useful life of a fixed asset. This can arise from use, passing of time or obsolescence through, for example, changes in technology or demand for the goods and services provided by the asset.

### **Earmarked Reserves**

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

### **Economic Infrastructure Fund (EIF)**

A fund set up to deliver economic benefits for the city.

### **Emoluments**

These are all sums paid to, or receivable by, an employee and sums due by way of expenses allowances (as far as these sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either the employer or the employee are excluded.

### **Exceptional Items**

Material items which derive from events or transactions which fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation to the accounts.

## **Expected Rate of Return on Pension Assets**

This applies to a funded defined benefit pension scheme and is the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

## **Extraordinary Items**

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items nor do they include any prior period items merely because they relate to a prior period.

## **Fixed Asset Register (FAR)**

A system that allows the council to measure and record assets in line with International Financial Reporting Standards and the IFRS-based code of practice on local authority accounting in the United Kingdom (the code).

## **Fees and Charges**

Income arising from the provision of services.

## **Financial Instruments and the Financial Instruments Adjustment Account (FIAA)**

Financial Instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another. They refer to both financial assets and financial liabilities and includes both the straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives. The FIAA is a balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments.

## **Financial Regulations**

These are the written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

## **Financial Year**

Period of time to which a Statement of Accounts relates. The financial year of the Council runs from 1 April to 31 March.

## **Fixed Assets**

Tangible and intangible assets that can be expected to be of use or benefit to the Council in providing its services for more than one accounting period.

## **General Fund**

The main account of the Council that records the costs of service provision except those shown in the Housing Revenue Account and the Collection Fund.

### **Going Concern**

The concept that the Council will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

### **Government Grants**

Payments by central government towards the cost of Local Council services either specifically (e.g. improvement grants) or generally (e.g. revenue support grant).

### **Gross Carrying Amount**

Amount at which fixed assets are included in the notes, prior to the provision for accumulated depreciation.

### **Heritage Asset**

A tangible asset with historical, artistic, scientific, technological, geophysical

### **Housing Revenue Account (HRA)**

A separate account to the General Fund recording all the transactions relating to the provision of council houses.

### **Impairment**

A reduction in the value of a fixed asset below its current value on the Council's balance sheet.

### **Income and Expenditure Account**

The Income and Expenditure Account combines the income and expenditure relating to all the Council's functions including the General Fund and the Housing Revenue Account.

### **Infrastructure Assets**

These are fixed assets that are inalienable, i.e. expenditure on assets that cannot be sold, but where there is economic benefit over more than one year to the Council. Examples of infrastructure are highways and footpaths.

### **Intangible Fixed Asset**

These are assets which do not have a physical substance, e.g. computer software, but which yield benefits to the Council, and the services it provides, for a period of more than one year.

### **Interest Cost**

This relates to a defined benefit pension scheme. The expected increase during the period is the present value of the scheme liabilities because the benefits are one period closer to settlement.

### **International Financial Reporting Standards (IFRS)**

Accounting standards set by the International Accounting Standards Board. The standards provide guidance and advice for the preparation of financial statements.

### **Inventories**

Amounts of unused or unconsumed stocks held in expectation of future use. Inventories are comprised of the following categories:

- Goods or other assets purchased for resale
- Consumable stores
- Raw materials and components
- Products and services in intermediate stages of completion
- Finished goods

### **Investment**

An investment is considered to be long term if it is intended to be held for use on a continuing basis in the activities of the Council. Investments should be classified as such only where an intention to hold the

investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments that do not meet the above criteria should be classified as current assets.

### **Investment Properties**

An interest in land and/or buildings where construction work and development has been completed and which is held for its investment potential, any rental income being negotiated at arms length.

### **Leasing**

A method of financing capital expenditure where a rental charge is paid for the asset over a specified period of time.

### **Lenders Option Borrowers Option (LOBO)**

A LOBO loan is a loan that permits the lender to nominate a revised interest rate payable on the debt at periodic dates and also gives the borrower the option as to whether to pay the revised rate or repay the debt in its entirety.

### **Liability**

An account due to an individual or organisation that will be paid at some future date.

### **Liquid Resources**

Current investments that are readily disposable by the Council without disrupting its business and are readily convertible to cash.

### **Materiality**

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

### **Minimum Revenue Provision (MRP)**

The minimum amount which must be charged to the Council's revenue accounts each year and set aside as a provision to meet the Council's credit liabilities.

### **Monitoring Officer**

Under the provisions of the Local Government and Housing Act 1989 Councils have a duty to appoint a Monitoring Officer to ensure the lawfulness and fairness of Council decision making. Councils may



choose who to designate as Monitoring Officer except that it may not be the Head of Paid Service (Chief Executive). In York the Monitoring Officer is Andrew Docherty, Assistant Director IT & Governance.

## **National Non-Domestic Rates (NNDR)**

An NNDR poundage is set annually by central government and collected by Charging Authorities. The proceeds are redistributed by the government between Local Authorities.

## **Net Book Value**

Amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

## **Non-Operational Assets**

These are fixed assets owned by the Council, but not directly occupied, used or consumed in the delivery of Council services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, awaiting sale or redevelopment.

## **Operational Assets**

These are fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

## **Operational Boundary**

This is a measure of the most money the Council would normally borrow at any time during a financial year. It may be exceeded temporarily, but a regular pattern of borrowing above this level should be avoided.

## **PA92**

These are tables of figures used by actuaries for standard mortality reflecting mortality experience in the period 1991-94, with assumptions for future rates of change. The 'mc' to 'medium cohort' which was introduced to reflect the increased life expectancy of a specific age group of retirees.

## **Past Service Cost**

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

## **Post Balance Sheet Events**

Events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible finance officer.

## **Precept**

The amount that a Precepting Council requires from a Charging Council to meet its expenditure requirements.

**Precepting Council**

Local Authorities, including parish councils and police authorities, which cannot levy a council tax directly on the public but have the power to precept Charging Authorities (District Councils).

**Prior Year Adjustments (or Prior Period Adjustments)**

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring conditions or adjustments of accounting estimates made in prior years.

**Provisions**

Amounts set aside in the accounts for future liabilities that are likely to be incurred, but which cannot accurately be quantified.

**Prudence**

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

**Prudential Indicators**

The Local Government Act 2003 specifies a number of prudential indicators covering both capital and treasury management activities which Councils must set as part of their budget process. They are designed to show the affordability of the capital programme and that the Council's borrowing is prudent and sustainable.

**Public Works Loan Board (PWLB)**

A government agency that lends money to public bodies for capital purposes. At present nearly all borrowers are local authorities. Monies are drawn from the National Loans Fund and rates of interest are determined by the Treasury. Councils are free to borrow as much as they like from the PWLB provided that it is prudent, affordable, sustainable and within the prudential indicators set at full council.

**Realisable Value**

The value of the asset at existing use, if sold between a willing buyer and a willing seller.

**Related Party**

Two or more parties are related where one party has control or is able to influence the financial or operational policies of another.

**Reserves**

Amounts set aside in the accounts for the purpose of defraying particular future expenditure. A distinction is drawn between reserves and provisions, which are set up to meet known liabilities.

**Residual Value**

The net realisable value of an asset at the end of its useful life. Residual values are based on current prices at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

### **Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

### **Revaluation Reserve**

This account contains surpluses and losses arising from the periodic valuation of fixed assets.

### **Revenue Expenditure**

Expenditure incurred on the day-to-day running of the Council. This mainly includes employee costs, general running expenses and capital financing costs.

### **Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure which may be properly capitalised, but which does not result in, or remain matched with, tangible fixed assets.

### **Revenue Support Grant (RSG)**

A general central government grant paid to the Income and Expenditure Account in support of the Charging Council's revenue expenditure.

### **Scheme Liabilities**

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

### **Section 151 Officer (S151)**

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2003 to ensure that the Council's budgeting, financial management, and accounting practices meet relevant statutory and professional requirements. Furthermore section 25 of the Local Government Act 2003 requires the Section 151 Officer to comment on the robustness of the budget estimates and the adequacy of reserves. In York the Section 151 Officer is Ian Floyd, Director of Customer and Business Support Services.

### **Service Reporting Code of Practice (SeRCOP)**

Prepared and published by CIPFA, the Service Reporting Code of Practice (SeRCOP) replaced the previous Best Value Accounting Code of Practice (BVACOP). It is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SeRCOP establishes proper practices with regard to consistent financial reporting for services and in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.

### **Settlement**

An irrevocable action that relieves the employer (or the defined benefit pension scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements can include: a lump-sum cash payment to

scheme members in exchange for their rights to receive specified pension benefits; the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

## **Subsidiary**

This is an entity over which the reporting Authority is able to exercise control over operating and financial policies and is able to gain benefits from the entity or is exposed to the risk of potential losses arising from this control.

## **Support Services**

The costs of departments that provide professional and administrative assistance to services.

## **Tangible Fixed Assets**

These are assets with a physical substance that yield benefits to the Council and the services it provides for a period of more than one year.

## **Temporary Borrowing/Investment**

Money borrowed or invested for an initial period of less than one year.

## **Trading Services**

These are activities of the Council where the workers are directly employed to carry out specified tasks. Such organisations were formerly known as Direct Service Organisations (DSO). In York the work is undertaken under the name of Neighbourhood Services.

## **Treasury Management**

This is the process by which the Authority controls its cash flow and its borrowing and lending activities.

## **Trust Funds**

Money owned by an individual or organisation that is administered by the Council.

## **Unapportionable Central Overheads**

These are overheads from which no user benefits, therefore they cannot be allocated to a service area.

## **Useful Life**

The period over which the Council will derive benefits from the use of an asset.

## **Vested Rights**

In relation to a defined benefit pension scheme these are for active members, benefits to which they would unconditionally be entitled on leaving the scheme, for deferred pensioners, their preserved rights and for pensioners, pensions to which they are entitled.

## **Work in Progress**

The value of work done on an uncompleted project that has not been recharged to the appropriate account at the balance sheet date.

**Write Out**

Removal of an Asset by charging to the CIES, or reversal of accumulated depreciation against a fixed asset on revaluation of that asset.

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# Audit Completion Report

City of York Council – year ended 31 March 2015

September 2015



Mazars LLP  
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Aykley Heads  
Durham  
DH1 5TS

Audit and Governance Committee  
City of York Council  
West Offices  
Station Rise  
York  
YO1 6GA

10 September 2015

Dear Audit and Governance Committee members

**Audit Completion Report – Year ended 31 March 2015**

We are delighted to present our Audit Completion Report for the year ended 31 March 2015. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented on 25 March 2015. We have reviewed the significant audit risks and areas of management judgement included in our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

This document will be presented to the Audit and Governance Committee on 23 September 2015. If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300 or [gareth.davies@mazars.co.uk](mailto:gareth.davies@mazars.co.uk).

Yours faithfully

Gareth Davies  
Partner  
Mazars LLP



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*Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and we take no responsibility to any member or officer in their individual capacity or to any third party.*

*Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.*

## 01 Executive summary

### Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2015 to the Audit and Governance Committee of City of York Council and forms the basis for discussion at the Audit and Governance Committee meeting on 23 September 2015.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing City of York Council; and
- receive feedback from yourselves as to the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 3 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 4 and a summary of misstatements discovered as part of the audit in section 5.

### Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2015.

At the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of North Yorkshire Pension Fund (Deloitte LLP) over IAS 19 (pensions) related entries in the financial statements. We will provide an update to you in a follow up letter to this report should any issues arise in relation to this matter.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 2 October 2015.

Our proposed audit report is set out in Appendix B.

## 02 Commentary on the financial statements

### Comprehensive Income and Expenditure Statement (CIES)

The CIES shows the cost of providing services for 2014/15 prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2014/15. The statement shows a surplus for the year for the provision of services of £9.8m. As with other local authorities the statement differs from the Council's reported performance on its revenue budget for 2014/15 because of items of expenditure which are correctly charged to CIES under accounting rules but are not charged to the General Fund under statute.

The Council's performance against its revenue budget is set out in the Explanatory Foreword to the Statement of Accounts. The outturn position represented a net underspend on the revenue budget of £0.7m.

The CIES then accounts for other items, primarily the gains arising from the revaluation of Property, Plant and Equipment and a significant actuarial adjustment in the defined benefit liability for pensions, and the bottom line result on the CIES is a deficit of £33.2m.

### Movements in Reserves Statement (MIRS)

The MIRS takes the deficit on the provision of services of £33.2m, and adjusts it for the entries in the CIES that were required under accounting rules, but which are not chargeable to the General Fund under statute.

Note 7 to the financial statements sets out the adjustments between the accounting basis and the funding basis.

The MIRS statement culminates in the closing balance on each of the Council's reserves. Total Usable Reserves represent real resources available to the Council. Between 31 March 2014 and 31 March 2015 these increased from £91.1m to £96.0m. The General Fund balance, which is available to meet unforeseen circumstances, increased from £7.1m to £8.1m.

### Housing Revenue Account (HRA)

The HRA shows the financial performance of the Council's ring-fenced housing provision. The statement shows a surplus for the year for the provision of services of £21.5m. As with the CIES, this position differs from the Council's reported performance on the HRA for 2014/15 because of items of expenditure which are correctly charged to HRA under accounting rules but are not charged to the HRA under statute.

The HRA performance against its revenue budget is set out in the Explanatory Foreword to the Statement of Accounts. The outturn position represented a net underspend on the revenue budget for 2014/15 of £1.3m. The overall HRA balance increased by £1.9m to £14.0m.

### Capital expenditure

The Council's capital programme aims to ensure that the city has the assets and infrastructure it needs, within the limits of affordability. Capital expenditure in 2014/15 was £48.2m, and £25.6m of this was financed from capital grants and contributions.

### Balance Sheet

The Balance Sheet shows the value of the Council's assets and liabilities on a single date at the year end. It shows the Council's net assets of £394.2m which was a decrease of £33.2m or 7.8% on last year.

The most significant movement from last year relates to an increase in the net pension liability of £51.9m following the assessment by the actuary. This has been partly offset by increases in the net book value of property, plant and equipment (£14m) and an increase in net current assets (£10m).

The Council's net assets are matched by reserves which comprise both usable and unusable reserves. In addition to the General Fund balance, funds held by schools, and the HRA balance, the Council also has £5.7m in a capital receipts reserve and £10.9m of capital grants unapplied. A further £49.0m is held in earmarked reserves. Note 8 to the financial statements sets out the Council's earmarked reserves in more detail, showing that £37.6m is held in General Fund earmarked reserves and £11.4m relates to the HRA. Although these reserves are earmarked, and in some cases they are ring-fenced for specific purposes, they do provide the Council with some flexibility in managing in the current challenging financial environment.

## 03 Significant findings

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

#### Management override of controls

##### Description of the risk

International Standards on Auditing (ISA) 240 – The auditor’s responsibility to consider fraud in an audit of financial statements requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

##### How we addressed this risk

We addressed this risk through performing audit work on:

- accounting estimates that impacted on the amounts included in the financial statements;
- any unusual or significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We updated our understanding and evaluation of internal control processes and procedures as part of our audit planning, including completion of a fraud risk assessment.

We obtained information from the Audit and Governance Committee and management on processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud.

##### Audit conclusion

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

#### Revenue recognition

##### Description of the risk

In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council’s range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2014/15. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

**How we addressed this risk**

We evaluated the design and implementation of controls which mitigated the risk of income being recognised in the wrong period. In addition, we undertook a range of substantive procedures including:

- testing receipts in March, April and May 2015 to ensure transactions were recognised in the correct year;
- testing year end receivables and accruals;
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger; and
- testing journals.

**Audit conclusion**

We identified some issues with the bank reconciliation which are discussed more fully in section 4 of this report. However, we did not identify any income that was recognised in the wrong period.

Our work has provided the assurance we sought in relation to revenue recognition and has not highlighted any issues to bring to your attention.

**Pension entries (IAS 19)****Description of the risk**

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

**How we addressed this risk**

We discussed with officers any significant changes to the pension estimates prior to the preparation of the financial statements.

In addition to our standard programme of work in this area, we also:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuary (Mercers); and
- considered the reasonableness of the actuary's output, referring to an expert's report on all actuaries nationally which was commissioned by the Audit Commission.

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of North Yorkshire Pension Fund (Deloitte LLP) over IAS 19 (pensions) related entries in the financial statements.

**Audit conclusion**

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of North Yorkshire Pension Fund (Deloitte LLP) over IAS 19 (pensions) related entries in the financial statements.

Subject to a satisfactory response from Deloitte LLP, our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

## Property, plant and equipment – accounting for depreciation, revaluations and impairments

### Description of the risk

Accounting standards and CIPFA's Code of Practice on Local Authority Accounting require that all property, plant and equipment are depreciated, unless there is a specific exception. There are also requirements to regularly revalue assets carried at fair value on the Council's balance sheet and to carry out impairment reviews. The accounting entries to reflect property, plant and equipment are complex and a material error was identified and corrected in the 2013/14 financial statements.

### How we addressed this risk

We specifically reviewed the accounting entries to ensure that depreciation, revaluations and impairments were properly reflected in the financial statements.

### Audit conclusion

We have carried out specific testing to address the significant risk in relation to property, plant and equipment entries and disclosures.

When accounting for a downward revaluation to the Askham Bar and Poppleton Park and Ride sites and making other minor adjustments in relation to this, charges of £19.469m were incorrectly allocated to environmental services rather than the highways, roads and transport services line in the Comprehensive Income and Expenditure Statement (CIES). The bulk of this adjustment (£19.199m) resulted from the park and ride sites being brought into use and their value changing from assets under construction (at cost) to other land and buildings (valued at existing use value). The accounting entries were recorded correctly in the balance sheet, and the only error was in the CIES.

This charge does not have an impact on the Council's outturn as it is essentially a notional cost, which is not required to be charged against the Council's bottom line financial position. Consequently, it is reversed in the Movement in Reserves Statement.

This error has been corrected in the final version of the financial statements and is included in the table of adjusted errors in section 5 of this report.

## Accounting policies and disclosures

We have reviewed City of York Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting. There have been no significant changes to accounting policies from the previous year.

We have reviewed the overall neutrality, consistency and clarity of the disclosures in the statement of accounts relating to areas where judgements are made in formulating particularly sensitive financial statement disclosures (for example disclosures related to remuneration, going concern, subsequent events, and contingencies). There are no reporting issues arising from our review.

## Significant matters discussed with management

During the course of the audit we continued to discuss with officers the issues around the bank reconciliation that we raised in last year's Audit Completion Report. The matters arising from these discussions are presented more fully in section 4 of this report. We did not encounter any other significant matters that required discussion with management.

## Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Last year, we identified scope for further improvement in the working papers supporting the financial statements and in the joint arrangements underpinning our shared Audit Protocol and Project Plan. We have once again worked closely with officers, and we feel that there were significant improvements in working papers and other arrangements during the 2014/15 audit process.

## 04 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We assign priority rankings to issues identified to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (High)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	None
2 (Medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	ONE ISSUE REPORTED BELOW  In this case, our recommendation is to reconcile an outstanding unexplained difference, rather than strengthen internal control processes
3 (Low)	In our view, internal control should be strengthened in these additional areas when practicable.	None

### Deficiencies in internal control – Level 2 (Medium Priority)

#### Follow up in relation to the bank reconciliation

In last year's audit, we reported on the complexity of the Council's bank reconciliation process and identified that the trail between these reconciliations and the actual year end cash position reflected in the statement of accounts could be improved. We recommended that further work be done to achieve this.

Officers have continued to address these issues, which arose from historic matching issues between the bank and the Council's financial ledger and separate bank reconciliation system.

We are pleased to report that the position has improved considerably in relation to the bank reconciliation at 31 March 2015 which is reflected in the 2014/15 financial statements. The work undertaken by officers has significantly reduced the number and value of adjustments required to carry out the year end bank reconciliation and consequently, the trail between the reconciliations and the accounts has been significantly improved.

Although the situation has improved, it is now clearer that there remains a non-material discrepancy between the bank account and the financial ledger which can not be fully explained by officers at present. The position at 31 March 2015 is set out on the following pages.

**Bank Overdraft included in the Balance Sheet**

	£000	
Bank Overdrawn at 31 March 2015 (currently included within Cash and Cash Equivalents in the Balance Sheet)	2,556 CR	
<p>Error – Cash received in the bank but not accounted for in cash because it was not posted to the ledger until April 2015.</p> <p>£1,375k of this income was accrued in Debtors as it was recognised as 2014/15 income that was expected to be received in 2015/16. The remaining amount was not accounted for in 2014/15 and relates to 2015/16 income.</p> <p>The accounting entries required to correct this error in the ledger would be:</p> <p>Debit Bank £1,761k (as indicated here)</p> <p>Credit Debtors £1,375k</p> <p>Credit Creditors £386k (ie. cash received in advance as it relates to 2015/16)</p>	1,761 DR	Unadjusted error – the Council does not intend to correct this error because it is not material – see section 5 of this report
<b>If corrected, the correct Bank Overdrawn Balance at 31 March 2015 shown on the ledger and therefore in the statements would be</b>	<b>795 CR</b>	

**Bank reconciliation**

	£000	
Bank statements	1,376 DR	A positive bank balance
Adjustments for expenditure processed in the ledger, but not yet in the bank statements	2,630 CR	
Adjustments for income processed in the ledger, but not yet in the bank statements	333 DR	
Other miscellaneous adjustments to cash; analysed to show gross debits and gross credits	475 DR 568 CR	
<b>Expected Balance Overdrawn based on known adjustments</b>	<b>1,014 CR</b>	

**Discrepancy**

	£000	
Difference between amount in the accounts (£795k credit, representing cash overdrawn) and amount based on the reconciliation to the bank balance as per the bank accounts (£1,014k credit, representing cash overdrawn)	219 CR	

In effect, this means that based on the bank statements and known adjustments, the financial statements overstate the Council's cash by £219k.



