Notice of meeting of

Audit & Governance Committee

To:	Councillors Jeffries (Chair), Barnes, Brooks (Vice-Chair), Burton, Cuthbertson, Watson and Steward
Date:	Thursday, 29 September 2011
Time:	2.00 pm
Venue:	The Guildhall, York

AGENDA

Note:
As agreed at previous meetings, the Chief Internal Auditor and District Auditor (Audit Commission) will be present in the meeting room from 1.30 pm to provide a private briefing for Members, if required.

1. Declarations of Interest

At this point Members are asked to declare any personal or prejudicial interests they may have in the business on this agenda.

2. Minutes (Pages 3 - 10)

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on 26 July 2011.

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 Wednesday 28th September 2011**.

4. Forward Plan. (Pages 11 - 16)

This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to July 2012.

5. Final Statement of Accounts 2010/11. (Pages 17 - 154)

The purpose of this report is to bring to Members a revised and final set of Accounts for 2010/11, which reflect the changes that have been made since the draft pre-audit accounts were presented to Audit and Governance Committee for review, in line with CIPFA best practice, on 26th July 2011.

6. Annual Governance Report 2010/11. (Pages 155 - 160)

The purpose of this report is to bring to Members attention the Audit Commission's Annual Governance Report, agree the Council's response and seek approval to changes to the 2010/11 Financial Statements. A copy of the Audit Commission Annual Governance Report is attached at Annex A.

7. Annual Report of the Audit and Governance Committee. (Pages 161 - 176)

This report seeks Members' views on the draft annual report of the Audit and Governance Committee for the year ended 30 September 2011, prior to its submission to Full Council. The report also presents a draft assurance statement which the Committee has been requested to provide to the council's external auditors, the Audit Commission.

8. Key Corporate Risk Monitor 2. (Pages 177 - 190)

The purpose of this paper is to present to Audit & Governance Committee (A&G) an overview of the risks associated with the councils Key Corporate Risks (KCRs) as at the end of August 2011.

9. **Follow Up of Internal and External Audit Recommendations.** (Pages 191 - 196)

This is the regular six monthly report to the Audit and Governance Committee setting out progress made by Council departments in implementing actions agreed as part of internal audit work.

10. **Audit, Counter Fraud and Information Governance Monitoring Report.** (Pages 197 - 222)

This report provides an update to Members on the progress made in delivering the internal audit workplan for 2011/12 and on the current counter fraud and information governance activity.

11. **Urgent Business**

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

Democracy Officer:

Name: Laura Bootland
Contact details:

- Telephone – (01904) 552062
- E-mail – laura.bootland@york.gov.uk

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

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details are set out above.

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If you would, you will need to:

- register by contacting the Democracy Officer (whose name and contact details can be found on the agenda for the meeting) **no later than** 5.00 pm on the last working day before the meeting;
- ensure that what you want to say speak relates to an item of business on the agenda or an issue which the committee has power to consider (speak to the Democracy Officer for advice on this);
- find out about the rules for public speaking from the Democracy Officer.

A leaflet on public participation is available on the Council's website or from Democratic Services by telephoning York (01904) 551088

Further information about what's being discussed at this meeting
All the reports which Members will be considering are available for viewing online on the Council's website. Alternatively, copies of individual reports or the full agenda are available from Democratic Services. Contact the Democracy Officer whose name and contact details are given on the agenda for the meeting. **Please note a small charge may be made for full copies of the agenda requested to cover administration costs.**

Access Arrangements
We will make every effort to make the meeting accessible to you. The meeting will usually be held in a wheelchair accessible venue with an induction hearing loop. We can provide the agenda or reports in large print, electronically (computer disk or by email), in Braille or on audio tape. Some formats will take longer than others so please give as much notice as possible (at least 48 hours for Braille or audio tape).

If you have any further access requirements such as parking close-by or a sign language interpreter then please let us know. Contact the Democracy Officer whose name and contact details are given on the order of business for the meeting.

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Holding the Executive to Account

The majority of councillors are not appointed to the Executive (40 out of 47). Any 3 non-Executive councillors can ‘call-in’ an item of business from a published Executive (or Executive Member Decision Session) agenda. The Executive will still discuss the ‘called in’ business on the published date and will set out its views for consideration by a specially convened Scrutiny Management Committee (SMC). That SMC meeting will then make its recommendations to the next scheduled Executive meeting in the following week, where a final decision on the ‘called-in’ business will be made.

Scrutiny Committees

The purpose of all scrutiny and ad-hoc scrutiny committees appointed by the Council is to:

- Monitor the performance and effectiveness of services;
- Review existing policies and assist in the development of new ones, as necessary; and
- Monitor best value continuous service improvement plans

Who Gets Agenda and Reports for our Meetings?

- Councillors get copies of all agenda and reports for the committees to which they are appointed by the Council;
- Relevant Council Officers get copies of relevant agenda and reports for the committees which they report to;
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City of York Council	Committee Minutes
MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	26 JULY 2011
PRESENT	COUNCILLORS JEFFRIES (CHAIR), BARNES, BROOKS (VICE-CHAIR), BURTON, CUTHBERTSON, STEWARD AND SIMPSON-LAING (SUBSTITUTE)
APOLOGIES	COUNCILLORS WATSON

PART A - MATTERS DEALT WITH UNDER DELEGATED POWERS.

10. DECLARATIONS OF INTEREST

At this point in the meeting Members are asked to declare any personal or prejudicial interests they may have in the business on the agenda.

Councillor Barnes declared a personal non-prejudicial interest as a Trustee of York Museums Trust.

Councillor Jeffries declared a personal non-prejudicial interest as the co-chair of the Independent Living Network.

Councillor Brooks declared a personal non-prejudicial interest as a member of the teachers pension scheme.

Councillors Simpson Laing declared a personal non prejudicial interest due to her involvement with Relate and Unison.

Councillor Burton declared a personal non-prejudicial interest as a member of Unison.

11. EXCLUSION OF PRESS AND PUBLIC

RESOLVED:
That the press and public be excluded from the meeting during consideration of Annex E to Agenda Item 9 on the grounds that it contains information relating to negotiations in connection with a labour relations matter arising between the authority and

employees of the authority. This information is classed as exempt under paragraph 4 of Schedule 12A to Section 100A of the Local Government Act 1972 (as revised by The Local Government (Access to Information) (Variation) Order 2006). Also Annex 1 to agenda item 13. This information is classed as exempt under paragraphs 4 and 7 of Schedule 12A to Section 100A of the Local Government Act 1972 (as revised by the Local Government (Access to Information) (Variation) Order 2006

12. MINUTES

RESOLVED: That the minutes of the meeting held on 28 June 2011, be approved and signed by the Chair as a correct record.

13. PUBLIC PARTICIPATION

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

14. FORWARD PLAN

Members considered a paper that detailed the future plan of reports to be presented to the Committee during the forthcoming year to June 2012. Members were invited to identify further items they wished to add to the plan.

Officers advised that there was an amendment to the plan and that a report on the Review of the Effectiveness of the Audit and Governance Committee would be added to the meeting in April 2012.

Members queried the meeting date in September as there was some confusion over the date and time. The Democratic Services Officer confirmed that a further email would be sent to Members as a meeting date had yet to be agreed to consider the final draft statement of accounts before the 30th September.

RESOLVED: That the Committees Forward Plan for the period up to June 2012 be noted.

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

15. AUDIT COMMISSION AUDIT PROGRESS REPORT 2010-11

Members received a report that advised on the progress in delivering the 2010/11 Audit Plan from the Council's external auditor, the Audit Commission, including any requirements from those 'charged with governance' (The Audit and Governance Committee in City of York Council). The report also looked at 2011/12 audit fees and other developments including recent national activity.

A representative from the Audit Commission outlined the progress report. Some Members had queries that they said they would follow up outside of the meeting.

RESOLVED:	That Members considered the content of the progress report and noted the content and matters arising.
REASON:	To ensure the Committee is fully aware of the current activity of the external auditors and any issues that could affect the Council's system of internal control.

16. DRAFT STATEMENT OF ACCOUNTS 2010-11

Members received a report which, in accordance with the Chartered Institute of Public Finance and Accountancy, presented the draft pre-audit Statement of Accounts to Members.

Officers outlined the report and Members' attention was drawn to the following significant issues:

- The production and publication of the Statement of Accounts is a statutory requirement that provides Members and interested parties with the chance to see the full financial position of the Council.
- 2010/11 is the first year which the accounts have been produced under International Financial Reporting Standards (IFRS).
- The table at paragraph 9 outlined significant IFRS changes.

Members queried the use of brackets in the accounts. Officers advised that it is consistent with other Local Authorities, but not the private sector.

RESOLVED:	(i)That the Audit and Governance Committee noted the draft pre-audit Statement of Accounts for the financial year ended 31 March 2011. (ii)That the Audit and Governance Committee noted the annual governance statement.
REASON:	It is a statutory requirement that a committee of the Council or Full Council approves the Statement of Accounts for 2010/11 by 30th September 2011 and that prior to the final audit it is good practice for Members to review the pre-audit Statement of Accounts.

17. DRAFT ANNUAL GOVERNANCE STATEMENT 2010-11

Members considered a report which presented to them the Annual Governance Statement (AGS) 2010/11 for approval. The AGS was attached at Annex A and had been agreed by the Leader of the Council and the Chief Executive. A signed version will accompany the Statement of Accounts 2010/11.

Officers outlined the report and advised that it is a statutory requirement for the Council to publish the Annual Governance Statement.

RESOLVED: That Members considered and approved the Annual Governance Statement 2010/11, including the significant governance issues identified in Section 5 of the Statement.

REASON: To enable Members to consider the effectiveness of the Council's governance framework and in particular the significant control issues.

18. RISK MANAGEMENT QUARTER 1 MONITOR

Members considered a report which presented to them the position of the risks associated with the Key Corporate Risks (KCRs) as at the end of June 2011. The report also proposed changes to the way in which risks are reported in the future.

Officers outlined the report and advised that in future they propose a change to allow each Directorate to present its own risks to the Audit and Governance Committee on a rolling basis, whilst still providing the Committee with a cover report highlighting key risks.

Members commented that it would be useful to have the opportunity to question officers and that the proposal appeared sensible.

RESOLVED:(i) That Members considered and approved the change to risk reporting as set out at paragraph 3-6 of the report.

(ii) That in response to Officers suggestion of the Committee receiving the risk monitor report bi-annually, Members advised that they wish to continue receiving the risk monitor on a quarterly basis.

(iii) That Members considered and noted the risks set out at paragraph 7 and annexes A-E of the report.

REASONS: (i) To provide a more meaningful risk reporting process which better engages the directorates in their own risk issues.

(ii) To provide an option to Audit and Governance Committee on the frequency that they would like risks reported.

(iii) To provide assurance that risks to the Council are continuously reviewed and updated.

19. SCRUTINY OF THE TREASURY MANAGEMENT ANNUAL REPORT 2010-11 AND REVIEW OF PRUDENTIAL INDICATORS

Members considered a report which enables Members of Audit and Governance to scrutinise the 'Treasury Management Annual Report and Review of Prudential Indicators 2010/11' in accordance with the requirements of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance ("the Code").

Members considered the report and had a brief discussion regarding the Council's Investment Policy, in particular the security of investments.

RESOLVED: That Audit and Governance Committee noted the Treasury Management Annual Report 2009/10 & Review of Prudential Indicators at Appendix A to the report.

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.

PART B - MATTERS REFERRED TO COUNCIL.

20. CONSTITUTIONAL CHANGES.

Members considered a report which proposed constitutional changes relating to the Council Procedure Rules to Financial regulations and to various protocols which are in the Constitution.

The Monitoring Officer outlined the report and asked the Audit and Governance Committee for their views prior to the changes being presented to Council.

Some Members expressed concern over the wording in paragraph 2.1 of the report which suggested that all Group Leaders had agreed to amend the rule to allow 4 rather than 5 motions to be routinely presented to Council. Certain Members felt that the blanket statement 'the mechanism has been agreed' was not entirely true but were happy to agree the recommendation.

RECOMMENDED: (i) That Council amend the Council procedure rules to allow for four rather than five motions to be routinely presented to Council.

(ii) That Council remove the following protocols and policies from the Constitution:

- Protocol on report writing
- Electronic Communications policy
- Whistle blowing policy
- Protocol on Councillor Working Groups.
- Anti Money Laundering Guidance.

(iii) That Council increase the Chief Finance Officer's authority to write off debts to sums up to and including £30,000.

REASON: To ensure that the Constitution remains up to date and fit for purpose.

Councillor Jeffries, Chair
[The meeting started at 5.30 pm and finished at 6.45 pm].

Agenda Item 4

CITY OF YORK COUNCIL

Audit and Governance Committee 29 September 2011

Report of the Assistant Director of CBSS (Financial Services)

Audit & Governance Committee Forward Plan to July 2012

Summary

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to July 2012.

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 2012. 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. There are no amendments to the forward plan since the previous version was presented to this Committee in July 2011.

Consultation

4. 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

5. Not relevant for the purpose of the report.

Analysis

6. Not relevant for the purpose of the report.

Corporate Priorities

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

Implications

8.

(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

9. 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

10.