This £219k difference is a net difference, and it is possible to analyse the ledger differences in gross terms:

	£000
Gross Credit Differences	715 CR
Gross Debit Differences	496 DR
<b>Net Difference</b>	<b>219 CR</b>

### Conclusions

The net difference of £219k is below the trivial level which does not require formal reporting to those charged with governance. However, the gross differences are above the trivial level, although they are still well below materiality.

Until all of the differences are identified and corrected, there remains a risk that this position could mask further unidentified errors, although they are unlikely to have a significant net impact.

We have reported the differences because the bank reconciliation is a fundamental element of the system of internal control.

### Recommendation

We recommend that further work is undertaken to resolve the remaining differences in the bank reconciliation, so that a fully balanced position can be reflected in the 2015/16 financial statements.

### Management response

*The differences set out above relate to mismatches between the internal systems for bank reconciliation and the financial management system. At the time of writing, they have not all been resolved and officers continue to work on them. We expect all the issues to be fully resolved in the current financial year and they have no significant impact on the Council's financial position.*

*The Council has confidence that the bank reconciliation process and checks continue to provide a robust and transparent control mechanism ensuring that banking transactions are correctly identified, issued raised and matters resolved in a timely manner. Checks and balancing exercises take place on a daily basis with reconciliations taking place typically on a monthly basis following audit completion.*

## 05 Summary of misstatements

In our Audit Strategy Memorandum we reported that we had set materiality at the planning stage at £7.06m with a clearly trivial threshold of £212k below which identified errors would not usually be reported. We do not purely use a formula for our calculation of materiality and we look at any errors identified on their merits and can choose to report errors and uncertainties below our thresholds if we deem this to be appropriate.

Our final calculated materiality level for the 2014/15 audit, based on the final statement of accounts, is £8.085m, with a trivial threshold of £243k.

We set out below the misstatements identified during the course of the audit, above the trivial level, for adjustment.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust. We accept that this is a reasonable course of action for errors which are not material.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

None of the adjustments identified during the audit resulted in a change to the Council's underlying financial position.

### Unadjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Dr: Bank			1,761	
	Cr: Debtors				1,375
	Cr: Creditors / Receipts in Advance				386
<p>This error was described in section 4 of this report. £1,761k was received in the bank account at the end of March 2015, but was not reflected in the accounts until April 2015. £1,375k of this income was accrued in Debtors as it was recognised as 2014/15 income that was expected to be received in 2015/16. The remaining amount was not accounted for in 2014/15 and relates to 2015/16 income. The entries to correct this error would be to recognise the cash in the bank, to reverse the debtor as the cash relating to 2014/15 was actually received in the year and transfer the amount relating to 2015/16 to receipts in advance so that it can then be recognised in the next financial year.</p>					
2	Dr: Equal Pay Provision (Long term provisions)			1,337	
	Cr: Equal Pay Earmarked Reserve				1,337
<p>The Council does not have any current equal pay claims made against it and also does not expect any to be made. This does not therefore meet the definition of a provision that there is a known liability that is more likely to materialise than not and a reliable estimate can be made. Officers are of the view that they still need resources to be set aside for this, but agree that it would be more appropriate to treat this as an earmarked reserve rather than a provision. The amendments to reflect this change will be made in the 2015/16 accounts.</p>					

## Unadjusted misstatements 2014/15 (continued)

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
3	Dr: Business Rates Provision (Long term provisions)			<b>1,800</b>	
	Cr: Business Rates Earmarked Reserves				<b>1,800</b>
<p>This element of the business rates provision is a general amount in case an unexpected liability arises and does not therefore meet the definition of a provision where there is a known liability that is more likely to materialise than not and a reliable estimate can be made. Officers agree that it would be more appropriate to treat this as an earmarked reserve rather than a provision. The amendments to reflect this change will be made in the 2015/16 accounts.</p>					
4	Dr: General Fund Balance			<b>219</b>	
	Cr: Bank				<b>219</b>
<p>This uncertainty was described in section 4 of this report. This is technically below our triviality threshold, but we are reporting this because of the importance of the bank reconciliation as part of the Council's system of internal control. To correct this position would require a charge to the General Fund Balance. However, officers are still investigating this issue and are seeking to fully reconcile the bank balance in future years.</p>					

## Adjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: CIES Service Costs – Highways, Roads and Transport Services	<b>19,469</b>			
	Cr: CIES Service Costs – Environmental Services		<b>19,469</b>		
<p>When accounting for a downward revaluation to the Askham Bar and Poppleton Park and Ride sites and making other minor adjustments in relation to this, charges of £19.469m were incorrectly allocated to environmental services rather than the highways, roads and transport services line in the CIES. The bulk of this adjustment (£19.199m) resulted from the park and ride sites being brought into use and their value changing from assets under construction (at cost) to other land and buildings (valued at existing use value). The accounting entries were recorded correctly in the balance sheet, and the only error was in the CIES.</p> <p>This charge does not have an impact on the Council's outturn as it is essentially a notional cost, which is not required to be charged against the Council's bottom line financial position. Consequently, it is reversed in the Movement in Reserves Statement.</p>					

## Adjusted misstatements 2014/15 (continued)

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
2	Dr. Short term provisions	<b>3,800</b>		<b>3,800</b>	
	Cr. Long term provisions		<b>3,800</b>		<b>3,800</b>

This error was identified by officers and corrected a misclassification between short and long term provisions.

### Disclosure amendments

- A number of minor errors, omissions, clarifications and typographical errors were corrected in the financial statements.

## 06 Value for money

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, and to report our conclusion to those charged with governance, having regard to criteria specified by the Audit Commission.

Criteria	Focus of each criterion
The Council has proper arrangements in place for securing financial resilience.	The Council has robust systems and processes to manage financial risks and opportunities effectively, 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.

As part of our work, we also:

- review your annual governance statement;
- review the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities (where applicable); and
- carry out any risk-based work we determine to be appropriate.

We are not required to consider, nor have we, all aspects of the Council's arrangements. We adopt a risk based approach, designed to identify any significant issues that might exist.

We report if significant matters come to our attention which prevent us from concluding that the Council has put in place proper arrangements.

### Focus for this year's work

In the Audit Strategy Memorandum we identified two significant risks relevant to the value for money conclusion. We carried out work to address these risk areas.

One of the significant risks was to follow up last year's qualification of the VFM conclusion. The conclusion for the 2013/14 audit was that in all significant respects City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources with one exception. The exception to this was that there were weaknesses in budgetary control and financial management in Adult Social Care services.

We took into account the matters disclosed in the Council's annual governance statement in undertaking our work.

There were no reports by other regulatory bodies or inspectorates that are relevant to our work this year. We did note, however, the issues raised in the Local Government Association (LGA) peer review of member behaviour commissioned by the Council and published in December 2014. We also noted the actions that have been taken as a result of this review.

In addition, we identified a need to carry out additional risk-based audit work in relation to programme and project management.

### Our conclusion

On the basis of our work, we are satisfied that in all significant respects City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

The Council has addressed the issues we raised last year in relation to adult social care. We recognise that adult social care still represents a huge challenge from the increasing demand from an ageing population, the impacts of changes in legislation, and the need to work more closely with partners, particularly in terms of better integrating health and social care. However, we found that the Council has addressed the weaknesses in budgetary control and financial management in Adult Social Care services that we identified, has a better grip on the financial position and is consequently better placed to address the challenges that it faces.

We did identify a number of areas for improvement in programme and project management, however, on balance we concluded that the Council did have proper arrangements in place, which recognises that the Council is seeking to deliver innovative and demanding projects and this will not always go smoothly, difficult decisions may be required and there may also be a need at times to change approach. The key issue for our conclusion was that the Council has proper arrangements in place to deal with these issues when they arise, and that risks are managed and mitigated as far as possible.

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

The basis for our assessment of the Council's arrangements is set out in more detail on the following pages.

### Financial resilience

Overall, the Council has responded well to the financial pressures it has faced, at a time of unprecedented reductions in public sector spending.

Ongoing pressure on the public finances presents significant challenges for the Council and the need to plan for further reductions in spending power at a time of increasing demand for services.

The 2014/15 budget included £10.7m of revenue savings. This is on top of the total of £51m savings already achieved in the period 2010/11 to 2013/14.

The following table summarises the 2014/15 financial outturn position.

Area	Budget	Year end position	Underspend for the Year
2014/15 General Fund Net revenue expenditure	£124.2m	£123.5m	(£0.7m)

The Council has delivered £10.7m of savings in 2014/15 and achieved a small underspend overall (£0.7m).

The financial outlook remains extremely challenging, and the 2015/16 budget included £11.9m in revenue savings.

As more and more savings are required, it has become increasingly difficult to achieve them without impacting directly on services.

It is estimated that a further £35m of savings will be required between 2016 and 2020, representing over 30% of the Council's net budget. If savings can not be delivered in adult social care, where there are increased demand pressures from an ageing population, the Council's remaining services could face cuts of 50%. Following the local elections in May 2015, there is now a new political administration for the Council. This was followed by a 2015/16 budget amendment in July 2015, identifying an additional £1.5m of new commitments, funded using the £0.7m underspend from 2014/15 and other measures.

The Council adopts a prudent approach to its finances and has set aside reserves, both for unforeseen circumstances (£8.1m) and for specific earmarked purposes (£49.0m). These secure the Council's immediate financial resilience.

The Council has a range of earmarked reserves for specific plans and projects that will help the Council to deliver its priorities. These reserves provide some flexibility if the Council needs to invest to save, for example, but there is a recognition that reserves cannot be used to sustain services and the underlying budget reductions identified will need to be delivered.

### Securing economy, efficiency and effectiveness

Like most local authorities, the City of York Council is learning how to operate with significantly reduced resources, and with the prospect of even fewer resources in the future. At the same time there will be increasing demands on the Council's services for example in social care as a consequence of an ageing population with increasingly complex needs.

In response, as well as targeting specific areas for efficiency improvement and savings, the Council has also sought to implement an ambitious transformation programme and is seeking to build resilience within local communities and the voluntary sector. The scope for integration of health and social care provides an opportunity for real improvement in service delivery and outcomes for local people. Economic development builds a stronger City and creates additional capacity and opportunity.

Effective programme and project management is critical to deliver the required changes, manage the associated risks and ensure that the desired outcomes are delivered for the Council, the City and its residents.

The City of York Council has shown ambition and drive. The Council can point to improvements, including successes in project delivery that have brought significant benefits. However, the Council has also experienced considerable difficulties with some projects, including the Lendal Bridge traffic scheme and more recently, with the housing for older people programme.

These impact on the Council's reputation, take considerable officer time to deal with and can have significant costs associated with them.

We were concerned that, if the high profile examples of problems in project delivery were repeated in other areas, this may impact adversely on the Council's delivery of change and transformation, delay much needed improvements and incur unnecessary costs. As a consequence, as part of our audit programme this year, we have focused on programme and project management and governance as a priority topic.

We were separately commissioned by the Council to review the Housing for Older People programme and terminated procurement process to identify the reasons for the issues that arose and the key lessons to be learnt.

In addition, as part of the 2014/15 audit of value for money arrangements, we also carried out additional risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources in relation to other key ongoing programmes and projects.

We selected two key areas for our focus:

- the project management of a current high profile outward facing project – we selected the Community Stadium project, to assess how well the risks were being managed and how the lessons learned from experience on other projects have been reflected in establishing more robust arrangements; and,
- the programme management for the Re-wiring Public Services transformation programme, including an assessment of governance and risk management arrangements. This is a more internally focused change programme, but the improvements are essential to how well the Council will be able to adapt to further funding restraint.

In the following sections we summarise the outcomes of our advisory review of the Housing for Older People programme, our views on the community stadium project and on the Re-wiring Public Services transformation programme.

### Advisory review of the housing for older people procurement

The Older People's accommodation project was an ambitious and complex programme of work for the Council involving multiple inter-related work-streams, various stakeholder interests and a high public profile. This required a disciplined business case development, robust governance arrangements and tight programme management to provide assurance on risks and appropriate, timely communication to decision-makers and stakeholders. Although we identified some areas of good practice, there were some weaknesses in the Council's approach and arrangements in these areas and consequent opportunities for improvement and learning on future major projects.

The underlying issue pervading our findings was the lack of a structured, best practice approach to business case development. The impact of this was that information on which to base the economic, financial and commercial cases and the adoption of the preferred solution was presented to Cabinet in a piecemeal way in a series of reports over a protracted period of time and highly caveated. Some of the key challenges involved were considered; but the lack of a more disciplined approach (for example, the Treasury's Five Case Model) meant that it was difficult to evidence in the formal records that the strategic case had been made, all options were properly considered and evaluated, or that financial, commercial and other risks were fully debated and mitigated.

Affordability was the key risk highlighted throughout the process. Financial information was available at the early stages of the project but heavily caveated pending further work. Operational assumptions were not robustly challenged and the Council did not develop a contingency plan in the event of this significant risk materialising. Affordability was repeatedly highlighted as a key area of concern in reports to Cabinet throughout the process. There were therefore alerts at early stages to the need for more rigorous scrutiny of the economic and financial elements of the business case. Robust scrutiny at an earlier stage would have acted as an effective brake and "reality check" on

proposals before the launch of a procurement process which was subject to the vagaries of the market during a recession.

Governance arrangements over risk were not appropriate for a project of this scale, although risks were presented in Cabinet papers and progress reporting to the Programme Board. Risks were debated at the Project Board, however, minutes of meetings do not evidence escalation of these risks. A comprehensive risk register was not in place throughout the duration of the project. Mitigations proposed were not sufficient in some cases and significant risks were not routed in a systematic way to Corporate Management Team and Cabinet.

The programme aimed to drive cost improvements whilst at the same time delivering higher quality and transformational change for York residents. A competitive dialogue route was chosen as the procurement route to achieve this. Council officers involved had limited experience in this form of procurement and associated commercial issues. Although the process was well managed in the circumstances, significant problems were encountered by the team in maintaining sufficient interest by the market. In June 2014, the Council was left with a single remaining bidder before the Invitation to Submit Detailed Solution stage. This presented a commercial challenge and although market failure can be difficult to predict, fuller consideration of the commercial implications before commencement of the process may have allowed measures to be put in place to allow better management of this scenario.

Following budget discussions the budget approved in February 2015 confirmed that additional resources would not be allocated to the project. Cabinet then approved termination of the procurement in March 2015 and the pursuit of alternative options.

It is equally important to reflect upon the areas of good practice and successful delivery of elements of the programme:

- A comprehensive and well managed public consultation on the strategic direction and a good mechanism for engagement with external stakeholder representatives through a wider reference group;
- The successful transition of residents and staff following the closure of two homes in March 2012 which was externally scrutinised and confirmed as meeting best practice;
- Elements of sound project management at project team level in terms of disciplined reporting to Programme Board, highlighting/debate of risks and follow up of actions in the face of considerable resourcing and capacity constraints as well as numerous changes in the composition of the project team over the life of the project; and
- The project team demonstrated considerable commitment and diligence in exploring ways to deliver an affordable solution in the face of considerable challenges to realise the programme's ambition, in particular given the duration of the project capacity issues and changes in personnel over that time.

Our separate advisory review report identified a number of areas for improvement. This was considered by the Audit and Governance Committee on 29 July 2015, along with an action plan prepared by officers to address the issues raised.

### The Community Stadium project

We carried out a brief review of the arrangements for the delivery of the Community Stadium project. This was undertaken in May and June 2015, and followed up in August 2015. The nature of our review was such that any comments we make are about the arrangements the Council has put in place, and can not be interpreted as giving any assurance in relation to the successful delivery of the project.

The Community Stadium project proposes wide social, economic and community benefits. It aims to deliver an 8,000 seat community stadium, state of the art leisure facilities and a community hub involving a range of partners. Retail, restaurants and a cinema development are also planned on the site. The objective for the Council is to achieve these benefits with the minimal use of Council resources and with maximum leverage of external funding and commercial investment from the private sector.

Following a competitive dialogue process, Greenwich Leisure Ltd was identified in September 2014 as the preferred bidder on a design, build, operation and ongoing maintenance arrangement, covering the community stadium, the new stadium leisure complex and the Council's wider leisure facilities. The current plan is for a £37m development, which will require £8m of capital investment by the Council. The revenue consequences of the investment have been taken into account in the forward planning.



The project involves considerable risk, sensitive negotiations with a number of commercial partners and a need to deliver within the cost envelope that has been estimated. Affordability is a key risk and is continually reviewed by the project team.

Our review of arrangements identified that:

- Project management arrangements were clear and streamlined, with a Programme Director, focused project team and a monthly Project Board with appropriate representation from senior officers;
- The original plans were underpinned by a comprehensive business case, agreed by Cabinet in March 2012. The project expanded in size significantly with the addition of the new leisure facilities, and the report to Cabinet in September 2014 setting out the expansion of the project was comprehensive and appeared to address all relevant issues;
- Our review of risk documentation and other key supporting evidence for the management arrangements for the project indicated a robust and comprehensive approach was being adopted;
- There have been some contentious issues to address and consequent delays in the project to date; these are perhaps not unexpected due to the nature of the project and the complexity of the arrangements. The evidence reviewed suggests that the Council has continued to manage its way through these complexities in a professional manner; and
- A further update to the new Executive Committee in August 2015 sets out the latest position in detail, revealing further uncertainty about the completion date. Members have been provided with appropriate updates on project progress while maintaining the necessary commercial confidentiality.

We do not have any recommendations to make in relation to the arrangements for the community stadium project.

### The Transformation programme

We reviewed the project management and governance arrangements for the Re-wiring Public Services transformation programme over the summer of 2015. Our review considered overall programme management and governance arrangements, supplemented by a detailed review of a sample of projects within the programme.

The Re-wiring Public Services Programme was introduced in October 2013 as a major programme of work to redesign services and develop new operating models with full engagement with York residents to ensure client focus whilst managing the major funding challenges faced by the Council. There are three broad principles underpinning the transformation programme:

- Helping residents to be independent and supporting those that need help to have a better quality of life;
- Commissioning outcomes efficiently and focusing resources on the real needs of the community; and
- Understanding communities and businesses and working with partners to enable and commission the outcomes.

The programme consists of several core overarching programmes of work:

- Business efficiency and consolidation
- Place Based Services and Public Realm
- Adult Social Care
- Communication and Resident Engagement
- Children's Services, Education and Skills

An Organisational Development project supports the transformation programme.

A strategic case setting out the key dimensions of the programme was presented to the Cabinet in February 2014. Cabinet considered further updates in July 2014, October 2014, December 2014 and February 2015.

Skills and capacity issues were cited as key challenges by officers during our review and this was recognised in Corporate Management Team discussions and Cabinet papers as a risk.

Project teams include resources from teams with operational roles. This places pressure on service managers and significant reliance on key individuals to support concurrent programmes of work, for example, in Finance and HR. The corporate transformation team supporting the process is relatively small and their capacity is therefore stretched in supporting the whole programme.

From our review, we noted that:

- Programme briefs have provided a high level summary of each programme. Generally, there is limited articulation of risks, financial and workforce impacts of programmes. However, we note that for Place Based Services a considerably greater level of detail is provided on financial implications;
- Corporate Management Team noted in September 2014 that business cases for all programmes were to be submitted to the Cabinet in October 2015; business cases for projects under Children's Services have been taken to Members, the Executive did receive proposals on the future plans for older people's accommodation in July 2015, and proposals for Place based services are progressing; and
- there has been a significant investment of officer time in the transformation programme; it is important that this is evaluated against the outcomes, improvements and savings that are delivered.

Funding constraints may not allow any additional resourcing to support the programme. However, it would be sensible to take stock and re-assess priorities and timescales. Within this context, we would recommend consideration of a re-phasing of the programme and a thorough review of resources required to support it, in terms of skills and capacity. In our view, the Council should take the opportunity to re-assess, redefine and reprioritise aspects of the programme which otherwise risks failure due to the breadth of scope of the programme and associated governance and project management requirements. This would allow expectations to be managed for all stakeholders in terms of deliverability of core, critical programmes of work to a feasible timescale.

We have produced a detailed findings document for management, and we propose to bring a short report to the next Audit and Governance Committee setting out our recommendations in relation to the transformation programme in more detail.

### Follow up of issues raised last year in respect of Adult Social Care

The conclusion for the 2013/14 audit was that in all significant respects City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources with one exception. The exception to this was that there were weaknesses in budgetary control and financial management in Adult Social Care services. There was a lack of understanding and ownership of budgets within the service and performance information was limited. The Council had identified the need for improvement in adult social care and a future savings target of £6m, but during 2013/14 the service did not demonstrate an ability to address the issues that it faced.

The Audit and Governance Committee received a number of update reports which documented the action that had been taken in response to our findings. We have followed up the action taken to address the issues we raised last year in the 2014/15 audit and concluded that all of the action points were satisfactorily addressed.

We found that the Council has addressed the weaknesses in budgetary control and financial management in Adult Social Care services that we identified, has a better grip on the financial position and is consequently better placed to address the challenges that it faces. The best evidence for the improvement was the delivery of an improved outturn position on the adult social care budget. The budget outturn for 2014/15 was an overspend of £193k, which was 0.4% of the £51.2m budget, compared to a previous history of more significant overspends.

We recognise that adult social care still faces a huge challenge from the increasing demand from an ageing population, the impacts of changes in legislation, and the need to work more closely with partners, particularly in terms of better integrating health and social care. Whilst the Council has started to develop plans to address these areas, there is still much work to do, and adult social care remains a significant financial and operational risk for the Council. A new Director of Adult Social Care has been appointed and will begin to take these issues forward when he takes up his post in the autumn.

## Significant Value for Money risks

### Responding to the financial pressures

#### Description of the risk

The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.

There have been some high profile examples of problems with project delivery. Most recently, the Council is considering whether to continue its long-running housing for older people procurement and has begun to consider a new strategy.

#### How we addressed this risk

We reviewed:

- the budget process and the Medium-Term Financial Strategy;
- the progress made in identifying savings required;
- progress of the Council's Transformation Programme;
- budget monitoring reports and other finance updates;
- delivery of improved outcomes; and
- whether project management practices are robust and lessons are being learned from difficult experiences.

#### Conclusion

Based on the work completed (and described in the paragraphs above), we are satisfied that the Council has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness in its use of resources.