(a) The Committee's Forward Plan for the period up to July 2012 be noted.

<u>*Reason*</u>
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.

<u>*Reason*</u>
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

Author:	**Chief Officer Responsible for the report:**			
Helen Malam Systems Accountant Customer & Business Support Services Telephone: 01904 551738	Keith Best Assistant Director of CBSS (Financial Services) Telephone: 01904 551745			
	Report Approved	√	**Date**	19/09/2011

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 2012

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Annex 1

Audit & Governance Committee Draft Forward Plan to July 2012

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

- **<u>Committee 5 December 2011</u>**

  Annual Audit Letter – Audit Commission (if published)

  Internal Audit & Fraud Plan Progress Report

  Scrutiny of the Treasury Management Monitor 2 Report 2011/12 and Review of Prudential Indicators

  Key Corporate Risk Monitor Quarter 3 (including CANS and City Strategy Risks)

  Constitutional Changes following the Localism Bill (TBC)

  Audit Commission national reports summary (if any)
  Audit Commission reports as per agreed Audit & Inspection plan
  Others Changes to the Constitution (if any)

- **<u>Committee 13 February 2012</u>**

  Key Corporate Risk Monitor Quarter 4 (including ACE risks)

  Scrutiny of the Treasury Management Monitor 3 Report 2011/12 and Review of Prudential Indicators

  Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/17

  Update of Counter Fraud Policies

  Internal Audit Plan Consultation

  Audit & Fraud Risk Assessment

  Audit Commission reports as per agreed Audit & Inspection plan
  Changes to the Constitution (if any)

- **<u>Committee 2 April 2012</u>**

  Approval of Internal Audit Plan

  Internal Audit & Fraud Plan Progress Report

  Follow up of Internal and External Audit Recommendations

  Review of the Effectiveness of the Audit & Governance Committee

  Audit Commission national reports summary (if any)
  Audit Commission reports as per agreed Audit & Inspection plan
  Changes to the Constitution (if any)

- **<u>Committee June 2012 (Date TBC)</u>**

  Review of the Effectiveness of Internal Audit

  Annual Report of the Head of Internal Audit

  Draft Annual Governance Statement 2011/12

  Audit Commission reports as per agreed Audit & Inspection plan
  Changes to the Constitution (if any)

- **<u>Committee July 2012 (Date TBC)</u>**

  External Audit 2011/12 Audit Progress report

  Draft Statement of Accounts 2011/12

  Scrutiny of the Treasury Management Annual Report 2011/12 and Review of Prudential Indicators

  Key Corporate Risk Monitor Quarter 1

  Audit Commission national reports summary (if any)
  Audit Commission reports as per agreed Audit & Inspection plan
  Changes to the Constitution (if any)

CITY OF YORK COUNCIL

Agenda Item 5

Audit and Governance Committee 29 September 2011

Report of the Director of Customer & Business Support Services

2010/11 Final Statement of Accounts

Summary

1. The purpose of this report is to bring to Members a revised and final set of Accounts for 2010/11, which reflect the changes that have been made since the draft pre-audit accounts were presented to Audit and Governance Committee for review, in line with CIPFA best practice, on 26th July 2011.

2. The Audit Commission commenced their audit of the Statement of Accounts 2010/11 at the beginning of August and the next item on the agenda, item 6, will present to Members the findings of that audit, in the Annual Governance Report.

Background

3. The draft pre-audit Statement of Accounts for 2010/11 were signed by the Chief Finance Officer – Director of Customer & Business Support Services – on 30 June 2011. This is in accordance with the revised Accounts and Audit Regulations 2011.

4. The Statement of Accounts 2010/11 has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK, in line with International Financial Reporting Standards (IFRS).

5. 2010/11 has been the first year that the accounts have been produced under IFRS. Implementing this significant IFRS change agenda has proved demanding due to the increased workload, which has been compounded by the recent restructure in Financial Services. The pressure on staff with reduced resources, whilst also continuing to support the savings programmes across the authority, has meant that the production of the Statement of Accounts in 2010/11 has proved extremely challenging.

6. The 2010/11 Statement of Accounts attached at Annex A have been revised since the Audit & Governance Committee review in July 2011. The 4 core statements (Comprehensive Income & Expenditure Accounts, Movement in Reserves Statement, Balance Sheet and Cash flow Statement) have been adjusted which has resulted in the notes to the accounts also being amended.

7. It should be noted that these changes have no affect on the budget outturn position of the council which has remained at £117.4m. The changes to the Statement of Accountants are accounting adjustments to ensure they present a true & fair view.

8. The 2010/11 audit is now substantially complete. During the course of the audit to date, the audit commission has identified in their Annual Governance Report:
(a) a number of material misstatements which have been adjusted
(b) errors / uncertainities not material, which therefore have not been adjusted
(c) key risks
(d) Weaknesses in internal control
(e) Quality issues in the financial statements
The Annual Governance Report is attached to this agenda at item 6 “Annual Governance Report of the External Auditor” Annex A.

9. The annual production of the Statement of Accounts is the subject of continuous review and as usual, lessons will be gleaned from the issues identified this year, and these will form the basis of a structured improvement programme in the build up to the production of next years Statement of Accounts. The improvement programme will focus on:
   (i) raising the profile of Final Accounts allowing suitable time to be given to the production of the statements across finance
   (ii) (ii) realigning resources to the preparation of the Accounts following the restructure in Financial Services
   (iii) (iii) regular meeting with the external auditors
   (iv) (iv) training sessions for accountants to aid the closure of accounts process
   (v) (v) a detailed plan to ensure all deadlines are met
   (vi) (vi) purchase and implementation of a fixed asset register system.

Consultation

10. All services areas of the Authority have contributed to the final Statement of Accounts and working papers.

Options

11. Not relevant for the purpose of the report.

Analysis

12. Not relevant for the purpose of the report.

Corporate Priorities

13. The Statement of Accounts provides a technical financial summary of the activities of the council and assists in providing the Council with a viable financial position in which to base it future budget projections. It is a statutory requirement that the Audit & Governance Committee approves the Statement of Accounts after the audit by 30 September 2011.

Implications

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

Risk Management

15. Areas of risk identified throughout the Close of Accounts process are monitored and managed on an ongoing basis to ensure the statutory deadline is met. The risks identified in 2010/11 were
    - Technical ability and capability of personnel following the financial restructure
    - Impact of the changes to the regulations under which the accounts were produced due to the conversion of the accounting regulations for all Local Authorities from UK Generally Accepted Accounting practice (GAAP) to International Financial Reporting Standards (IFRS).

Recommendations

16. Members are asked to note the Final Statement of Accounts for 2010/11 in order that they can receive the Annual Governance Report of the Audit Commission at item 6 on this agenda.

Reason

It is a statutory requirement that a committee of the Council or Full Council approves the Statement of Accounts for 2010/11 by 30 September 2011

Contact Details

Author:	**Chief Officer Responsible for the report:**
Louise Branford-White Technical Finance Manager Telephone: 01904 551187	Ian Floyd Director of Customer & Business Support Services Telephone: 01904 551100
	Report Approved √ **Date** 26/09/11

Specialist Implications Officers
Not applicable

Wards Affected: **All** √

For further information please contact the author of the report

Background Papers:
Audit and Governance Committee 26h July 2011 – Pre-Audit Statement of Accounts 2010/11

Annex
Annex A – Final Statement of Accounts 2010/11

CITY OF YORK COUNCIL

Draft Statement Of Accounts

2010/11

THE GUILDHALL

YORK

The Guildhall is an integral part of York's history. It is built on the site of an earlier guildhall or "common hall" and is referred to in a charter of Henry III of 1256. However, the exact site of this building is unknown.

The present Guildhall dates from the mid-fifteenth century and an agreement with the Guild of St. Christopher in 1445 stipulates that the building costs were to be divided equally. The guild was granted the rest of the site reserving a right of entry from Coney Street across the yard to the Guildhall. (The City Council took over the whole site in 1549 following the Dissolution of King Henry VIII.)

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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 Authority's final accounts for the year ending 31 March 2011 with notes to give further details of the key figures. A summary of the purpose of each statement and an overview of the Authority's financial position is shown in this section.

Statement of Responsibilities

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

Comprehensive Income and Expenditure Statement

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

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Authority 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 Authority.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve where amounts would only become available to provide services if the assets are sold), 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 Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future 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 Authority.

Statement of 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. Authorities 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 Authority in relation to the collection from taxpayers and distribution to the Authority, North Yorkshire Police Authority, North Yorkshire Fire and Rescue Authority, parish councils and the 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 AUTHORITY'S ACCOUNTS

The Authority 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 Authority 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 - long-term borrowing, external finance, capital receipts from the sale of Council assets and from revenue.

EXPLANATORY FOREWORD

3. COMPREHENSIVE INCOME & EXPENDITURE STATEMENT AND MOVEMENT IN RESERVES STATEMENT

Despite continuing pressures on public sector expenditure, the Authority has been able to maintain its good financial health. Growth of £14.7m was approved in the 2010/11 budget process, although this was accompanied by savings of £10.3m.

The Authority's General Fund budget for its own net expenditure was set at £117.3m. To this sum the parish precepts added a further £0.5m.

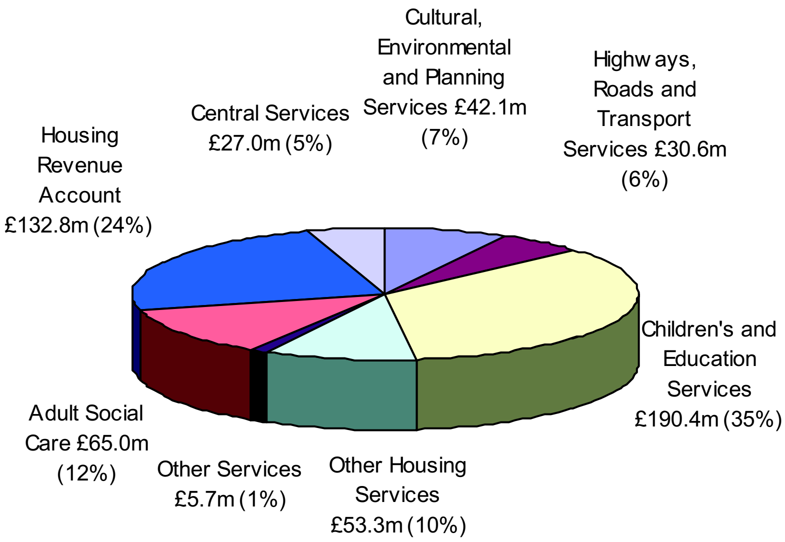
The out-turn position is net expenditure, including parish precepts, of £117.4m, an underspend of £0.4m. Included within the net underspend, however, are several service areas where items of expenditure that will have ongoing budgetary pressures into 2011/12. These have been identified and reported to Members and will be continually monitored during 2011/12.

The overspending budgets were compensated for by reduced expenditure/additional income in other areas, a proportion of which was known about when the budget for 2011/12 was set and is reflected in that budget. Of the remainder, Members have already agreed that £0.2m can be spent in 2011/12 to complete projects that could not be finalised in 2010/11.

Despite a number of cost pressures, the Authority through effective budget monitoring have been able to take action to reduce expenditure, with a view to ensuring its overall spending is in line with the approved budget.

The Authority's gross expenditure on services, as shown on the Income and Expenditure Account, was £556.8m and the following two diagrams show this firstly on a service by service basis and then by category of expenditure:

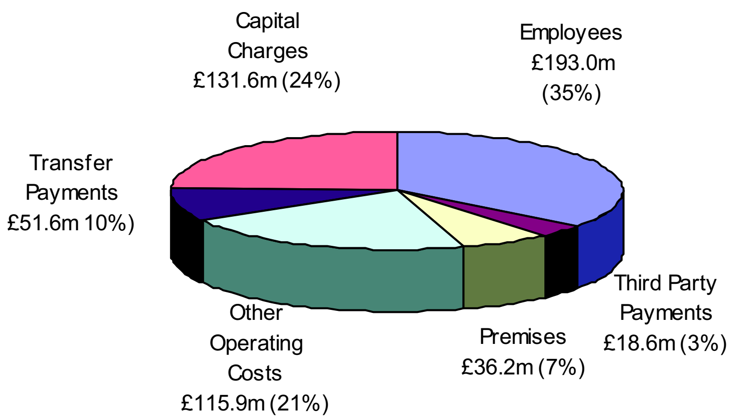
Gross Expenditure on Services 2010/11



Included within other services is expenditure on court services, corporate and democratic core, non-distributed costs and exceptional items.