### Risks in relation to adult social care services

#### Description of the risk

We identified weaknesses in budgetary control and financial management in adult social care services in the 2013/14 audit and this led to an 'except for' qualification of the VFM conclusion. The risk is that the measures taken by the Council to address the issues raised last year are not effective.

#### How we addressed this risk

We followed up on the work undertaken in adult social care to ensure that previously agreed actions had been implemented. We considered how well the service was responding to a large number of challenges, such as preparing for Care Act implementation, increasing demand (ageing population and high proportion of over 85s in York), reducing resources, and the extent to which it has taken the opportunity to improve overall outcomes through working with partners, such as Vale of York CCG through the Better Care Fund.

#### Conclusion

Based on the work completed (and described in the paragraphs above), we are satisfied that the Council has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness in its use of resources.

## Appendix A – Draft management representation letter

**City of York Council**

23 September 2015

Dear Mr Davies

### **City of York Council - audit for year ended 31 March 2015**

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

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

#### **My responsibility for the statement of accounts and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

#### **My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Customer and Business Support Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

#### **Accounting records**

I confirm that all transactions that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Cabinet / Executive and other Committee meetings, have been made available to you.

#### **Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

**Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

**Contingencies**

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

**Laws and regulations**

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

**Fraud and error**

I acknowledge my responsibility as Director of Customer and Business Support Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's statement of accounts communicated by employees, former employees, analysts, regulators or others.

**Related party transactions**

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

**Impairment review**

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. A further impairment review is therefore not considered necessary.

**Future commitments**

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

**Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

**Going concern**

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

**Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

**Specific representation in relation to the bank reconciliation**

I confirm that I have shared with you all information in relation to the bank reconciliation, and there is no additional information which has not disclosed to you which could indicate that the unreconciled difference of £219k could mask any further errors or uncertainties or any evidence of fraud or irregularity.

Yours faithfully

Ian Floyd  
Director of Customer and Business Support Services

**Appendix to letter of representation**  
**Schedule of unadjusted misstatements**

**Unadjusted misstatements 2014/15**

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Bank			<b>1,761</b>	
	Cr: Debtors Cr. Creditors / Receipts in Advance				<b>1,375</b> <b>386</b>
<p>£1,761k was received in the bank account at the end of March 2015, but was not reflected in the accounts until April 2015. £1,375k of this income was accrued in Debtors as it was recognised as 2014/15 income that was expected to be received in 2015/16. The remaining amount was not accounted for in 2014/15 and relates to 2015/16 income. The entries to correct this error would be to recognise the cash in the bank, to reverse the debtor as the cash relating to 2014/15 was actually received in the year and transfer the amount relating to 2015/16 to receipts in advance so that it can then be recognised in the next financial year.</p>					
2	Dr: Equal Pay Provision			<b>1,337</b>	
	Cr: Equal Pay Earmarked Reserve				<b>1,337</b>
<p>The Council does not have any current equal pay claims made against it and also does not expect any to be made. This does not therefore meet the definition of a provision that there is a known liability that is more likely to materialise than not and a reliable estimate can be made. Officers are of the view that they still need resources to be set aside for this, but agree that it would be more appropriate to treat this as an earmarked reserve rather than a provision. The amendments to reflect this change will be made in the 2015/16 accounts.</p>					
3	Dr: Business Rates Provision (Long term provisions)			<b>1,800</b>	
	Cr: Business Rates Earmarked Reserves				<b>1,800</b>
<p>This element of the business rates provision is a general amount in case an unexpected liability arises and does not therefore meet the definition of a provision where there is a known liability that is more likely to materialise than not and a reliable estimate can be made. Officers agree that it would be more appropriate to treat this as an earmarked reserve rather than a provision. The amendments to reflect this change will be made in the 2015/16 accounts.</p>					
4	Dr: General Fund Balance			<b>219</b>	
	Cr: Bank				<b>219</b>
<p>This is technically below the triviality threshold, but the auditor has reported this because of the importance of the bank reconciliation as part of the Council's system of internal control. To correct this position would require a charge to the General Fund Balance. However, we are still investigating this issue and are seeking to fully reconcile the bank balance in future years.</p>					

## Appendix B – Draft audit report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY OF YORK COUNCIL

#### Opinion on the Council financial statements

We have audited the financial statements of City of York 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, 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 City of York Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

#### Respective responsibilities of the Director of Customer and Business Support Services and auditor

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

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Customer and Business Support Services; 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. 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 City of York Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

#### 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 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 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;



- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Council and the auditor**

The Council 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 Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Council 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 Council 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 Council 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, we are satisfied that, in all significant respects, City of York 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 accounts of City of York Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Gareth Davies

For and on behalf of Mazars LLP

The Rivergreen Centre  
Aykley Heads  
Durham, DH1 5TS

30 September 2015

## Appendix C – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



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Audit & Governance

23 September 2015

Report of the Assistant Director Customer & Employees

## **Risk Based Verification Policy**

### **Summary**

1. This paper provides Audit & Governance (A&G) Committee with the council's Risk Based Verification (RBV) policy for approval.

### **Background**

2. The council has been provided with the opportunity to implement Risk Based Verification (RBV) into its housing benefit processes by the Department for Work & Pensions (DWP). This arises through the DWP Fraud & Error Reduction Initiative Scheme (FERIS) and is at no cost to the council.
3. The only rule imposed by the DWP in allowing any local authority to utilise this free provision is that it has to have an RBV policy in place approved by its Audit and Governance Committee and Section 151 officer.

### **Risk Based Verification**

4. The RBV solution provided by the DWP is in respect of change of circumstances and is a method of applying different levels of checks to benefit claims according to the risk associated with those claims. This happens through a specially developed change of circumstances risk algorithm. The risk algorithm has been developed to identify the likelihood that fraud and error exists in a change of circumstances claim. The algorithm has been built using historical local authority data and its performance validated across a number of local authorities.

5. The application of RBV is an innovative approach to benefit claims assessment that changes the way in which efficiencies are delivered, whilst at the same time enhancing fraud and error detection rates. This is achieved by enabling the council to assess the likelihood, measured as a risk score, that a new claim or change in circumstance contains potential fraud or error. The risk score then assigned to each claim indicates the level of verification that needs to be applied to that case.
6. Following the issue of DWP guidance (HB/CTB S11/2011), low risk claims may be streamlined, with full verification reserved for medium risk and additional verification applied to high risk claims. This process leads to improved customer service, a considerable reduction in processing time, an increase in the identification of errors at the point at which the change is made before it enters the housing benefit system and potentially a reduction in resource requirements.

### **Risk Based Verification Policy**

7. In line with DWP guidance the council's policy in respect of the use of RBV is set out annex A of this paper. The main objectives of the policy are to:
  - ensure officers understand the impact of the risk scores in terms of the likelihood of fraud and error being present
  - highlight the DWP financial incentives being targeted from the implementation of RBV for proactive in-claim reviews
  - set out and initiate the required process changes in support of the risk score
  - show how checks and balances will be introduced into business as usual processes
  - provide performance reporting implications

### **Analysis**

8. The anecdotal feedback from local authorities already using RBV is that it does work and provides efficiency. The level of efficiency depends on how much the risk scores are trusted by officers and as such the solution needs to be properly implemented including appropriate training.

## Options

9. **Option 1** – Progress the implementation of RBV

**Option 2** – Do not progress at this time

## Council Plan 2015 - 19

10. The introduction of RBV will provide a quicker and less onerous service for many of the council's customers supporting the council's aspiration to deliver better and more efficient front line services.

## Implications

11.

(a) **Financial** – There is no cost to the council for implementing this solution which is funded by the DWP until at least June 2016

(b) **Human Resources (HR)** - There are no implications

(c) **Equalities** – There are no implications

(d) **Legal** - There are no implications

(e) **Crime and Disorder** - There are no implications

(f) **Information Technology (IT)** - The solution is delivered through Northgate the councils current revenue and benefits provider so there are no material implications

(g) **Property** - There are no implications

## Risk Management

12. The key risks associated with RBV are ensuring that staff receive appropriate training to ensure they trust the risk scores and process the claims correctly to deliver efficiencies and that the scores provided by the RBV software are accurate. Neither of these risks is high and proper

monitoring of the system as set out in the policy at annex A along with training mitigates any risk to low.

**Recommendations**

13. A&G are asked to:

- a) approve the implementation of RBV for change of circumstance housing benefit claims;

Reason

*To more efficiently manage change of circumstances reported by HB customers. This will improve customer service, deliver efficiency and increase the value and detection of fraud and error.*

- b) approve the RBV policy set out at Annex A of this paper.

Reason

*To meet the requirements of DWP guidance (HB/CTB S11/2011) allowing the council to participate in this initiative.*

Contact Details

<b>Author:</b>	<b>Cabinet Member and Chief Officer responsible for the report:</b>		
David Walker Head of Customer & Exchequer Services Phone No. 01904 552261	Cllr Chris Steward, Executive Member for Finance & Performance  Pauline Stuchfield Assistant Director Customers & Employees Telephone: 01904 551706		
	<b>Report Approved</b>	√	<b>Date</b> 25 Aug 2015
<b>Specialist Implications Officer(s)</b> None			
<b>Wards Affected:</b> All			√
<b>For further information please contact the authors of the report</b>			

## **Background Papers**

DWP guidance (HB/CTB S11/2011)

## **Annexes**

Annex A – RBV Policy

## **Glossary**

RBV – Risk Based Verification

DWP – Department of Work & Pensions

FERIS – Fraud Error Reduction Incentive Scheme

HB – Housing Benefit

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## **Risk Based Verification Policy**

### **Background**

1. RBV is a method of applying different levels of verification checks to housing benefit claims already in payment and according to the predicted risk (of Fraud and/or Error) associated with those claims. In adopting RBV the council will still be required to comply with all relevant legislation whilst making use of greater intelligence to target more extensive verification activity on those claims predicted to be at greater risk of fraud and error.

### **Purpose of the Policy**

2. The purpose of this policy is to specify how City of York Council's Benefit Service will operate the RBV solution and to indicate the factors and processes that need to be followed to maximise its effectiveness.
3. The main objectives relating to this policy are to:
  - ensure officers understand and trust the impact of the risk scores in terms of the likelihood of fraud and error being present;
  - highlight the DWP financial incentives being targeted from the implementation of RBV for proactive in-claim reviews;
  - set out and initiate the required process changes in support of the risk score;
  - show how checks and balances will be introduced into business as usual processes;
  - provide performance reporting implications.

## Understanding the risk scores

4. An integral part of the IT solution being used for RBV is a specially developed change in circumstances risk algorithm.
5. The risk algorithm has been developed to identify the likelihood that fraud and error exists in a change of circumstances claim. This has been built using historical local authority data and its performance validated across a number of local authorities.
6. The estimated level of risk framework which is embedded in the IT solution is shown below:

Risk Score	Risk Group	Approximate percentage of claims in the risk group
1	<b>HIGH</b>	<b>20%</b>
2		
3		
4	<b>MEDIUM</b>	<b>25%</b>
5		
6		
7		
8	<b>LOW</b>	<b>55%</b>
9		
10		
11		
12		
13		
14		
15		
<b>This score will be calculated based on the claim details put forward for RBV</b>	<b>The risk group is determined by the risk score – the level of local verification required on the reported details is derived from the risk group</b>	<b>This is the expected percentage of claims that will fall into each risk group</b>

7. Upon receipt of a change in circumstance reported by a customer staff will apply different procedures with regards to verification based on the risk group returned on a case by case basis.