EXPLANATORY FOREWORD

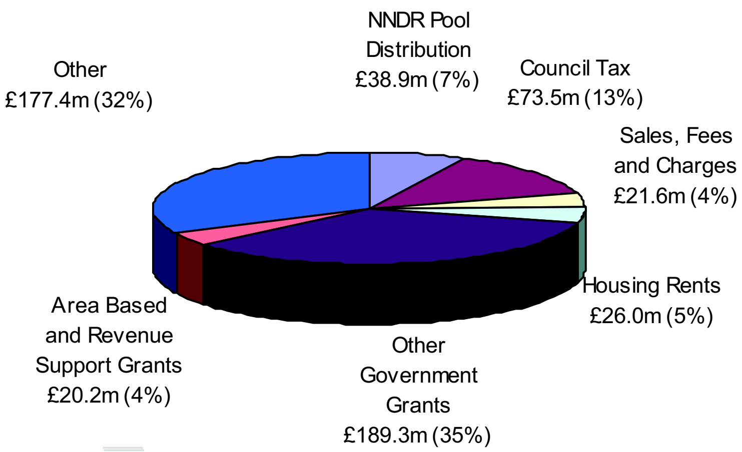
How the Money Was Spent 2010/11



In the above analysis employees costs include the full cost of employing all staff including teachers; third party payments include levies from Internal Drainage Boards; and transfer payments relate principally to benefit payments and rent rebates.

The funding of this expenditure is shown in the following diagram:

Funding of Gross Expenditure on Services



The diagram above shows General Fund income of £556.8m, £1.2m more than was needed to fund expenditure. The surplus is transferred to general fund balances, which now total £14.7m. However, of this total £7.3m relates to the amount held by governors under schemes to finance schools and so is not available for any other purposes. The sum available to support other services is therefore £7.4m.

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 Authority.

From 1 April 2001 the Authority 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 Authority to plan its housing strategy. This system ensures consistency with central government resource accounting structures and also promotes comparability between Authorities.

When the 2010/11 revenue estimates were approved, rents were increased by £1.14 per week or 1.83%, in accordance with the government's guideline increase. The HRA is in a ‘negative subsidy’ position, whereby the HRA pays over its assumed surplus to the Department for Communities and Local Government (DCLG). The payment for 2010/11 was estimated to be £6.145m compared to an actual at the year-end of £6.175m.

This variation together with those to other original budgets have resulted in a surplus on the HRA of £10.398m at the year-end, which is an increase of £1.647m from that originally budgeted for. The most significant variations have resulted from:

		£000's
(i)	Reduction in repairs and maintenance costs	58
(ii)	Reduced costs from departmental and support services, mainly due to staffing	274
(iii)	Reduced cost of providing temporary accommodation	132
(iv)	Reduced cost of providing sheltered accommodation	112
(v)	Increased HRA subsidy payment	(30)
(vi)	Reduced capital charges	1,063
(vii)	Increase in miscellaneous receipts	62
(viii)	Other minor variations	(24)
		1,647

5. COLLECTION FUND

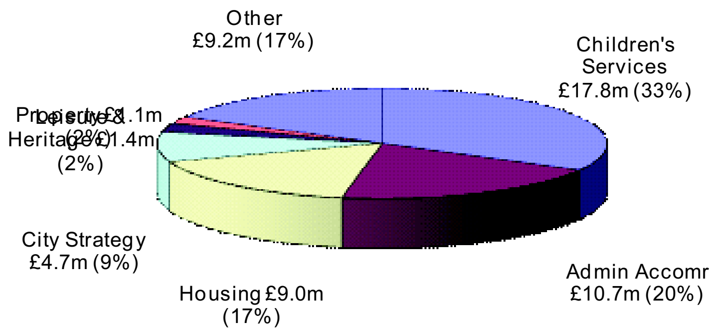
At 31 March 2011 the surplus on the Collection Fund is £1.348m although £0.263m of this is owed to the North Yorkshire Police Authority and the North Yorkshire Fire and Rescue Authority. While preparing for the 2011/12 budget it was estimated that the Authority’s share of an estimated surplus would be £1.000m and the 2011/12 council tax charge reflects the use of this sum to reduce the bills for residents. The year-end surplus has arisen due to increased recovery action taken during the last three months of the year. 97.9% of the total sum collectable for 2010/11 Council Tax bills was received in the year. Similarly the recovery on National Non-Domestic Rates, which the Authority bill and collect on behalf of the government, was 98.3% of the 2010/11 bills.

EXPLANATORY FOREWORD

6. CAPITAL EXPENDITURE

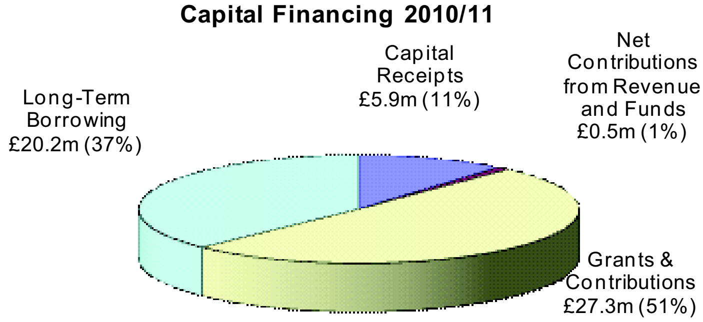
The original gross expenditure budget was £73.299m (2009/10 £64.3m), however, due to re-programming some of the work, the final budget was £64.296m (2009/10 £63.0m). Total expenditure on capital schemes in 2010/11 was £53.932m gross (2009/10 £58.5m). Of the underspend on capital schemes during 2010/11 £9.126m will increase spend on the projects during 2011/12 (2010/11 £0.4m). An analysis of where the money was spent in 2010/11 is shown diagrammatically below:

Capital Expenditure 2010/11



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

Capital Financing 2010/11



The Authority maintains a wide-ranging capital programme containing initiatives such as:

- The delivery of the Local Transport Plan (£3.483m)
- The modernisation and repairs to Council properties (£6.412m)
- Primary School Strategic Programme (Clifton with Rawcliffe and Our Lady Queen of Martyrs Primary Schools (£5.750m)
- New Deal for Schools modernisation and devolved capital works on a variety of schools (£2.798m)
- The resurfacing and refurbishment of the Authority's roads (£5.441m)
- Cycling City (£1.055m)

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 free to borrow as much as they like provided that it is prudent, affordable, sustainable and within the Prudential Indicators approved by the Authority at its meeting during the annual budget process.

The two key indicators in respect of capital borrowing are the authorised limit and the operational boundary. 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 Authority 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.

In February 2010, full Authority approved indicators for both the authorised limit and the operational boundary. During the year an amendment was agreed to the level of the operational boundary. Both authorisations are set out below:

	Opening Limits £000's	Amended Limits £000's
Authorised Limit	192,000	192,000
Operational Boundary	172,000	172,000
Long Term Debt	116,065	133,065

Although the Authority 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 2010/11 the Authority's long-term borrowing was as follows:

2009/10 £000's		2010/11 £000's
102,499	Opening Borrowing at 1 April	116,650
(434)	Reversal of Interest Owed & Adj Carry Value 2009/10	(585)
18,000	Borrowing to fund capital schemes	24,000
1,676	Interest Owed on Long Term Debt at 31st March	1,841
(1,091)	Adjusted Carry Value of Loans due Debt Restructure	(1,058)
(4,000)	Loans maturing in the year	(7,000)
116,650	Closing Borrowing at 31 March	133,848
186,000	Authorised Limit for year	192,000
145,000	Operational Boundary for year	172,000

PWLB debt of £7.0m was repaid in line with the original maturity dates of the loans in May 2010 (£4m) and February 2011 (£3m). The Authority drew down £14m of PWLB debt throughout 2010 at rates between 2.95% and 4.01%, and £10m of market debt at rates between 0.7% and 3.6%. No debt restructures took place during the year. Due to changes in the way in which the 2007 SORP required the Authority's long term debt position to be presented, each year the interest owed and the adjusted carrying value relating to the previous financial year must be reversed from the opening borrowing figure (as shown by the -£0.585m) with the new figures shown in full in the respective lines. In total at 31 March 2011 the Authority's debt was £133.848m (2009/10 £116.650m). Consequently, the Authority did not exceed either the authorised limit of £192m or the operational boundary of £172m. The average rate of interest on all long-term loans at 1 April 2010 was 4.37% and at 31 March 2011 was 4.223%.

EXPLANATORY FOREWORD

8. CHANGES IN ACCOUNTING POLICIES

The Main change in accounting policies is the move to an IFRS-based code from a UK GAAP-based SORP. This has resulted in a number of significant changes in accounting practice. The key accounting changes include:

- Grants and contributions for capital purposes will be recognised as income immediately rather than being deferred and released to revenue to match depreciation.
- The main financial statements have changed, and there are additional requirements regarding segment reporting.
- There is a greater emphasis on component accounting, and a greater emphasis on derecognising parts of an asset that are replaced.
- Property leases are classified and accounted for as separate leases of land and buildings.
- Other arrangements – contracts, leases etc – have been reviewed to determine whether they need to be reported as leasing transactions.
- Investment properties are measured at fair value, with gains and losses recognised in Surplus or Deficit rather than through the revaluation reserve.
- Impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset.
- The Code introduces a new classification of non-current assets held for sale. Specific criteria apply to this classification.
- All employee benefits are accounted for as they are earned by the employee. This will require accruals for items such as holiday pay.
- The definition of associates is based on the ability to control rather than actual control. This has been reviewed as part of group accounts and are not deemed material.

9. SIGNIFICANT POINTS TO NOTE IN RESPECT OF THE BALANCE SHEET

The Fixed Asset Register in 2010/11 has seen significant movement of £91.7m during the year. This is mainly as a result of the revaluation loss on the Housing Revenue Account Stock due to a change in the revaluation technique.

Depreciation was £17.1m, upward revaluation of £28m and capital expenditure contributing to the asset value of £43.8m.

The increase in long-term loans outstanding is the result of pro-active treasury management ensuring that the debt is drawn down at the most financially advantageous point when viewed over the medium term. Expectations are for the cost of long term borrowing to increase sharply and as a result a proportion of the Authority's debt has been taken to smooth the impact of the future borrowing rate rises.

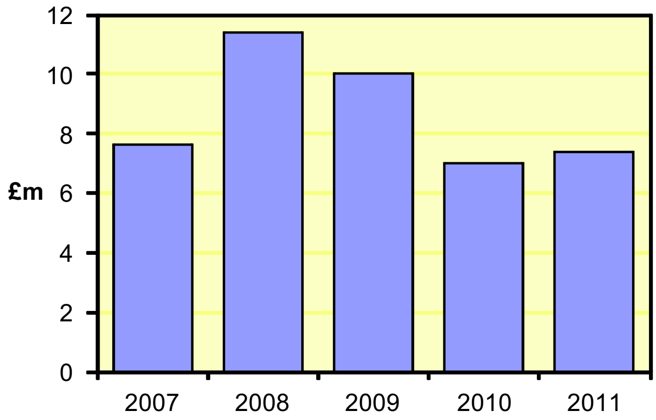
There is also an reduction in the Authority's share of the North Yorkshire Pension Fund's deficit of £43.045m from £189.978m to £148.073m. This decrease has been calculated by the Fund's actuaries based on assumptions about events and circumstances in the future. It is matched by a reduction in the level of the pensions reserve. The inclusion of both the liability and the reserve on the balance sheet are a statutory requirement.

10.REVIEW OF THE AUTHORITY'S FINANCIAL POSITION

At the beginning of the 2010/11 financial year the usable reserves stood at £43.1m. The equivalent resources at 31 March 2011 stand at £46.6m, including £7.3m for schools' accumulated reserves, £10.4m for the HRA and other earmarked reserves for insurance, major repairs and capital receipts. In compliance with the Education Reform Act 1988, individual school balances (ISB) will be carried forward into 2011/12. Of the remaining £7.4m of revenue reserves, it is currently planned to use £1.027m in 2011/12, leaving a balance of £6.4m.

The reserves are split into earmarked reserves, examples being an invest to save reserve and the insurance fund, and general fund reserves. Careful monitoring of the general fund reserve is undertaken to ensure that it is maintained at a minimum prudent level to cover any unforeseen circumstances given the size of the Authority'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.

Level of General Fund Revenue Reserves at 31 March



The benchmark recommended by the Comprehensive Performance Assessment (CPA) for local authorities was that there should be a minimum level of reserves equivalent to 5% of the net non-schools revenue budget. However, the Director of Customer and Business Support Services has also undertaken a risk assessment to calculate an alternative minimum level to hold, and this was incorporated into the Authority's budget reports. For 2010/11 this gives a recommended level of £5.8m.

As mentioned above, the actual level of reserves that can be taken into account for comparison to these levels amount to £7.4m at 31 March 2011. Of this £1.027m has already been committed in the 2011/12 budget, leaving a revised total of £6.4m. The Authority is committed to some large projects which, although provided for, will create significant financial demands on the Authority and therefore it is considered that £6.4m remains a prudent amount to retain as general fund reserves.

11.FUTURE DEVELOPMENTS

The Authority'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 council's financial position and an assessment of the main financial risks facing the council. This framework has enabled the Authority to deliver significant performance improvements in many areas, whilst maintaining effective control and use of its limited financial resources. The Authority is however facing significant risks and pressures over the medium term and these are identified in the following key financial challenges:

Reductions in Funding from Central Government

The government has stated it's intention to significantly reduce public sector spending commitments, the main details of which are being dealt with through the 3 year spending review which was announced in the autumn. The spending review and subsequent Localism Bill announced a raft of policy changes for Local Government, both in terms of the way services will be provided and how they will be funded. These changes will be consolidated into what is now known as the Local Government Resource Review, a wide ranging assessment of the financing of local authorities across the UK, the results of which will be reported back to the Secretary of State for Communities and Local Government sometime in 2011, and with a view to the changes taking effect from 2013/14. The Authority needs to continue to be able respond to the challenge of reduced funding whilst seeking to maintain priority services.

Economic Downturn

This includes:
- pressures resulting from the impact on the performance of the Authority's investments, an area which has traditionally provided strong support to the revenue budget
- higher demands for Council Services as the economic situation directly impacts on Citizens and business in the district
- the impact on income as a result of spending on fee generating services reducing, together with associated difficulties of income recovery.

Waste Management

This will be an area of significant cost pressure over the coming years as the Authority 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 Authority need to effectively manage as part of the financial planning process.

Pension Fund Deficit

The impact of the global financial problems on the investment returns of the Pension Fund has lead to increases in employers' contributions following the most recent triennial valuation of the Pension Fund. Any further increases in contribution rates will impact adversely on the Authority's revenue budget.

Capital Programme

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

Efficiency Programme

The Authority's Medium Term Financial Plan sets out the scale of efficiency/other 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 Authority will need to consider both efficiency and overall levels of service provision.

INDEPENDENT AUDITOR'S REPORT

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

Opinion on the Council's accounting statements

I have audited the accounting statements of City of York Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 the auditor

As explained more fully in the Statement of Responsibilities, 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 Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Council; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

give a true and fair view of the state of City of York Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;

- and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

Council's responsibilities

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.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself 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 me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, 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 me to consider under the Code of Audit Practice in satisfying myself 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 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I 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 my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am 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 2011.

Certificate

I certify that I 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.

Steve Nicklin
Engagement Lead
Audit Practice, Audit Commission
Nickalls House
Gateshead

29 September 2011

STATEMENT OF RESPONSIBILITIES

1. THE AUTHORITY'S RESPONSIBILITIES

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority that officer is the 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

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

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 judgments 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

I certify that the Statement of Accounts presents fairly the position of the City of York Council at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Signed ………………………….. Dated …………………………
I.M. Floyd B. Sc. (Hons), CPFA
Director of Customer and Business Support Services

4. APPROVAL OF THE ACCOUNTS

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 29 September 2011.

On behalf of the Audit and Governance Committee

Signed ………………………….. Dated …………………………
Cllr L. Jeffries
Chair, Audit and Governance Committee

CORE FINANCIAL STATEMENTS

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2009/10				Note	2010/11		
Gross Exp. £000's	Income £000's	Net Exp. £000's			Gross Exp. £000's	Income £000's	Net Exp. £000's
			Service Costs				
28,772	(22,198)	6,574	Central Services to the Public		27,321	(18,479)	8,842
52,040	(15,409)	36,631	Cultural, Environmental and Planning Services		42,085	(12,054)	30,031
192,498	(164,113)	28,385	Children's and Education Services		190,411	(153,669)	36,742
22,848	(16,081)	6,767	Highways, Roads and Transport Services		30,561	(12,729)	17,832
28,999	(35,175)	(6,176)	Local Authority Housing (HRA)		132,817	(29,141)	103,676
52,843	(49,469)	3,374	Other Housing Services		53,333	(45,882)	7,451
61,269	(17,163)	44,106	Adult Social Care		64,980	(20,280)	44,700
4,203	(14)	4,189	Corporate and Democratic Core		4,281	(25)	4,256
868	(21)	847	Non-Distributed Costs		192	(15)	177
466	(1,265)	(799)	Exceptional Items		956	(28,895)	(27,939)
444,806	(320,908)	123,898	**Cost of Services**		546,937	(321,169)	225,768
2,409	(2,215)	194	Other Operating Expenditure	(9)	8,768	(7,469)	1,299
20,834	(4,462)	16,372	Financing and Investment Income and Expenditure	(10)	18,568	(7,118)	11,450
-	(124,978)	(124,978)	Taxation and Non-Specific Grant Income	(11)	-	(152,720)	(152,720)
468,049	(452,563)	15,486	**(Surplus)/Deficit on Provision of Services**		574,273	(488,476)	85,797
		(17,797)	Surplus/loss arising on the revaluation of property, plant and equipment assets				2,969
		-	Surplus/loss arising on the revaluation of available-for-sale financial assets				-
		32,964	Actuarial (gains)/losses relating to pensions	(24)			(23,402)
		15,167	**Other Comprehensive Income and Expenditure**				(20,433)
		30,653	**Total Comprehensive Income and Expenditure**				65,364

MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance £000's	Earmarked GF 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
Balance at 31 March 2009		**(15,663)**	**(17,762)**	**(7,514)**	**(1,475)**	**(62)**	**-**	**(733)**	**(43,209)**	**(494,796)**	**(538,005)**
Movement in Reserves during 2009/10											
Surplus /(Deficit) on Provision of Services		19,643	-	(4,157)	-	-	-	-	15,486	-	15,486
Other Comprehensive Income and Expenditure movement		-	-	-	-	-	-	-	-	15,167	15,167
Total Comprehensive Expenditure and Income		19,643	-	(4,157)	-	-	-	-	15,486	15,167	30,653
Adjustments between accounting basis & funding basis under regulations	7	(15,822)	-	2,483	-	(741)	(154)	(1,110)	(15,344)	15,344	-
Net Increase/Decrease before Transfers to Earmarked Reserves		3,821	-	(1,674)	-	(741)	(154)	(1,110)	142	30,511	30,653
Transfers to/from Earmarked Reserves	8	(1,884)	1,884	308	(308)	-	-	-	-	-	-
Increase/Decrease in Year		1,937	1,884	(1,366)	(308)	(741)	(154)	(1,110)	142	30,511	30,653
Balance at 31 March 2010 carried forward		**(13,726)**	**(15,878)**	**(8,880)**	**(1,783)**	**(803)**	**(154)**	**(1,843)**	**(43,067)**	**(464,285)**	**(507,352)**
Balance at 31 March 2010		**(13,726)**	**(15,878)**	**(8,880)**	**(1,783)**	**(803)**	**(154)**	**(1,843)**	**(43,067)**	**(464,285)**	**(507,352)**
Movement in Reserves during 2010/11											
Surplus /(Deficit) on Provision of Services		(18,848)	-	104,645	-	-	-	-	85,797	-	85,797
Other Comprehensive Income and Expenditure movement		-	-	-	-	-	-	-	-	(20,433)	(20,433)
Total Comprehensive Expenditure and Income		(18,848)	-	104,645	-	-	-	-	85,797	(20,433)	65,364
Adjustments between accounting basis & funding basis under regulations	7	17,129	213	(106,500)	-	136	(836)	529	(89,329)	89,329	-
Net Increase/Decrease before Transfers to Earmarked Reserves		(1,719)	213	(1,855)	-	136	(836)	529	(3,532)	68,896	65,364
Transfers to/from Earmarked Reserves	8	734	(734)	337	(337)		-	-	-	-	-
Increase/Decrease in Year		(985)	(521)	(1,518)	(337)	136	(836)	529	(3,532)	68,896	65,364
Balance at 31 March 2011 carried forward		**(14,711)**	**(16,399)**	**(10,398)**	**(2,120)**	**(667)**	**(990)**	**(1,314)**	**(46,599)**	**(395,389)**	**(441,988)**

Amount of General Fund Balance held by governors under schemes to finance schools	£ 7,399k
Amount of General Fund Balance generally available for new expenditure	£ 7,312k
Total General Fund Balance	£14,711k

BALANCE SHEET

31 March 2009 £000's	31 March 2010 £000's		Note	31 March 2011 £000's
727,542	756,823	Property, Plant and Equipment	(12)	660,090
45,909	44,247	Investment Property	(13)	43,117
3,266	2,214	Intangible Assets	(14)	2,162
5,215	1,215	Long - Term Investments	(39)	1,215
22,003	4,023	Long - Term Debtors		4,318
803,935	808,522	**LONG - TERM ASSETS**		710,902
22,187	17,232	Short-Term Investments	(15)	24,046
-	-	Assets Held for Sale	(20)	-
556	506	Inventories	(16)	495
23,378	26,989	Short-Term Debtors	(18)	21,009
13,991	17,453	Cash and Cash Equivalents	(19)	20,405
60,112	62,180	**CURRENT ASSETS**		65,955
(5,556)	(8,676)	Short-Term Borrowing	(15)	(11,942)
(5,110)	(5,905)	Provisions due to be settled within 12 months	(22)	(4,728)
(35,612)	(39,179)	Short-Term Creditors	(21)	(37,895)
(46,278)	(53,760)	**CURRENT LIABILITIES**		(54,565)
(55)	(41)	Long-Term Creditors		(28)
(3,437)	(2,497)	Provisions	(22)	(2,120)
(96,943)	(108,147)	Long-Term Borrowing		(122,181)
(28,387)	(8,927)	Other Long-Term Liabilities		(7,902)
-	-	Capital Grants Receipts in Advance		-
(150,942)	(189,978)	Liability related to Defined Benefit Pension Scheme		(148,073)
(279,764)	(309,590)	**LONG-TERM LIABILITIES**		(280,304)
538,005	507,352	**NET ASSETS**		441,988
		RESERVES		
		Usable Reserves	(23)	
-	154	Capital Receipts Reserve		990
15,663	13,726	General Fund Balance		14,711
7,514	8,880	Housing Revenue Account Reserve		10,398
62	803	Major Repairs Reserve		667
733	1,843	Capital Grants Unapplied		1,314
19,237	17,661	Earmarked Reserves		18,519
43,209	43,067			46,599
		Unusable Reserves	(24)	
25,069	41,670	Revaluation Reserve		37,003
627,823	619,719	Capital Adjustment Account		511,989
-	-	Available-for-sale Financial Instruments Reserve		-
(2,343)	(2,198)	Financial Instruments Adjustment Account		(2,173)
(150,942)	(189,978)	Pensions Reserve		(148,073)
299	975	Collection Fund Adjustment Account		1,085
(5,110)	(5,903)	Employee Benefit Adjustment Account		(4,442)
494,796	464,285			395,389
538,005	507,352	***TOTAL RESERVES***		441,988

CASH FLOW STATEMENT

2009/10 Restated £000's		Note	2010/11 £000's
15,486	Net (Surplus)/Deficit on the provision of Services		85,796
1,085	Adjustments to the Net (Surplus)/Deficit on the Provision of Services for non-cash movements		(105,719)
2,239	Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are investing and financing activities		7,469
18,810	Net Cash Flows from Operating Activities	(25)	(12,454)
(10,178)	Investing Activities	(26)	25,231
(12,094)	Financing Activities	(27)	(15,729)
(3,462)	Net (Increase)/Decrease in Cash and Cash Equivalents		(2,952)
(13,991)	Cash and Cash Equivalents at the beginning of the reporting period		(17,453)
(17,453)	Cash and Cash Equivalents at the end of the reporting period		(20,405)

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTES TO THE CORE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

I. General

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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 Authority 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 Authority.
- Revenue from the provision of services is recognised when the Authority 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 Authority.
- 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 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 Authority'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 Authority's financial performance.

NOTES TO THE CORE FINANCIAL STATEMENTS

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 Authority'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 Authority 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 authority 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 Authority. 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 Authority 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 Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

NOTES TO THE CORE FINANCIAL STATEMENTS

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority 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 Authority are members of two separate pension schemes:

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

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it 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 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 Authority 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.
- 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 Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.
- The change in the net pensions liability is analysed into seven 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
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- gains or losses on settlements and curtailments – the result of actions to relieve the Authority 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 Authority 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 Authority 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 Authority becomes a party to the contractual provisions of a financial instrument and 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 most of the borrowings that the Authority 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 Authority 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 Authority 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 Authority 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 derecognition of 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 Authority 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 Authority.

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 Authority entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are 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 Authority 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 Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority 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.

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.

Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ring fenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Business Improvement Districts

A Business Improvement District (BID) is funded by a BID levy paid by non-domestic ratepayers. There are no BID schemes in place in the Authority's area.

XII. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority 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 Authority.

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 Authority 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 Authority'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 Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

XIII. Interests in Companies and Other Entities

The Authority 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 Authority to prepare Group Accounts. The following paragraphs list those companies and describe the nature of the Authority's interest.

York Business Development Limited
York Business Development Limited is a company limited by guarantee and has been approved by the Secretary of State for Employment as a local Enterprise Agency under Section 79(c) of the Income and Corporation Taxes Act 1988. City of York Council is a Co-Sponsor, but does not have a controlling influence.

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.

York Energy Savers
York Energy Savers is a not-for-profit company set up to provide energy efficiency within the City of York and surrounding area. The Authority has two representatives on the Board of Representatives that manages the Company.

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.

XIV. 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.

XV. 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 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

XVI. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority 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.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

XVII. 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 Authority 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 Authority 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 authority at the end of the lease period).

The Authority 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 Authority as Lessor

Finance Leases

Where the Authority 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 Authority'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 Authority 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

XVIII. 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 Best Value Accounting Code of Practice 2010/11 (BVACOP). 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 Authority'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 BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

XIX. 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 Authority 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.

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 Authority 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 Authority). 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 Authority.

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, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, 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 componentization, which accounts for 80% of depreciation charged to the Comprehensive Income & Expenditure Account. 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 valuation 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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 – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- 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.