8. The council's operational procedures will be amended to facilitate these different processes.

### **Highlighting efficiency**

9. In addition to effectively targeting fraud and error (particularly in the high risk category) there are significant processing efficiencies for low risk claims of which an estimated 55% of change of circumstance claims received fall into.
10. The overall cost benefit to the authority is in the form of incentive payments made by the DWP, based upon the level of fraud and error recorded which results in a reduction in its subsidy grant.

### **Required process changes in support of the risk score**

#### *Low risk claims*

11. On the basis of the risk algorithm outlined in the table above, circa 55% of FERIS interventions received will be low risk. In this instance only essential checks will be made. There is in the region of a 3% chance that fraud and error could enter the system, this is deemed to be acceptable in line with DWP guidelines. Low risk claims will be fast-tracked to calculation and claimant notification.

#### *Medium risk claims*

12. On the basis of the risk algorithm outlined in the table above, circa 25% of FERIS interventions will be deemed to be medium risk. In this instance these claims will be verified in the same way as they are currently. There is in the region of an 11% chance in this risk category that fraud and error could enter the system at this point.

#### *High risk claims*

13. On the basis of the risk algorithm outlined in the table above, circa 20% of FERIS interventions will be deemed to be high risk. In this instance these claims will require additional checks to be made over and above the normal checks currently undertaken. There is in the region of a 27% chance in this risk category that fraud and error could enter the system. This action should lead to fraud and error being identified minimising subsequent overpayments and collection costs.

14. These additional checks may involve, but are not limited to:
  - Telephone interviews
  - Visits
  - Credit reference agency checks
15. Each member of staff responsible for processing FERIS interventions (Checks of existing housing benefit claims for correct income figures) will be trained in the use of the RBV solution and the subsequent process change that will need to be implemented to support this policy.

### **Checks and balances**

16. The RBV IT solution will automatically select 5% of cases that will be deemed to be a 'blind sample'. The blind sample will, without the knowledge of the claim processor present this randomly selected group of claims as having a higher level of risk than that calculated by the risk model itself.

### **Performance reporting implications**

17. The RBV supplier will provide monthly performance reports so that we can ensure the effectiveness of the approach. The report will include the percentage of cases presented in each risk category and the levels of fraud and error detected in each. The report will also outline how much fraud and error has been detected in blind sample cases.
18. It is the council's responsibility to ensure that all staff follow the RBV procedures to ensure that the policy is suitably enacted on a case by case basis.

**Policy Sign Off**

This RBV policy is signed off by:

**Lead Member of Audit and Risk Committee    Section 151 Officer**

Name:

Name:

Signature:

Signature:

Date:

Date:

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**Audit and Governance Committee**

23 September 2015

Report of the Head of Internal Audit

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**Audit & Counter Fraud Monitoring Report**

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**Summary**

- 1 This report provides an update on progress made in delivering the internal audit workplan for 2015/16 and on current counter fraud activity.

**Background**

- 2 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the standards, periodic reports detailing the outcomes of internal audit work are presented to this committee.

**Internal Audit**

- 3 To date, internal audit has completed 14% of the 2015/16 audit plan based on reports issued. The figures do not reflect audits in progress or recently completed<sup>1</sup>. It is anticipated that the 93% target for the year will be exceeded by the end of April 2016 (the cut off point for 2015/16 audits).
- 4 Details of the audits completed and reports issued since the last report to this committee in June 2015 are given in annex 1.
- 5 A number of variations to the audit plan have been approved by the Director of CBSS since the start of the year. Details are included in annex 2.

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<sup>1</sup> The figure including work in progress and work completed but not yet reported is 44%.

### **Counter Fraud**

- 6 Counter fraud work has been undertaken in accordance with the approved plan. Annex 3 provides a summary of the work undertaken.

### **Breaches of Financial Regulations**

- 7 There have been no breaches of council financial regulations identified during recent audit work.

### **Follow Up of Agreed Actions**

- 8 Annex 4 includes details of follow up of internal audit agreed actions. There are no specific issues that need to be brought to the committee's attention as a result of the latest follow up work.

### **Consultation**

- 9 Not relevant for the purpose of the report.

### **Options**

- 10 Not relevant for the purpose of the report.

### **Analysis**

- 11 Not relevant for the purpose of the report.

### **Council Plan**

- 12 The work of internal audit and counter fraud helps to support overall aims and priorities by promoting probity, integrity and accountability and by helping to make the council a more effective organisation.

### **Implications**

- 13 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**



- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

**Risk Management Assessment**

14 The council will be non-compliant with the PSIAS if the results of audit work are not reported to the committee and could therefore be exposed to increased levels of scrutiny and challenge.

**Recommendation**

15 Members are asked to:

- (a) Note the progress made in delivering the 2015/16 internal audit work programme, and current counter fraud activity.

Reason

*To enable members to consider the implications of audit and fraud findings.*

**Contact Details**

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Ian Floyd  
Director of CBSS  
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**Report  
Approved**



**Date** 14.9.15.

**Specialist Implications Officers**

Not applicable

**Wards Affected:** Not applicable

**All**

**For further information please contact the author of the report**

### **Background Papers**

- 2015/16 Internal Audit and Counter Fraud Plan
- The final internal audit reports referred to in annex 1 are available as background papers on the ModGov site

### **Annexes**

Annex 1 – 2015/16 Audits Completed and Reports Issued

Annex 2 - Variations to the 2015/16 Audit Plan

Annex 3 – Counter Fraud Activity

Annex 4 – Follow Up of Agreed Actions

**AUDITS COMPLETED AND REPORTS ISSUED**

The following categories of opinion are used for audit reports.

<b>Opinion</b>	<b>Level of Assurance</b>
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Actions to address issues are agreed with managers where weaknesses in control are identified. The following categories are used to classify agreed actions.

<b><u>Priority</u></b>	<b><u>Long Definition</u></b>	<b><u>Short Definition – for use in Audit Reports</u></b>
1 (High)	<p>Action considered both critical and mandatory to protect the organisation from exposure to high or catastrophic risks. For example, death or injury of staff or customers, significant financial loss or major disruption to service continuity.</p> <p>These are fundamental matters relating to factors critical to the success of the area under review or which may impact upon the organisation as a whole. Failure to implement such recommendations may result in material loss or error or have an adverse impact upon the organisation's reputation.</p> <p>Such issues may require the input at Corporate Director/Assistant Director level and may result in significant and immediate action to address the issues raised.</p>	<p>A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.</p>

**Priority**

**Long Definition**

**Short Definition – for use in Audit Reports**

2

Action considered necessary to improve or implement system controls so as to ensure an effective control environment exists to minimise exposure to significant risks such as financial or other loss.

A significant system weakness, whose impact or frequency presents risks to the system objectives, and which needs to be addressed by management.

Such issues may require the input at Head of Service or senior management level and may result in significantly revised or new controls.

3

Action considered prudent to improve existing system controls to provide an effective control environment in order to minimise exposure to significant risks such as financial or other loss.

The system objectives are not exposed to significant risk, but the issue merits attention by management.

Such issues are usually matters that can be implemented through line management action and may result in efficiencies.

### Draft Reports Issued

5 internal audit reports are currently in draft. These reports are with management for consideration and comments. Once the reports have been finalised, details of the key findings and issues will be reported to this committee. The draft reports are categorised as follows.

<b>Opinion</b>	<b>Number</b>	<b>Reports</b>
High Assurance	1	Rufforth Primary School
Substantial Assurance	2	St.Lawrence's Primary School, Applefields School
Reasonable Assurance	1	Payroll
Limited Assurance	1	Public Health
No Assurance	0	

## Final Reports Issued

The table below shows audit reports finalised since the last report to this committee in June 2015. In all cases the recommendations made have been accepted by management, and will be followed up by internal audit.

Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
Council Tax & NNDR	High Assurance	1	0	Overall there is a strong control framework in operation in the council tax, business rates and recovery teams. The Northgate SX3 system ensures a large number of preventative controls are in place and this is supported by regular and varied monitoring reports which should enable the identification of issues.
Council Tax Support and Housing Benefits	High Assurance	2	0	The service has taken action to address issues raised in previous audits in relation to interventions, and quality assurance. There have also been significant improvements in processing times for claims.

Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
Debtors	High Assurance	2	0	<p>An audit of invoicing and debt collection arrangements. No significant issues were found.</p> <p>The service is currently piloting electronic invoicing. The system is not fully functional yet and will be reviewed as part of the next audit in this area.</p>
Housing Rents	High Assurance	0	0	<p>An audit of housing rent calculation, income, and debt collection arrangements. There were no significant control weaknesses identified.</p>
Procurement and Contract Management	High Assurance	0	0	<p>The audit looked at whether contracts are signed or sealed in accordance with the council's contract procurement rules. It was difficult to identify who had authorised some historic contracts, however, a review of more recent documents indicates that contract procedure rules are being complied with.</p> <p>Contracts over £500,000 were sealed in</p>



Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
				accordance with the constitution and contract procedure rules.
Burton Green Primary School	Substantial Assurance	4	0	A schools audit. The control environment was generally effective although a number of areas requiring improvement were identified.
Main Accounting System	Substantial Assurance	5	0	Overall, the system was well controlled with many areas operating effectively.  Testing identified minor issues in relation to the use of virement and generic income codes, timing of payment account reconciliations and recurrent suspense account entries.
Ordering and Creditor Payments	Reasonable Assurance	3	0	The council continues to make improvements in compliance with the 'No PO, No Pay' policy, with the percentage of invoices matched to PO numbers rising from 80% to 84% since the previous financial year.  A number of actions were agreed along with

Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
				revised dates for outstanding actions not completed from previous audits.
Data Quality	Reasonable Assurance	5	0	<p>An acceptable control environment is in operation, and individual indicators reviewed had been produced accurately.</p> <p>There were inconsistencies in checks of the accuracy of input data and insufficient guidance to officers on appropriate controls to ensure data quality.</p> <p>There were no formal definitions of the indicator or procedure notes / guidance on the data collection and calculation of the indicator. It was also found that there is a significant manual process of inputting data and no review of the performance indicator against the base data.</p>
Health & Safety	Reasonable Assurance	12	0	It is the responsibility of line managers to manage health and safety risks. This audit looked at corporate arrangements for monitoring

Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
				<p>and supporting managers, and overseeing risks across the organisation, rather than arrangements in areas of specific management responsibility.</p> <p>No specific health and safety issues came to light during the audit. However, there are a number of issues with the systems in place that may result in inefficiencies through duplication of effort, lack of coordination, large volumes of manual data entry and processing and scattered data making it difficult to evidence the work done and find information to provide assurance to senior managers.</p>

Audit	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
		Total	Priority 1	
Information Security	Reasonable Assurance	6	0	<p>Overall, there seemed to be an understanding throughout the council of the importance of information security, with staff and managers across all areas reviewed focussed particularly on maintaining customer confidentiality.</p> <p>There were some areas of weakness, including a lack of awareness of some of the corporate information governance measures. In particular, there was a lack of awareness of the information security incident management policy and procedure and a lack of understanding of the full range of events that constitute incidents and should be reported.</p>

#### Other non-opinion audit work completed

	Work done / significant weaknesses / issues identified
Risk Management	Work is ongoing to further develop risk management arrangements within the council, following the review by Zurich in 2013. The purpose of this audit was to review progress in completing refreshed corporate and directorate risk registers, provision of risk management refresher training and engagement by directorate management teams.