The Authority is not carrying any assets as assets held for sale as they have been reclassified back to their non-current asset classification.

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 housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) 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 Authority'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.

XX. 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 Authority 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 Authority at the end of the contracts for no additional charge, the Authority 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 Authority. This applies to Hob Moor School only. For St Oswalds and St Barnabas where the Authority 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 of 4.01% 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.

XXI. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority 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 Authority 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 Authority 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 Authority settles the obligation.

Provision for Back Pay Arising from Unequal Pay Claims

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

Landfill Allowance Schemes

Landfill allowances, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority 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 Authority. 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 Authority 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 Authority.

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.

XXII. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service 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, retirement and employee benefits and do not represent usable resources for the Authority – 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.

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 Authority. The earmarked reserves held by the Authority are detailed in notes 23 and 24 to the Core Statements. The major ones are:

The Major Repairs Allowance (MRA), paid as part of HRA subsidy, provides authorities with the resources needed to maintain the value of their housing stock over time. Authorities 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. These funds are then available to authorities 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.

The Authority established a **Venture Fund** with an initial capital of £4m. The Fund makes monies available for Authority 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.

During 2008/09 an **Invest to Save** Fund was established to enable the Authority to meet its efficiency and strategic procurement programmes over the coming financial years. Repayments will be made back to the fund from efficiencies made.

The Department for Communities and Local Government (DCLG) has changed the HRA subsidy arrangements. As part of the changes the HRA subsidy for debt repayment has been removed and as a consequence of this the requirement for the HRA to make a compulsory ‘set-aside’ of monies for debt repayment has been removed. A reserve has therefore been created in order to set funds aside for the future **voluntary repayment** of HRA debt.

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

The **Pensions 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.

Revenue Government Grants and Contributions

Whether paid on account, by instalments or in arrears, revenue government grants and third party contributions and donations are recognised as income at the date that the Authority satisfies the conditions of entitlement to the grant/contribution, and there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant and Area Based Grant) are credited to the foot of the Comprehensive Income and Expenditure Statement as part of Taxation and Specific Grant Income.

NOTES TO THE CORE FINANCIAL STATEMENTS

XXIII. 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 Authority 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.

XXIV. 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.

XXV. Comparative Figures

Comparative figures for the previous financial year are either shown in the left hand column or in brackets after the current year figure. The Code of Practice has required revised comparative figures for 2009/10 resulting from the changes set out in the following section. In all cases the notes have also been amended to reflect the revised figures.

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

HERITAGE ASSETS: IMPACT OF THE ADOPTION OF THE NEW STANDARD ON THE FINANCIAL STATEMENTS - EFFECTIVE FOR THE 2011/12 FINANCIAL YEAR

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Authority, which will need to be adopted fully by the Authority in the 2011/12 financial statements.

The Authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Authority, in this case, heritage assets. As is set out above, full adoption of the standard will be required for the 2011/12 financial statements. However, the Authority is required to make disclosure of the estimated effect of the new standard in these (2010/11) financial statements. The new standard will require that a new class of asset, heritage assets, is disclosed separately on the face of the Authority's Balance Sheet in the 2011/12 financial statements.

Heritage assets are assets that are held by the Authority principally for their contribution to knowledge or culture. In an historic city such as York, the heritage assets held by the Authority are mainly ancient monuments and structures, such as the City Walls and war memorials. In addition, the Authority is the freehold owner of the City Art Gallery, York Castle Museum, St Mary's Heritage Centre, the Hospitium and St Mary's Abbey ruins all of which are let on long leases to York Museums Trust at peppercorn rents.

The Code will require that heritage assets are measured at valuation in the 2011/12 financial statements (including the 2010/11 comparative information). However, it is considered that the City Walls and the Bootham Abbey Walls are too extensive to value and this exemption is permitted by the 2011/12 Code.

The carrying value of heritage assets currently held in the Balance Sheet within Property, Plant and Equipment at 1 April 2010 is £0.5 million.

The amount of any revaluation gains and losses to be recognised on reclassification is not yet known.

There is no depreciation charged on the heritage assets that are currently classified as community assets because it has been estimated that the assets have a useful life of such length that any depreciation charge on the asset will be negligible and can be ignored on the basis of materiality. The Authority considers that the heritage assets held by the Authority will have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the authority's heritage assets.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

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 Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority 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 Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and 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 Authority 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.
Pensions Liability	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.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £7.1m

NOTES TO THE CORE FINANCIAL STATEMENTS

5. MATERIAL ITEMS OF INCOME AND EXPENSE

The Comprehensive Income and Expenditure Statement shows the Authority's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise Council Tax on a different accounting basis, the main differences are:

- capital investment is accounted for as it is financed, rather than when the fixed assets are consumed
- retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- the payment of a share of housing capital receipts to the Government scores as a loss in the Comprehensive Income and Expenditure Statement, but is met from the usable capital receipts balance rather than Council Tax.

6. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Director of Customer and Business Support Services on 30 June 2011. 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 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2011 as they provide information that is relevant to an understanding of the Authority's financial position but do not relate to conditions at that date.

North Yorkshire County Council will enter into a commercial agreement for the provision of a long term waste management service contract prior to September 2011 with AmeyCespa. As part of the agreement City of York Council will enter a Joint Waste Management Agreement with the County Council. This post Balance Sheet event is disclosed in note 48 as a Material Contingent Liability. The financial statements and relevant disclosure notes have not been adjusted as this event is considered to be a non-adjusting event.

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 Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

NOTES TO THE CORE FINANCIAL STATEMENTS

2010/11

	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
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	(10,797)	-	(7,553)	-	-	-	**(18,350)**
Revaluation losses on Property Plant and Equipment	(10,107)	-	(104,311)	-	-	-	**(114,418)**
Movements in the market value of Investment Properties	2,132	-	106	-	-	-	**2,238**
Amortisation of intangible assets	(1,115)	-	-	-	-	-	**(1,115)**
Capital grants and contributions applied	20,749	213	562	-	-	-	**21,524**
Movement in the Donated Assets Account	-	-	-	-	-	-	**-**
Revenue expenditure funded from Capital under statute	(10,074)	-	-	-	-	-	**(10,074)**
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	(4,895)	-	(2,587)	-	-	-	**(7,482)**
Insertion of items not debited or credited to the Comprehensive income and Expenditure Statement:							
Statuatory provision for the financing of capital investment	6,013	-	-	-	-	-	**6,013**
Capital expenditure charged against the General Fund and HRA balances	-	-	399	-	-	-	**399**
Adjustments primarily involving the Capital Grants Unapplied Account:							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-	**-**
Appliation of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	529	**529**
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	5,638	-	1,831	-	(7,469)	-	**-**
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	-	5,929	-	**5,929**
Contribution from the Capital Receipts Reserve toward administrative costs of non-current asset disposals	-	-	-	-	-	-	**-**

NOTES TO THE CORE FINANCIAL STATEMENTS

Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-	-	(704)	-	704	-	**-**
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-	**-**
Adjustments primarily involving the Deferred Capital Receipts Reserve:							
Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-	**-**
Adjustment primarily involving the Major Repairs Reserve:							
Reversal of Major Repairs Allowance credited to the HRA	-	-	5,243	(5,243)	-	-	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	5,379	-	-	**5,379**
Adjustment primarily involving the Financial Instruments Adjustment Account:							
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	25	-	-	-	-	-	**25**
Adjustment primarily involving the Pensions Reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	2,640	-	76	-	-	-	**2,716**
Employer's pensions contributions and direct payments to pensioners payable in the year	15,381	-	406	-	-	-	**15,787**
Adjustments primarily involving the Collection Fund Adjustment Account:							
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	110		-	-	-	-	**110**
Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:							
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 statutory requirments	-	-	-	-	-	-	**-**
Adjustment primarily involving the Accumulated Absences Account:							
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	1,429	-	32	-	-	-	**1,461**
Total Adjustments:	**17,129**	**213**	**(106,500)**	**136**	**(836)**	**529**	**(89,329)**

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments between Accounting Basis and Funding Basis under Regulations – 2009/10

2009/10	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(18,481)	(2,349)	-	-	-	**(20,830)**
Revaluation losses on Property Plant and Equipment	(14,811)	-	-	-	-	**(14,811)**
Movements in the market value of Investment Properties	(294)	(497)	-	-	-	**(791)**
Amortisation of intangible assets	-	-	-	-	-	**-**
Capital grants and contributions applied	23,081	-	-	-	-	**23,081**
Movement in the Donated Assets Account	-	-	-	-	-	**-**
Revenue expenditure funded from Capital under statute	(5,666)	-	-	-	-	**(5,666)**
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	(894)	(596)	-	-	-	**(1,490)**
Insertion of items not debited or credited to the Comprehensive income and Expenditure Statement:						
Statutory provision for the financing of capital investment	4,539	-	-	-	-	**4,539**
Capital expenditure charged against the General Fund and HRA balances	958	707	-	-	-	**1,665**
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	**-**
Appliation of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(1,110)	**(1,110)**
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	1,620	595	-	(2,215)	-	**-**
Use of the Capital Receipts Reserve to finance new capital expenditure		-	-	1,727	-	**1,727**
Contribution from the Capital Receipts Reserve toward administrative costs of non-current asset disposals	-	-	-	-	-	**-**

NOTES TO THE CORE FINANCIAL STATEMENTS

Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-	(334)	-	334	-	**-**
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	**-**
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	**-**
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	-	5,127	(5,127)	-	-	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	4,386	-	-	**4,386**
Adjustment primarily involving the Financial Instruments Adjustment Account:						
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	145	-	-	-	-	**145**
Adjustment primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(20,572)	(601)	-	-	-	**(21,173)**
Employer's pensions contributions and direct payments to pensioners payable in the year	14,675	426	-	-	-	**15,101**
Adjustments primarily involving the Collection Fund Adjustment Account:						
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	676	-	-	-	-	**676**
Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:						
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 statutory requirments	-	-	-	-	-	**-**
Adjustment primarily involving the Accumulated Absences Account:						
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	(798)	5	-	-	-	**(793)**
Total Adjustments:	**(15,601)**	**2,483**	**(741)**	**(154)**	**(1,110)**	**(15,123)**

NOTES TO THE CORE FINANCIAL STATEMENTS

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 2010/11.

Balance at 31.3.10 £000's		Transfers Out During Year £000's	Transfers In During Year £000's	Balance at 31.3.11 £000's
	General Fund			
(1,208)	Investment Reserves	-	-	(1,208)
(2,219)	Venture Fund	854	(10)	(1,375)
(4,146)	Developers Contributions Unapplied	1,538	(2,057)	(4,665)
(1,050)	Insurance Fund	260	(355)	(1,145)
(796)	Invest to Save	330	(100)	(566)
(6,459)	Miscellaneous	4,567	(5,548)	(7,440)
	HRA			
182	53rd Week Rent	94	-	276
(1,965)	Voluntary Debt Repayment	-	(431)	(2,396)
(17,661)		7,643	(8,501)	(18,519)

9. OTHER OPERATING EXPENDITURE

2009/10				2010/11
£'000's				£'000's
585		Parish council precepts		582
-		Levies		-
335		Payments to the Government Housing Capital Receipts Pool		704
(726)		Gains/losses on the disposal of non-current assets		13
194		Total		1,299

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2009/10 £'000's		2010/11 £'000's
5,440	Interest payable and similar charges	6,463
11,620	Pensions interest cost and expected return on pensions	8,567
(1,171)	Interest receivable and similar income	(827)
791	Income and expenditure in relation to investment properties and changes in their fair value	(2,238)
(308)	Other investment income	(515)
16,372	Total	11,450

11. TAXATION AND NON SPECIFIC GRANT INCOMES

2009/10 £'000's		2010/11 £'000's
(71,317)	Council tax income	(73,459)
(35,326)	Non domestic rates	(38,919)
(17,043)	Non-ringfenced government grants	(22,284)
(1,292)	Capital grants and contributions	(18,058)
(124,978)	Total	(152,720)

NOTES TO THE CORE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	Council dwellings £000's	Other land and buildings £000's	Vehicles, plant furniture & equipment £000's	Infra-structure Assets £000's	Assets under Cons-truction £000's	Total Property, plant & Equipment £000's	PFI Assets included in Property, plant & equipment £000's
Net Book Value							
At 1 April 2010	374,077	274,843	7,097	80,486	20,320	756,823	14,513
Category Adjustments	-	5,620	1,792	3,895	(11,311)	(4)	-
Restated 1 April 2010	374,077	280,463	8,889	84,381	9,009	756,819	14,513
Additions	7,039	4,505	2,485	7,992	20,751	42,772	20
Donations	-	-	-	-	-	-	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(7,499)	4,001	712	97	-	(2,689)	-
Revaluation increases/ (decreases) recognised in the (Surplus)/Deficit on the Provision of services	(104,311)	(9,919)	(712)	(158)	-	(115,100)	-
Derecognition - disposals	(2,587)	(1,500)	-	-	-	(4,087)	-
derecognition - other	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-
Depreciation charge	(7,349)	(4,544)	(3,137)	(2,595)	-	(17,625)	(254)
Impairment losses/ (reversals) recognised on the Provision of Services	-	-	-	-	-	-	-
Net Book Value							
At 31 March 2011	**259,370**	**273,006**	**8,237**	**89,717**	**29,760**	**660,090**	**14,279**

NOTES TO THE CORE FINANCIAL STATEMENTS

Comparative Movements in **2009/10:**

	Council dwellings £000's	Other land and buildings £000's	Vehicles, plant furniture & equipment £000's	Infra-structure Assets £000's	Assets under Cons-truction £000's	Total Property, plant & Equipment £000's	PFI Assets included in Property, plant & equipment £000's
Net Book Value							
At 1 April 2009	367,454	264,726	6,297	76,121	12,944	727,542	14,369
Category Adjustments	-	6,461	-	2,160	(8,621)	-	-
Restated 1 April 2009	367,454	271,187	6,297	78,281	4,323	727,542	14,369
Additions	6,093	6,990	3,452	4,562	16,004	37,101	48
Donations	-	-	-	-	-	-	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	8,475	20,686	-	-	-	29,161	358
Revaluation increases/ (decreases) recognised in the (Surplus)/Deficit on the Provision of services	-	(16,605)	(30)	-	-	(16,635)	-
Derecognition - disposals	(596)	-	-	-	-	(596)	-
derecognition - other	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-
Depreciation charge	(7,349)	(4,396)	(2,611)	(2,357)	-	(16,713)	(262)
Impairment losses/ (reversals) recognised on the Provision of Services	-	(3,019)	(11)	-	(7)	(3,037)	-
Net Book Value							
At 31 March 2010	**374,077**	**274,843**	**7,097**	**80,486**	**20,320**	**756,823**	**14,513**

NOTES TO THE CORE FINANCIAL STATEMENTS

Comparative Movements in **2008/09:**

	Council dwellings £000's	Other land and buildings £000's	Vehicles, plant furniture & equipment £000's	Infra-structure Assets £000's	Assets under Cons-truction £000's	Total Property, plant & Equipment £000's	PFI Assets included in Property, plant & equipment £000's
Cost or Valuation							
At 1 April 2008	401,933	293,635	5,877	73,494	1,658	776,597	-
Additions	7,469	14,836	1,808	4,824	11,587	40,524	-
Donations	-	-	-	-	-	-	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(18,254)	(9,256)	-	-	-	(27,510)	-
Revaluation increases/ (decreases) recognised in the (Surplus)/Deficit on the Provision of services	(7,572)	(15,911)	-	-	-	(23,483)	-
Derecognition - disposals	(240)	(2,289)	-	-	-	(2,529)	-
derecognition - other	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-
Depreciation charge	(8,413)	(3,981)	(1,388)	(2,197)	-	(15,979)	-
Impairment losses/ (reversals) recognised on the Provision of Services	(7,469)	(12,308)	-	-	(301)	(20,078)	-
Net Book Value							
At 31 March 2009	**367,454**	**264,726**	**6,297**	**76,121**	**12,944**	**727,542**	**-**

Depreciation

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

- Council Dwellings – 50-70 years
- Other Land and Buildings – 30-50 years
- Vehicles, Plant, Furniture & Equipment – 7-10 years
- Infrastructure – 40 years

Capital Commitments

- At 31 March 2011, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost c£18.5m.

Revaluations

The Authority 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 current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

	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-11	260,276	62,706	-	-	168	323,150
31-Mar-10	-	39,108	-	-	8,395	47,503
31-Mar-09	-	34,702	-	-	-	34,702
31-Mar-08	-	580	-	-	125	705
31-Mar-07	-	117,005	-	-	-	117,005
Total Cost or Valuation	260,276	254,101	-	-	8,688	523,065

13. 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:

2009/10 £000's		2010/11 £000's
(3,284)	Commercial Rental income from investment property	(3,166)
558	Commercial Direct operating expenses arising from investment property	490
(2,726)	Net Gain/ (loss)	(2,676)

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority 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.

	2009/10 £000's	2010/11 £000's
Balance at start of the year	45,909	44,247
Additions	23	24
Disposals	(894)	(3,396)
Net gain or loss on Fair Value	(791)	2,238
Transfers:		
to/ from Inventories	-	-
to/ from Property, Plant & Equipment	-	4
Other changes	-	-
Balance at end of year	44,247	43,117

NOTES TO THE CORE FINANCIAL STATEMENTS

14. INTANGIBLE ASSETS

The Authority 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 include both purchased licenses and internally generated software.

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

	Internally Generated Assets	Other Assets
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 2010/11 was £1,114k (2009/10 £1,102k).

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

	2009/10			2010/11		
	Internally Generated Assets	Other Assets	Total	Internally Generated Assets	Other Assets	Total
	£000	£000	£000	£000	£000	£000
Balance at start of year:						
- Gross carrying amounts	-	7,389	7,389	-	7,439	7,439
- Accumulated amortisation	-	(4,123)	(4,123)	-	(5,225)	(5,225)
Net carrying amount at the start of the year	-	3,266	3,266	-	2,214	2,214
Additions:						
- Internal development	-	-	-	-	1,063	1,063
- Purchases	-	50	50	-	-	-
- 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	-	-	-	-	-	-
Impairmnet losses recognised in the Surplus/ Defecit on the Provision of Services	-	-	-	-	-	-
Reversals of past impairment losses written back to the surplus/ Defecit on the Provision of Services	-	-	-	-	-	-
Amortisation for the period	-	(1,102)	(1,102)	-	(1,115)	(1,115)
Other changes	-	-	-	-	-	-
Net carrying amount at the end of year	-	2,214	2,214	-	2,162	2,162
Comprising:						
- Gross carrying amounts	-	7,439	7,439	-	8,502	8,502
- Accumulated amortisation	-	(5,225)	(5,225)	-	(6,340)	(6,340)
	-	2,214	2,214	-	2,162	2,162

NOTES TO THE CORE FINANCIAL STATEMENTS

There are 4 items of capitalised software that are individually material to the financial statements:

	Carrying Amount 2009/10 £000's	Carrying Amount 2010/11 £000's	Remaining Amortisation Period
Electronic Data Management & Workflow	464	387	6 years
Office Upgrade 2010-11	-	298	5 years
Mobile Working - Installation	-	259	5 years
Voice & Data - Licences & Hardware	-	238	5 years

In 2010/11 the Authority entered into a contract for the replacement of its payroll software. The new system is anticipated to be operational in 2011/12.

NOTES TO THE CORE FINANCIAL STATEMENTS

15. FINANCIAL INSTRUMENTS

Financial Instruments are formally defined as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. For the Authority, this definition covers the instruments used in Treasury Management activities, including the borrowing and lending of money and the making of investments

Categories of financial Instruments

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

	Long-Term		Short-Term	
	31.3.10 Restated £000's	31.3.11 £000's	31.3.10 Restated £000's	31.3.11 £000's
Investments				
Loans and receivables	-	-	17,232	24,046
Available-for-sale financial assets	-	-	-	-
Unquoted equity investment at cost	1,215	1,215	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Total Investments	1,215	1,215	17,232	24,046
Debtors				
Loans and receivables	4,023	4,318	26,989	21,009
Financial assets carried at contract amounts	-	-	-	-
Total Debtors	4,023	4,318	26,989	21,009
Borrowings				
Financial Liabilities at amortised cost	(108,147)	(122,181)	(8,676)	(11,942)
Financial Liabilities at fair value through profit and loss	-	-	-	-
Total Borrowings	(108,147)	(122,181)	(8,676)	(11,942)
Other Long Term Liabilities				
PFI liabilities	(6,753)	(5,916)	-	-
finance lease liabilities	(1,736)	(1,986)	-	-
Total other long term liabilities	(8,489)	(7,902)	-	-
Creditors				
Financial liabilities at amortised cost	-	-	-	-
Financial liabilities carried at contract amount	-	-	(39,179)	(37,895)
Total Creditors	-	-	(39,179)	(37,895)

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

Note 2 – Fair value has been measured by direct reference to published price quotations in an active market or estimating using a valuation technique where applicable:

31.3.10 £000's		31.3.11 £000's
	Financial Liabilities measured at amortised costs	
5,259	Interest Expense	6,472
5,259		6,472
	Financial Assets - Loans and Receivables	
(308)	Dividends Received	(515)
(1,145)	Interest Income	(827)
(1,453)		(1,342)
3,806	Net loss for the year	5,130

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 and other loans payable, premature repayment rate from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- 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-10		31-Mar-11	
	Carrying amount £000's	Fair value £000's	Carrying amount £000's	Fair Value £000's
PWLB debt	(101,471)	(104,343)	(108,617)	(114,493)
Non-PWLB debt	(15,352)	(17,766)	(25,405)	(26,988)
Total debt	(116,823)	(122,109)	(134,022)	(141,481)
Long term creditors	-	-	-	-
Total Financial liabilities	(116,823)	(122,109)	(134,022)	(141,481)

The fair value is greater than the carrying amount because the Authority'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.

	31-Mar-10		31-Mar-11	
	Carrying amount £000's	Fair value £000's	Carrying amount £000's	Fair Value £000's
Money market loans < 1 yr	26,108	26,108	35,346	35,346
Money market loans > 1 yr	-	-	-	-
Bonds	-	-	-	-
Trade debtors	21,829	21,829	15,803	15,803
Total Loans and receivables	47,937	47,937	51,149	51,149

NOTES TO THE CORE FINANCIAL STATEMENTS

The differences are attributable to fixed interest instruments receivable being held by the Authority 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.

For bond holding, the differences are attributable to fixed interest loans receivable being held by the Authority whose interest rate is lower than the prevailing rate estimated to be available at 31 March. This depresses the fair value of financial liabilities and raises the value of loans and receivables.

The fair values for loans and receivables have been determined by reference to similar practices, as above, 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.

16. INVENTORIES

	Consumable Stores		Maintenance Materials		Client Services Work In Progress		Total	
	2009/10 £000's	2010/11 £000's	2009/10 £000's	2010/11 £000's	2009/10 £000's	2010/11 £000's	2009/10 £000's	2010/11 £000's
Balance Outstanding at 1 April	536	494	-	-	21	12	557	506
Purchases	118	369	-	-	-	-	118	369
Recognised as an Expense in theYear	(160)	(339)	-	-	(9)	(7)	(169)	(346)
Written Off Balances	-	(34)	-	-	-	-	-	(34)
Reversals of Write Offs in Previous Years	-	-	-	-	-	-	-	-
Balance Outstanding at 31 March	494	490	-	-	12	5	506	495

17. CONSTRUCTION CONTRACTS

At 31 March 2011 the Authority had no construction contracts in progress.

18. DEBTORS

Balance at 31 March 2010 £000's		Balance at 31 March 2011 £000's
10,304	Central Government Bodies	6,023
111	Other Local Authorities	1,135
100	NHS Bodies	1,487
163	Public Corporations	356
21,829	Other Entities and Individuals	15,803
32,507		24,804
(5,518)	Provision for Bad and Doubtful Debts	(3,795)
26,989	**Total Debtors**	**21,009**

NOTES TO THE CORE FINANCIAL STATEMENTS

19. CASH AND CASH EQUIVALENTS

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

Balance at 31 March 2010 £000's		Balance at 31 March 2011 £000's
9,749	Cash Held by the Authority	10,042
8,875	Short Term Deposits	11,300
(1,171)	Bank Current Accounts	(937)
17,453	**Total Cash and Cash Equivalents**	**20,405**

20. ASSETS HELD FOR SALE

The Authority does not hold any Assets held for sale. In accordance with Note 1 Accounting Policies and section **XIX** Property, plant and equipment, the assets that the Authority holds for disposal do not meet the specific IFRS definition for assets held for sale and therefore have been reclassified back to the previous classification within non-current assets.

21. CREDITORS

Balance at 31 March 2010 £000's		Balance at 31 March 2011 £000's
(9,543)	Central Government Bodies	(8,076)
(496)	Other Local Authorities	(3,783)
(733)	NHS Bodies	(495)
(1,681)	Public Corporations	(1,616)
(26,726)	Other Entities and Individuals	(23,925)
(39,179)	**Total Creditors**	**(37,895)**

NOTES TO THE CORE FINANCIAL STATEMENTS

22. PROVISIONS

	Employee Absences £000's	Insurance Fund £000's	Equal Pay £000's	Other Provisions £000's	Total £000's
Balance at 1 April 2010	(5,903)	(1,462)	(1,035)	(2)	(8,402)
Additional provisions made in 2010/11	(4,442)	(331)	-	(50)	(4,823)
Amounts Used In 2010/11	-	266	207	1	474
Unused amounts reversed in 2010/11	5,903	-	-	-	5,903
Unwinding of discounting in 2010/11	-	-	-	-	-
Balance at 31 March 2011	**(4,442)**	**(1,527)**	**(828)**	**(51)**	**(6,848)**

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

	Employee Absences £000's	Insurance Fund £000's	Equal Pay £000's	Other Provisions £000's	Total £000's
Balance at 1 April 2010	(5,903)	0	-	(2)	**(5,905)**
Additional provisions made in 2010/11	(4,442)	-284	-		(4,726)
Amounts Used In 2010/11	-	0	-		-
Unused amounts reversed in 2010/11	5,903		-	-	5,903
Unwinding of discounting in 2010/11	-		-	-	-
Balance at 31 March 2011	**(4,442)**	**(284)**	**-**	**(2)**	**(4,728)**

Employee Absences
A provision to account for new changes under IFRS whereby the Authority accounts for any untaken leave owed to its employees.