	<p>A lot of work has been done to refresh risk management across the council and this is reflected in the progress made in developing risk registers and identifying risks at directorate management teams. Further work is needed to maintain the momentum created and further embed risk management and ensure that risk management is seen as part of everyday practice and not a separate activity. Further internal audit work is planned in 2015/16 to follow-up the findings of this piece of work.</p>
<p>Safeguarding - Children</p>	<p>This was a targeted review of some specific areas to inform future development of IT systems. It was not a full system audit.</p> <p>Areas identified for development included:</p> <ul style="list-style-type: none"> <li>• management information, to reduce the amount of manual intervention / monitoring needed to manage cases</li> <li>• information to signpost the public and professionals to services, to reduce the risk that cases not relevant for safeguarding are processed through this route</li> <li>• processes for data capture/input to reduce demands on officer time and improve efficiency.</li> </ul>
<p>Use of Interims, Specialists and Consultants</p>	<p>A review of interim procedures for managing the appointment of interims, specialists and consultants. New procedures were expected to be introduced in early 2015/16.</p> <p>The review found that while not ideal, the interim processes have brought all appointments of consultants, interims and specialists under the oversight of the HR and Procurement services. The Head of Business HR is acting as the key control in his role as gatekeeper</p>

for appointments.

The known issues are being addressed within the new contract with NEPRO and Veritau will be working with HR and Procurement to ensure that recommendations from previous audit reports are included in any new processes.

## VARIATIONS TO THE 2015/16 AUDIT PLAN

Additions to the plan are considered where:

- specific requests are received from the S151 Officer which are necessary for him to discharge his statutory responsibilities;
- new or previously unidentified risks result in changes to the priority of audit work;
- significant changes in legislation, systems or service delivery arrangements occur which have an impact on audit priorities;
- requests are received from customers to audit specific services, systems or activities usually as a result of weaknesses in controls or processes being identified by management;
- urgent or otherwise unplanned work arises as a result of investigations into fraud and other wrongdoing identifying potential control risks.

Additions to the audit plan are only made if the proposed work is considered to be of a higher priority than work already planned, the change can be accommodated within the existing resource constraints and the change has been agreed by the Head of Internal Audit.

Audits are deleted from the plan or delayed until later years where:

- specific requests are received from the S151 Officer or the audit customer and the grounds for such a request are considered to be reasonable;
- the initial reason for inclusion in the audit plan no longer exists;
- it is necessary to vary the plan to balance overall resources.

To reflect the contractual relationship between the council and Veritau, all proposed variations to the agreed audit plan arising as the result of emerging issues and/or requests from directorates will be subject to a change control process. Where the variation exceeds 5 days then the change must be authorised by the Director of CBSS. Any significant variations will then be communicated to the Audit and Governance Committee for information.



## 2015/16 Audit Plan Variations

The following variations have been approved by the Director of CBSS since the beginning of the year. They represent a net allocation of 58 days from the audit contingency and do not affect the overall planned audit days.

Audit	Days	Reason For Variation
<b>Additions / Increases to the Audit Plan</b>		
Ordering Processes for External Contractors	20	Requested by the service. The work will include documenting systems, process mapping and identifying process / control improvements.
Section 106 Agreements	5	Additional areas have been identified as a result of a recent investigation – this increase will mean the audit can be more comprehensive and ensure that key risks are reviewed.
Section 117 of the Mental Health Act	18	A joint audit with the relevant NHS auditors. Section 117 of the Mental Health Act imposes certain duties on local authorities and this audit will examine the responsibilities, risks and controls in relation to this.
Disciplinary Investigation	20	Veritau is providing an Investigating Manager for a council disciplinary investigation.
Payroll	15	Additional work requested by the service, to support them in documenting procedures. This will allow Veritau to gain a greater understanding of the system to support future audit work, and help the service reduce potential risks associated with key staff leaving.

Recruitment Checks	5	To increase the scope of the audit following concerns raised about checks in this area.
Tour de France Review	10	An allocation of time for the ongoing Tour de France Review.
	<b>93</b>	

<b>Audit</b>	<b>Days</b>	<b>Reason For Variation</b>
<b>Deletions / Reductions from the Audit Plan</b>		
Free Early Education Funding	-25	The service would like to move this audit to the summer term – whilst early years funding remains a high risk area, the fact the audit will be carried out in Summer 2016 will mean in practice a delay of only a few months. The previous audit was completed in Spring 2015.
Implementation of the Care Act	-10	Less work is now expected following the deferral of aspects of Phase 2 by the government which were due to come into effect in April 2016.
	<b>-35</b>	

**COUNTER FRAUD ACTIVITY 2015/16**

The table below shows the total numbers of fraud referrals received and summarises the outcomes of investigations completed to date. The indicators include the full range of counter fraud work undertaken.

	<b>2015/16 (Actual: 31/8/15)</b>	<b>2015/16 (Target: Full Yr)</b>	<b>2014/15 (Actual: Full Yr)</b>
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked, management action taken).	43%	30%	43%
Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation.	£28,918	£100,000	£135,136
Amount of notional savings (estimated savings - e.g. housing tenancy fraud) identified through fraud investigation.	£348,900	£600,000	£612,700

**Caseload figures for the period are:**

	<b>As at 31/8/15</b>	<b>As at 1/4/15</b>
Awaiting allocation	43	40
Under investigation	175	171

**Summary of counter fraud activity:**

<b>Activity</b>	<b>Work completed or in progress</b>
Data matching	<p>Investigation of matches arising from the National Fraud Initiative is still ongoing. Further matches were released in August. There are now a total of 2,500 recommended data matches relating to a number of council teams and services as well as 3,500 matches relating specifically to Single Person Discounts.</p> <p>Housing Benefit Matching Service (HBMS) referrals are now being dealt with by the Benefits Department who will pass on potentially fraudulent claims to the Fraud Team.</p>
Fraud detection and investigation	<p>The service continues to promote the use of criminal investigation techniques and standards to robustly respond to any fraud perpetrated against the council. Activity to date includes the following:</p> <ul style="list-style-type: none"> <li>• <b>Housing fraud</b> – working in conjunction with housing officers, 7 properties have been recovered thus far in 2015/16. In addition, 9 properties were prevented from being let where the prospective tenants had provided false information in their housing applications.</li> </ul> <p>There are currently 61 ongoing investigations in this area.</p> <ul style="list-style-type: none"> <li>• <b>Internal fraud</b> - the team has received 4 referrals for internal frauds in 2015/16. 5 cases are</li> </ul>

Activity	Work completed or in progress
	<p>currently under investigation.</p> <ul style="list-style-type: none"> <li>• <b>Council Tax/Non Domestic Rates fraud</b> – In January 2015, City of York Council alongside a number of other councils in the area successfully bid for DCLG funding in order to create the North Yorkshire Fraud Hub. Veritau are working with neighbouring authorities to gather information ahead of a data matching exercise.</li> </ul> <p>There are currently 24 investigations into Council Tax and Non Domestic Rates fraud.</p> <ul style="list-style-type: none"> <li>• <b>Benefit fraud</b> – Thus far in 2015/16 one person has been prosecuted for benefit fraud offences and a further 7 have received formal sanctions (cautions and administrative penalties). Benefit claims have been corrected in 6 cases.</li> </ul> <p>On 1 March 2016 the council expects to lose its remit to investigate and prosecute Housing Benefit Fraud when this responsibility is transferred to the Department for Work and Pensions. Significant work is expected to remain with (and be created for) the authority and the fraud team is working with other teams and departments to prepare for this.</p> <ul style="list-style-type: none"> <li>• <b>Social Care fraud</b> – There are currently 14 ongoing investigations in this area. The fraud team is working closely with a number of departments and outside organisations to identify, detect and deter fraud in this area.</li> <li>• <b>Parking fraud</b> – 6 cases of blue badge or other parking exemption fraud have been referred</li> </ul>

<b>Activity</b>	<b>Work completed or in progress</b>
	<p>in 2015/16 resulting in one person being prosecuted and 5 people being issued formal written warnings.</p> <ul style="list-style-type: none"><li>• <b>Education verification</b> – The fraud team is working with the schools team to investigate and deter false applications for school placements. So far in 2015/16 one false application has been blocked and one warning letter has been issued.</li></ul>

## INTERNAL AUDIT FOLLOW UP

### Background

1. Where weaknesses in systems are found by internal audit, the auditors discuss and agree a set of actions to address the problem with the responsible manager. The agreed actions include target dates for issues to be dealt with. The auditors then carry out follow up work to check that the issue has been resolved once these target dates are reached. The follow up work is carried out through a combination of questionnaires completed by responsible managers, risk assessment, and by further detailed review by the auditors where necessary. Where managers have not taken the action they agreed to, issues are escalated to more senior managers, and ultimately may be referred to the Audit and Governance Committee.

### Follow up of internal audit agreed actions

2. A total of 70 actions have been followed up since the last report to this committee in March 2015. A summary of the priority of these actions is included in figure 1, below.

*Figure 1: actions followed up as part of the current review*

Priority of actions*	Number of actions followed up
1	2
2	15
3	53
<b>Total</b>	<b>70</b>

\* The priorities run from 1 (high risk issue) to 3 (lower risk)

3. Figure 2 below provides an analysis of the actions which have been followed up, by directorate.

*Figure 2: actions followed up by directorate*

Priority of actions	Number of actions followed up by directorate					
	OCE	CES	CANS	CSES	AS	CBSS
1 (High)	0	0	0	0	1	1
2 (Medium)	0	0	2	1	1	11
3 (Low)	0	0	4	28	0	21
<b>Total</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>29</b>	<b>2</b>	<b>33</b>

4. Of the 70 agreed actions 50 (71.4%) had been satisfactorily implemented and 3 (4.3%) were no longer needed<sup>1</sup>.
5. In a further 17 cases (24.3%) the action had not been implemented by the target date, but a revised date was agreed. This is done where the delay in addressing an issue will not lead to unacceptable exposure to risk and where, for example, the delays are unavoidable (eg due to unexpected difficulties or where actions are dependent on new systems being implemented). These actions will be followed up after the revised target date and if necessary they will be raised with senior managers in accordance with the escalation procedure. Figure 3 below shows the priority of these actions.