Insurance Fund
The general insurance provision is based on information provided by the Authority'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.

Other Provisions
All other provisions are individually insignificant.

23. USABLE RESERVES

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

NOTES TO THE CORE FINANCIAL STATEMENTS

24. UNUSABLE RESERVES

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment [and Intangible Assets]. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009/10 £000's		2010/11 £000's	2010/11 £000's
(25,069)	**Balance at 1 April**		**(41,670)**
(30,156)	Upward revaluation of assets	(4,991)	
12,359	Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	7,960	
(17,797)	(Surplus)/deficit on revaluation of non-current assets not posted to the (Surplus)/Deficit on the Provision of Services		2,969
396	Difference between fair value depreciation and historical cost depreciation	1,935	
800	Accumulated gains on assets sold or scrapped	(237)	
-	Properties RR movement with CAA	-	
1,196	Amount written off to the Capital Adjustment Account		1,698
(41,670)	**Balance at 31 March**		**(37,003)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The Authority does not hold these types of investments.

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

2009/10 £000's		2010/11 £000's
(627,823)	**Balance at 1st April**	**(619,719)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
19,728	Charges for depreciation and impairment of non current assets	18,350
14,811	Revaluation losses on Property, Plant and Equipment	114,418
1,102	Amortisation of intangible assets	1,115
5,666	Revenue expenditure funded from capital under Statute	10,074
1,490	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	7,482
42,797		151,439
(1,196)	Adjusting amounts written out of the Revaluation Reserve	(1,698)
41,601	**Net written out amount of the cost of non-current assets consumed in the year**	**149,741**
	Capital financing applied in the year:	
(1,727)	Use of the Capital Receipts Reserve to finance new capital expenditure	(5,929)
(4,386)	Use of the Major Repairs Reserve to finance new capital expenditure	(5,379)
(23,081)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(21,524)
1,110	Application of grants to capital financing from the Capital Grants Unapplied Account	(529)
(4,539)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(6,013)
(1,665)	Capital expenditure charged against the General Fund and HRA balances	(399)
(34,288)		(39,773)
791	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(2,238)
(619,719)	**Balance at 31 March**	**(511,989)**

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure 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 benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2010 £000's		31 March 2011 £000's
150,942	**Balance at 1 April**	189,978
32,964	Acturial gains or losses on pensions assets and liabilities	(23,402)
21,173	Reversal of items relating to retirement benefits debited or credited to the Surplus or Defecit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(2,716)
(15,101)	Employer's pensions contributions and direct payments to pensioners payable in the year.	(15,787)
189,978	**Balance at 31 March**	**148,073**

Collection Fund Adjustment Account

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

31 March 2010 £000's		31 March 2011 £000's
(299)	**Balance at 1 April**	(975)
(676)	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	(110)
(975)	**Balance at 31 March**	**(1,085)**

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.

2009/10 £000's		2010/11 £000's	£000's
5,110	**Balance at 1 April**		5,903
(5,110)	Steelement or cancellation of accrual made at the end of the preceding year	(5,903)	
5,903	Amounts accrued at the end of the current year	4,442	
793			(1,461)
-	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		-
5,903	**Balance at 31 March**		**4,442**

25. CASHFLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

Balance at 31 March 2010 £000's		Balance at 31 March 2011 £000's
(1,145)	Interest received	(802)
5,440	Interest paid	6,325
(308)	Dividends received	(515)

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

31 March 2010 £000's		31 March 2011 £000's
(17,921)	Depreciation, Impairment and Amortisation of fixed assets	(131,645)
37	Increase in Impairment for bad debt provision	-
(50)	Increase/(decrease) in stocks and works in progress	(11)
3,575	Increase/(decrease) in debtors	(5,980)
(3,567)	(Increase)/decrease in creditors	1,284
	Pension Liability	
(21,173)	Net Charge to the CIES	2,716
15,101	Employers contributions to pension funds and direct payments to pensioners	15,787
1,490	Carrying amount of non-current assets sold	(7,482)
	Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	
512	Provisions	1,554
-	Movements in the value of investment properties	-
-	Amounts posted from the Donated Assets Account	-
23,081	Grants applied to the financing of capital expenditure	18,058
1,085	Adjustment to the Net Surplus or Deficit on Provision of Services for non-cash movements	(105,719)

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:

NOTES TO THE CORE FINANCIAL STATEMENTS

31 March 2010 £000's		31 March 2011 £000's
-	Purchase of short-term and long-term investments	-
-	Proceeds from short-term and long-term investments	-
2,239	Proceeds from sale of property, plant and equipment, investment property and intangible assets	7,469
2,239	Adjustments for items included in the net surplus or deficit on the Provision of Services that are investing and financing activities	7,469

26. CASHFLOW STATEMENT – INVESTING ACTIVITIES

Balance at 31 March 2010 £000's		Balance at 31 March 2011 £000's
34,223	Purchase of property, pland and equipment, investment property and intangible assets	43,858
-	Purchase of short-term and long-term investments	6,901
-	Other payments for investing activities	-
(2,239)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(7,469)
(8,554)	Proceeds from short-term and long-term investments	-
(33,608)	Other receipts from investing activities	(18,058)
(10,178)	Net cash flows from investing activities	25,231

27. CASHFLOW STATEMENT – FINANCING ACTIVITIES

Balance at 31 March 2010 £000's		Balance at 31 March 2011 £000's
(18,173)	Cash receipts of short-term and long-term borrowing	(24,165)
-	Other receipts from financing activities	-
2,079	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,435
4,000	Repayments of short-term and long-term borrowing	7,000
-	Other payments for financing activities	-
(12,094)	Net cash flows from financing activities	(15,729)

NOTES TO THE CORE FINANCIAL STATEMENTS

28. 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 Authority 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 Authority's principal (directorates) recorded in the budget reports for the year is as follows:

2010/11	Adults, Children & Education £000's	City Strategy £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	43,013	11,010	38,201	14,029	2,782	1,517	110,552
Supplies & Services	66,109	5,756	10,356	7,885	809	7,667	98,582
Recharges	9,247	3,231	1,764	2,786	1,834	-	18,862
Other Expenses	161,652	20,102	41,489	56,075	146	7,268	286,732
Total Expenditure	**280,021**	**40,099**	**91,810**	**80,775**	**5,571**	**16,452**	**514,728**
Fees, Charges & Other Income	(52,850)	(29,533)	(45,570)	(5,655)	(1,566)	(36,953)	(172,127)
Government Grants	(132,960)	(2,735)	(4,531)	(52,073)	-	(14,472)	(206,771)
Support Services	-	-	-	(17,916)	(946)	-	(18,862)
Total Income	**(185,810)**	**(32,268)**	**(50,101)**	**(75,644)**	**(2,512)**	**(51,425)**	**(397,760)**
Net Expenditure	**94,211**	**7,831**	**41,709**	**5,131**	**3,059**	**(34,973)**	**116,968**

2009/10	Adults, Children & Education £000's	City Strategy £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	43,904	11,724	38,401	15,734	2,930	625	113,318
Supplies & Services	60,963	6,389	8,917	8,545	1,204	6,570	92,588
Recharges	8,621	2,832	1,787	5,173	2,125	-	20,538
Other Expenses	158,480	21,942	42,473	53,076	3,875	25,563	305,409
Total Expenditure	**271,968**	**42,887**	**91,578**	**82,528**	**10,134**	**32,758**	**531,853**
Fees, Charges & Other Income	(43,171)	(30,243)	(45,283)	(8,595)	(5,229)	(85,902)	(218,423)
Government Grants	(120,031)	-	(1,434)	(48,864)	-	(9,349)	(179,678)
Support Services	-	-	-	(19,370)	(1,168)	-	(20,538)
Total Income	**(163,202)**	**(30,243)**	**(46,717)**	**(76,829)**	**(6,397)**	**(95,251)**	**(418,639)**
Net Expenditure	**108,766**	**12,644**	**44,861**	**5,699**	**3,737**	**(62,493)**	**113,214**

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

	2009/10 £000	2010/11 £000
Net Expenditure in Directorate Analysis	113,214	116,968
Net expenditure of services and support services not included in the Analysis	(114,032)	(140,538)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	25,279	116,952
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(8,975)	(7,585)
Cost of Services in Comprehensive Income and Expenditure Statement	**15,486**	**85,797**

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation to Subjective Analysis

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

2010/11

	Directorate Analysis £000	Amounts Not Reported To Management For Decision Making £000	Amounts Not Included In I&E £000	Allocation Of Recharges £000	Cost Of Services £000	Corporate Amounts £000	**Total £000**
Employee Expenses	110,552	(17,683)			(1,461)		**91,408**
Other Service Expenses	366,778	215	(7,338)			(3,678)	**355,977**
Support Service Recharges	18,862		(16,248)	(18,862)			**(16,248)**
Depreciation, Amortisation & Impairment	11,507	123,018					**134,525**
Interest Payments	6,325	113					**6,438**
Precepts & Levies						582	**582**
Payments to Housing Capital Receipts Pool	704					-	**704**
Gain Or Loss On Disposal Of Fixed Assets		13					**13**
Total Expenditure	**514,728**	**105,676**	**(23,586)**	**(18,862)**	**(1,461)**	**(3,096)**	**573,399**
Fees, Charges & Other Service Income	(190,187)	11,292	16,001	18,862		(3)	**(144,035)**
Surplus Or Deficit On Associates & Joint Ventures							**-**
Interest & Investment Income	(802)	(16)					**(818)**
Income From Council Tax						(73,349)	**(73,349)**
Government Grants & Contributions	(206,771)				(18,058)	(44,571)	**(269,400)**
Total Income	**(397,760)**	**11,276**	**16,001**	**18,862**	**(18,058)**	**(117,923)**	**(487,602)**
Surplus Or Deficit On The Provision Of Services	**116,968**	**116,952**	**(7,585)**	**-**	**(19,519)**	**(121,019)**	**85,797**

2009/10

	Directorate Analysis £000	Amounts Not Reported To Management For Decision Making £000	Amounts Not Included In I&E £000	Allocation Of Recharges £000	Cost Of Services £000	Corporate Amounts £000	**Total £000**
Employee Expenses	113,318	12,147			793		**126,258**
Other Service Expenses	358,499	(6,723)	(8,975)			1	**342,802**
Support Service Recharges	20,538		(27,225)	(20,538)			**(27,225)**
Depreciation, Amortisation & Impairment	33,724	(12,998)					**20,726**
Interest Payments	5,440	(145)					**5,295**
Precepts & Levies						585	**585**
Payments to Housing Capital Receipts Pool	334						**334**
Gain Or Loss On Disposal Of Fixed Assets		(726)					**(726)**
Total Expenditure	**531,853**	**(8,445)**	**(36,200)**	**(20,538)**	**793**	**586**	**468,049**
Fees, Charges & Other Service Income	(237,816)	33,724	27,225	20,538		2	**(156,327)**
Surplus Or Deficit On Associates & Joint Ventures							**-**
Interest & Investment Income	(1,145)						**(1,145)**
Income From Council Tax						(70,641)	**(70,641)**
Government Grants & Contributions	(179,678)				(1,292)	(43,480)	**(224,450)**
Total Income	**(418,639)**	**33,724**	**27,225**	**20,538**	**(1,292)**	**(114,119)**	**(452,563)**
Surplus Or Deficit On The Provision Of Services	**113,214**	**25,279**	**(8,975)**	**-**	**(499)**	**(113,533)**	**15,486**

29. ACQUIRED AND DISCONTINUED OPERATIONS

All Authority operations are categorised as continuing operations.

NOTES TO THE CORE FINANCIAL STATEMENTS

30. TRADING OPERATIONS

The Authority has established 15 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 Authority or other organisations. Details of those units in 2010/11 are as follows:

2009/10 Turnover (Income) £(000)	2009/10 Expend-iture £(000)	2009/10 (Surplus)/ Deficit £(000)		2010/11 Turnover (Income) £(000)	2010/11 Expend-iture £(000)	2010/11 (Surplus)/ Deficit £(000)
			Significant Trading Services included in Net Cost of Services			
(2,712)	3,672	960	Commercial Property	(2,657)	707	(1,950)
(596)	315	(281)	Markets	(629)	329	(300)
(5,496)	1,964	(3,532)	Car Parks	(5,297)	787	(4,510)
(1,300)	640	(660)	Crematorium	(1,430)	454	(976)
(562)	511	(51)	Building Control (chargeable element)	(475)	478	3
(421)	359	(62)	Land Charges	(336)	282	(54)
(975)	914	(61)	Engineering Consultancy	(861)	918	57
(1,948)	1,974	26	Facilities Management	(1,655)	2,160	505
(592)	525	(67)	York Training Centre	(598)	595	(3)
(7,519)	7,500	(19)	Building Maintenance	(7,374)	7,484	110
(7,655)	6,588	(1,067)	Civil Engineering	(8,147)	7,673	(474)
(3,501)	3,957	456	Neighbourhood Pride Service	(1,997)	3,990	1,993
(3,605)	3,731	126	Cleaning of Public Buildings	(3,640)	3,695	55
(2,019)	1,509	(510)	Commercial Waste	(1,755)	1,304	(451)
(3,946)	3,672	(274)	Transport Operating	(4,663)	4,359	(304)
(42,847)	37,831	(5,016)	**Total**	(41,514)	35,215	(6,299)

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

31. AGENCY SERVICES

The Authority has an agency agreement with North Yorkshire and York Primary Care Trust (PCT) related to provision for people with learning disabilities. The Authority administers the service on behalf of the PCT and are fully reimbursed for the expenditure incurred. The income received in 2010/11 was £4.008m (2009/10 £4.56m).