*Figure 3: priorities of actions with revised implementation dates*

Priority of actions	Number of actions with a revised implementation date
1 (High)	0
2 (Medium)	7
3 (Low)	10
<b>Total</b>	<b>17</b>

## Conclusions

6. The follow up testing undertaken confirms that in general good progress has been made by council departments to rectify weaknesses in control identified through internal audit work. This is an ongoing process and progress in implementing agreed actions will continue to be monitored and reported as required through the

<sup>1</sup> For example because of other changes to procedures or because the service has ended or changed significantly.



escalation procedure. There are no specific issues that need to be brought to the attention of the Audit and Governance Committee at this time.

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**Audit and Governance Committee**

23 September 2015

Report of the Monitoring Officer

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**RIPA and inspection by the Surveillance Commissioner**

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**Summary**

- 1 This report presents statistics about the council's application of the Regulation of Investigatory Powers Act 2000 (RIPA) and describes the council's progress in completing the recommendations made following the most recent inspection by the Office of the Surveillance Commissioner (OSC).

**Background**

- 2 Covert surveillance by a public authority, or the use of Covert Humans Intelligence Sources (CHIS) (ie agents), to gather information about a citizen will usually be a breach of his or her right to privacy under the Human Rights Act 1998. However it is permissible to do so to prevent or detect crime, if undertaken in accordance with the law. Under the Regulation of Investigatory Powers Act 2000 (RIPA), Codes of practice govern the authorisation of covert surveillance and CHIS. Compliance with RIPA and with the codes is regulated by the Office of the Surveillance Commissioner (OSC).
- 3 Communications data may also be gathered by a public authority if properly authorised. This is governed by different Codes of practice and a different regulator – the Interception of Communications Commissioner's Office (IOCCO).
- 4 Complying with the relevant Codes avoids the risks of:
  - evidence gathered being ruled inadmissible in court, thus risking a failure to successfully prosecute the crime
  - the citizen being able to seek compensation for having his or her privacy breached

- the council being seen to be interfering in citizens' lives, resulting in reputational damage

5 The main features of the Codes, as they affect the council's law enforcement activities, are:

- authorisation of intrusions by one of a small number of senior officers specially trained to do so
- approval of each authorisation by magistrates
- consideration in each case of why the intrusion is necessary, how it is proportionate to the criminal activity, and how intrusion into other citizens' privacy will be avoided or minimised

### **Use of surveillance powers**

6 The council's powers under RIPA are tightly constrained:

- the only permissible reason to breach a citizen's right to privacy is the prevention or detection of crime
- the crime must be serious – with a maximum sentence of at least six months, or involve underage sales of restricted goods
- intrusive surveillance – eg the use of bugs, or entry into private property – is **not** permitted
- only so-called "service use" and "subscriber" communications data may be obtained. "Traffic" data (eg anything identifying the sender or recipient of a message; the address on a letter in transit; or the location of a mobile phone) cannot be obtained
- access to the actual content of a message or conversation is not permitted

7 It follows that covert techniques are used mainly in support of other investigation methods, and are used in order to gather evidence. Nevertheless covert surveillance is a valuable tool; when it is necessary, it is necessary because there is no alternative.

- 8 The numbers of authorisations granted by the Council and reported to the OSC over recent years have been as follows:

	09/10	10/11	11/12	12/13	13/14	14/15
Covert surveillance	15	25	8	5	5	3
CHIS	1	0	0	2	0	0

There have been no authorisations so far in 2015/16.

- 9 Authorisations to gather communications data are reported to the IOCCO by calendar (not financial) year and were as follows:

	2009	2010	2011	2012	2013	2014
Authorisations	0	4	5	66	80	8

The number authorised so far in 2015 is: 3

- 10 The requirement for further approval by magistrates came into effect in November 2012.
- 11 These powers are used mainly by Trading Standards officers, and to a lesser extent in fraud investigations. There were no authorisations in Children's Services during the period above.
- 12 Some Trading Standards investigations uncover large scale frauds, for example in 2012 several defendants were prosecuted for a conspiracy to defraud their customers who had purchased poor quality and misdescribed motor vehicles including insurance write-offs. When customers complained they were subject to verbal abuse and threats of violence. The defendants received a variety of prison sentences of up to 3 ½ years and last year the court awarded a £6.5million confiscation order to recover the cost of their crimes. Information obtained from surveillance can be key in helping to piece together the evidence and trace hidden assets in cases of this nature.

### **Inspection**

- 13 The procedures required by the Codes of Practice provide protection for the public against unwarranted intrusions into

their privacy by council officers. A further layer of protection is provided by the magistrates' scrutiny, and the inspection regime of the Commissioners.

14 The council is inspected every three years or so by the OSC. There has been no inspection to date by the IOCCO.

15 An inspector from OSC visited the council in April 2015. The Commissioner regulates public authorities' use of RIPA by auditing compliance with the relevant Codes of Practice. The inspector's report did not identify any areas of concern in the council's practices but did identify a small number of improvements, as follows:

- the need for regular reporting of RIPA matters to members. It is proposed to report annually to this committee;
- amendments to the procedure. These have already been made and approved by the Director of Customer and Business Support Services;
- refresher training for authorising officers (and investigators). This training is planned for November 2015.

16 The agreed action plan is attached as annex 1. The Inspector's report itself is classified "Official Sensitive" (formerly "Restricted") and is not published as a background paper.

### **Consultation**

17 Not relevant for the purpose of the report.

### **Options**

18 Not relevant for the purpose of the report.

### **Analysis**

19 Not relevant for the purpose of the report.

## **Council Plan**

- 20 The committee supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.

## **Implications**

- **Crime and Disorder**

- 21 Covert investigations play a small but important role in evidence gathering for the prevention and detection of crime. The activity is governed by Codes of Practice which the council must adhere to.

- 22 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Information Technology (IT)**
- **Property**

## **Risk Management Assessment**

- 23 Failure to comply with the relevant Codes of Practice could result in the council being unable to prosecute criminals because evidence gathered by covert means is ruled inadmissible. It could also mean the council suffers financial loss and/or reputation damage as a result of citizens claiming that their human rights have been infringed.

## **Recommendation**

- 24 Members are asked to:
- a) Note the small but important contribution to crime prevention made by covert investigations by council officers, the current levels of activity and the outcomes of the recent inspection.

Reason

*To ensure that the council conducts covert surveillance in accordance with relevant legislation and fulfils the public interest in maintaining the privacy of its citizens*

**Contact Details**

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**Report  
Approved**



**Date 9/9/15**

**Specialist Implications Officers**

Not applicable

**Wards Affected:**

**All**



**For further information please contact the author of the report**

**Background Papers**

CYC RIPA procedure

**Annexes**

Annex 1 – RIPA action plan

**Glossary**

CHIS	Covert Humans Intelligence Sources
IOCCO	Interception of Communications Commissioner's Office
OSC	Office of the Surveillance Commissioner
RIPA	Regulation of Investigatory Powers Act



ref	Action	Responsible Person	Target Date	On Target (RAG)	Expected Outcome	Evidence of Success	report reference	Procedure ref
1	remove "urgency" field from Central Record	RB	Jun-15	● 3	revised spreadsheet; revised Procedure		11	
2	original documents to be added to central record	RB	Jun-15	● 2	RB's folder to include originals. RB to write to all investigators and authorisers to describe the change	RB's folder to include originals	14; 34.i	5.5
3	authorisations (originals) to RB immediately on completion and before submission to magistrates	RB	Jun-15	● 2	improved quality of applications and authorisations	RB's folder to include originals; revised procedure	17; 34.ii	5.5
4	training programme	RB/NB	Sep-15	● 3	training at 18/24 month intervals; inc managing CHIS and oversight of all four forms	attendance records	15.i; 34.iii	1.2, 4.9, 4.11, 7.1, 7.2
5	Legal Services sample-testing of authorisations	RB/AD	Jun-15	● 3	improved quality of applications and authorisations	stamp or GM/PC initial central record.	15.ii	7.1
6	quarterly (or annual) reports to members	RB/AD	Sep-15	● 3	reports to members; amend procedure	reports	15.v; 34.v	7.1
7	revise Procedure	RB	Jun-15	● 3	compliant procedure	AD check	25; 34.iv	

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RB Robert Beane  
 AD Andy Docherty  
 NB Nigel Burchall

● 1	Red – Will not meet target and outside acceptable/agreed tolerance levels; and/or substantial risks identified to completing on target
● 2	Amber – May not meet target but within acceptable / agreed tolerance levels; and/or completion date imminent
● 3	Green – If on or better than target; completed on time or will complete on time; no or limited risk to completing on time

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**Audit and Governance Committee****23 September 2015****Report of the Monitoring Officer****Deputy Leader's report to Council**

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**1. Background**

- 1.1 Both the previous Council procedure rules and those which came into force at the last meeting of Full Council make arrangements for a report from the Leader of the Council to be presented at each meeting and for the Leader to be questioned on that report. The rules were drafted in the context of the Council having previously been led by single party administrations either with or without an overall majority.
- 1.2 The current circumstances are, of course, different with a joint administration. There is an argument that it is right to provide Council with the opportunity to hold to account both the Leader and the Deputy Leader.
- 1.3 This Committee did consider the principle of introducing a Deputy Leader's report at its last meeting as part of its consideration of wider issues relating to democratic governance. Although differing views were expressed the majority of the Committee did not support the proposal. The proposal which came forward at the last meeting was for an "in principle" discussion only. There was limited detail provided of how such a system might work and one concern Members had was as to how it might be accommodated recognising the time pressures which exist at the Council meeting. The following specific proposal is therefore being put forward for consideration.
- 1.4 The proposal is that the existing rules for Cabinet Member reports will apply to the report of the Deputy Leader. He or she will therefore formally move receipt of the report but will not otherwise speak to it. There will be a ten minute slot allocated for questions of the report. In order to accommodate this, the Deputy Leader's

right to respond to the Leader's report will be removed saving five minutes. A further five minutes may be saved by reducing the time for questions on the Leader's report from fifteen to ten minutes.

- 1.5 Audit and Governance Committee is asked to formally refer this proposal to Council with such comments as the Committee wishes to make in relation to it.

## **2. Consultation**

- 2.1 This report is being Audit and Governance Committee by way of consultation before the proposal is referred to Council.

## **3. Council Plan**

- 3.1 Allowing opportunities to present and scrutinise the policies and actions of the joint administration will assist in achieving all Council plan priorities

## **4. Implications**

- 4.1 Legal - any change to the existing Council procedure rules will require a decision of Full Council. There are no other implications which need to be reported.

## **5. Recommendations**

- 5.1 Members are requested to refer to full Council a proposal that:

- a) The Council Procedure rules include provision for a report from the Deputy Leader

- b) The existing rules for Cabinet Members' reports be applied to the report of the Deputy Leader

- c) The Deputy Leader's right to respond to the Leader's report be removed from the Constitution

- d) The time for questions on the Leader's report be reduced from fifteen to ten minutes

**Reason** – to allow Full Council to consider the introduction of a Deputy Leader's report

5.2 Members are requested to make comments on the proposal to be reported to Council

**Reason**

To enable Council to have the benefit of the Committee's advice when debating the proposal

***Author and Chief  
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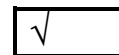
**Report  
Approved**



**Date** 14/09/2015

**Wards Affected:**

**All**



**For further information please contact the author of the report**

**Background Papers:**

None

**Annexes**

None

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