	2009/10 £000's	2010/11 £000's
Expenditure incured providing Learning Disabilities services	4,560	4,008
Funds payable by North Yorks and York PCT	(4,560)	(4,008)
Net Position	-	-

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

NOTES TO THE CORE FINANCIAL STATEMENTS

The Authority provides payroll services for two schools, one college, one district council, a trust and various small organisations mostly in the voluntary and sports sectors. These contracts earned £38k (2009/10 £36k) against expenditure of £24k (2009/10 £24k).

	2009/10 £000's	2010/11 £000's
Expenditure incured providing Payroll Services	24	24
Fee income earned	(36)	(38)
Net Position	(12)	(14)

32. ROAD CHARGING SCHEMES

There were no schemes under the Transport Act 2000 in 2010/11, but these will continue to be considered by the Authority in future years.

33. POOLED BUDGETS

There were no pooled budgets in 2010/11, but these will continue to be considered by the Authority in future years.

34. MEMBERS' ALLOWANCES

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

2009/10 £000's		2010/11 £000's
559	Allowances	543
12	Expenses	9
571	**Total**	552

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 2010/11 will be released to the press during the summer and will identify that the Authority spent £552k (2009/10 £571k) 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 Authority after recommendations are received from the Executive, having regard to the review undertaken by the Authority's independent remuneration panel. In addition to the allowances and expenses the Authority has incurred a cost of £21k (2009/10 £20k) for members pensions contributions.

Although the Authority only has 47 Members, during 2010/11 a by-election was held following the resignation of one Member, thus the number of Members receiving an allowance over the financial year is 48.

NOTES TO THE CORE FINANCIAL STATEMENTS

35. OFFICERS REMUNERATION

Regulation 4 of the Accounts and Audit (Amendment No.2) (England) Regulations 2009 introduce a new legal requirement to increase transparency and accountability in Local Government for reporting remuneration of senior employees. 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 Authority's senior employees in 2010/11 is as follows:

	Notes	Salary (incl. fees & Allow-ances) £000's	Expense Allow-ances £000's	Compens-ation for loss of office £000's	Total Remuner-ation excluding Pension contrib-utions 2009/10 £000's	Pension contrib-utions £000's	Total Remuner-ation including Pension contrib-utions 2010/11 £000's
Chief Executive		132	-	-	132	24	156
Director of City Strategy		103	-	-	103	19	122
Director of Adults, Children & Education		103	-	-	103	18	121
Director of Communities and Neighbourhoods		103	-	-	103	18	121
Director of Customer & Business Support Services		103	1	-	104	18	122
Head of Civic, Democratic & Legal Services	1	68	-	-	68	13	81
		612	1	-	613	110	723

Notes:

1: The current head of Civic, Democratic & Legal Services arrived on 19/04/2010.

NOTES TO THE CORE FINANCIAL STATEMENTS

The remuneration paid to the Authority's senior employees in 2009/10 is as follows:

	Notes	Salary (incl. fees & Allow-ances) £000's	Expense Allow-ances £000's	Compens-ation for loss of office £000's	Total Remuner-ation excluding Pension contrib-utions 2009/10 £000's	Pension contrib-utions £000's	Total Remuner-ation including Pension contrib-utions 2009/10 £000's
Chief Executive from 5/10/09	1	64	-	-	64	11	75
Chief Executive from 1/4/09 to 16/08/09	1	54	-	-	54	10	64
Director of Housing and Social Services	2	131	1	51	183	69	252
Director of City Strategy	3	110	-	-	110	19	129
Director of Learning, Culture & Children's Services		97	-	-	97	17	114
Director of Neighbourhood Services from 17/8/09	4	58	-	-	58	10	68
Director of Neighbourhood Services to 17/07/09	4	-	-	-	-	-	-
Director of People & Improvement	5	73	-	58	131	13	144
Director of Resources		104	-	-	104	19	123
Head Civic Democratic & Legal Services resigned 31/10/09	6	43	-	-	43	8	51
		734	1	109	844	176	1,020

Note 1: The Chief Executive resigned on 16/8/09, his annualised salary was £143,430. He was replaced on 5/10/2009, at an annualised salary of £130,000.

Note 2: Director of Housing & Social Services was made redundant on 31/3/2010, his annualised salary was £108,481.43. He received pay in lieu of notice of £22,524 and £50,761.14 pension contribution for the next 5 years.

Note 3: Director of City Strategy was appointed the Acting Chief Executive from 17/08/09 to 04/10/09, his annualised salary was £106,426.45 and he received a responsibility payment of £3,367.65.

Note 4: There was an interim Director of Neighbourhood Services employed via an agency from 01/04/09 to 17/07/09 which was paid £57,750 and expense allowances of £2,883.63. The current Director of Neighbourhood Services was appointed on 17/08/2010, the annualised salary is £96,883.

Note 5: Director of People & Improvement's annualised salary was £102,766. She went on maternity leave on 12/4/09 and returned on 1/11/09. She was made redundant on 31/3/2010 and received £25,691.49 pay in lieu of notice.

Note 6: Head of Civic, Democratic & Legal Services resigned on 31/10/2009, his annualised salary was £73,401. His interim replacement was via an agency from 26/10/2009 to 14/04/2010. She worked 3 days a week and the agency was paid £60,220.98. The current Head of Civic, Democratic & Legal Services arrived on 19/4/2010.

Note 7: Compensation for loss of office includes redundancy payments and compromise agreement payments.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

2009/10 Number of employees					2010/11 Number of employees			
Officers Current	Officers Left during year	Teachers Current	Total	Remuneration Band	Officers Current	Officers Left during year	Teachers Current	Total
31	8	23	62	£50,000 - £54,999	29	1	30	60
4	3	34	41	£55,000 - £59,999	6	-	20	26
4	3	7	14	£60,000 - £64,999	2	-	16	18
14	5	8	27	£65,000 - £69,999	11	-	5	16
4	1	6	11	£70,000 - £74,999	3	-	4	7
-	-	2	2	£75,000 - £79,999	-	-	4	4
-	-	2	2	£80,000 - £84,999	-	-	2	2
-	-	1	1	£85,000 - £89,999	-	-	1	1
1	-	1	2	£90,000 - £94,999	-	-	1	1
1	-	-	1	£95,000 - £99,999	-	-	-	-
2	-	1	3	£100,000 - £104,999	4	-	-	4
-	-	-	-	£105,000 - £109,999	-	-	-	-
-	-	-	-	£110,000 - £114,999	-	-	-	-
-	-	-	-	£115,000 - £119,999	-	-	-	-
-	-	-	-	£120,000 - £124,999	-	-	-	-
-	-	-	-	£125,000 - £129,999	-	-	-	-
1	-	-	1	£130,000 - £134,999	1	-	-	1
-	-	-	-	£135,000 - £139,999	-	-	-	-
-	-	-	-	£140,000 - £144,999	-	-	-	-
-	-	-	-	£145,000 - £150,000	-	-	-	-

NOTES TO THE CORE FINANCIAL STATEMENTS

36. EXTERNAL AUDIT COSTS

The Authority 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 Authority's external auditors:

2009/10 £000's		2010/11 £000's
248	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	225
17	Fees payable to the Audit Commission in respect of statutory inspection	-
30	Fees payable to the Audit Commission for the certification of grant claims and returns	46
4	Fees payable in respect of other services provided by the appointed auditor	-
299		271

The fees for other services payable in 2009/10 related to specialist advice on a successful claim against HM Revenue & Customs for the refund of VAT.

37. DEDICATED SCHOOLS GRANT

The Authority's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, via the Dedicated Schools Grant (DSG). For 2010/11 the sum received is £92.651m (2009/10 £88.321m) and this is credited against the Children's and Education Services line in the Comprehensive Income and Expenditure Statement.

The DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a restricted range of services provided on a Authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately. The Authority is able to supplement the Schools Budget from its own resources but this year decided against any additional spending for schools. Details of the use of the DSG receivable for 2010/11 are as follows:

	Central Expend-iture £000's	Individual Schools Budget £000's	Not Allocated £000's	Total £000's
Original grant allocation to Schools Budget for the current year in the Council's budget	(12,696)	(79,955)	-	(92,651)
Adjustment to finalised grant allocation	(254)	-	-	(254)
DSG receivable for the year	(12,950)	(79,955)	-	(92,905)
Actual expenditure for the year	12,532	79,980	-	92,512
Over/(under) spend for the year	(418)	25	-	(393)
Over/(under) spend from prior year	162	(25)	-	137
Underspend carried forward to 2011/12	(256)	-	-	(256)

NOTES TO THE CORE FINANCIAL STATEMENTS

38. GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

2009/10 £000's		2010/11 £000's
	Credited to Taxation and Non Specific Grant Income	
(71,317)	Demand on Collection Fund	(73,459)
(35,326)	Non-Domestic Rates Redistribution	(38,919)
(8,154)	Revenue Support Grant	(5,651)
(8,643)	Area Based Grant	(14,567)
-	Other general grants	(2,066)
(1,292)	Capital Grants	(18,058)
(246)	Housing and Planning Act Grant	-
(124,978)	TOTAL	(152,720)
	Credited to Services	
(1,133)	Supporting People	(1,039)
(369)	Homelessness	(463)
(77,733)	Dedicated Schools Grant Base	(92,425)
(14,438)	Other Standard Fund Grants	-
(4,723)	School Development Grant	(4,829)
(3,804)	School Standards	(4,767)
(3,251)	Sure Start, Early Years & Childcare	(4,184)
(1,143)	Dft	(1,527)
(1,183)	Early Years - Free Entitlement for 3-4 yr olds	(1,191)
(1,126)	Supporting People	-
-	Learning and Skills council	(1,115)
-	DAAT main grant	(970)
(959)	Yorkshire Forward	(233)
(946)	Targeted Support for Primary & Secondary Strategy	(853)
(459)	Social Care Reform Grant	(928)
(900)	SSGP	-
-	One to One Tuition	(722)
(544)	Cycle England	(615)
-	Think Family Grant	(579)
(378)	Extended Schools - Sustainability	(557)
(4,683)	Other Grants	(5,903)
(4,926)	Contributions	(8,389)
(70)	Donations	(88)
(122,768)	TOTAL	(131,377)

The Authority 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.

39. RELATED PARTIES

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority 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 Authority.

Central Government
Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (eg council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2011 are shown in Note 38.

Members
Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 34. A number of Members have interests in organisations based in the city, however any transactions made with the Authority are not material and are centred on income for services such as commercial waste.

Officers

The Assistant Director for Partnerships & Early Intervention is a director on the board of a charity called York Cares with whom the Authority did approximately £9k of business in 2010/11. He is also a director and trustee for the National Centre for Early Music of which the Authority did approximately £13k of business with, including a £9k service agreement. There is no evidence to suggest any further senior officers have pecuniary interests in organisations that the Authority has done business with in 2010/11.

Other Public

Income was received for joint arrangements for people with learning difficulties. The arrangements were between Social Services and North Yorkshire and York PCT Services, £4.008m (2009/10 £4.560m).

Entities Controlled or Significantly Influenced by the Authority

The Authority 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 Authority to prepare Group Accounts.

The share-holding for Yorwaste 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.

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 Council and North Yorkshire County Council, with each Authority holding 50% of the shares.

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.

York Business Development Limited is a company limited by guarantee and has been approved by the Secretary of State for Employment as a local Enterprise Agency under Section 79(c) of the Income and Corporation Taxes Act 1988. City of York Council is a Co-Sponsor, but does not have a controlling influence.

York Energy Savers is a not-for-profit company set up to provide energy efficiency within the City of York and surrounding area. The Authority has two representatives on the Board of Representatives that manages the Company.

Long Term Investments

The Authority also has investments held for the medium/long-term. They comprise mainly share investments in three companies: Yorwaste (£1.008m), York Science Park (£0.200m) and Veritau (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.

NOTES TO THE CORE FINANCIAL STATEMENTS

40. 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

2009/10 £000's		2010/11 £000's
97,876	**Opening Capital Financing Requirement**	144,176
6,353	**PFI 05/06**	
22,485	**Adjustment for Prudential Code 04/05**	
	Capital Investment	
35,214	Property, Plant and Equipment	43,780
35	Investment Properties	24
50	Intangible Assets	1,063
23,232	Revenue Expenditure Funded from Capital under Statute	10,074
	Sources of Finance	
(1,727)	Capital Receipts	(5,929)
(33,693)	Government grants and other contributions	(27,431)
(889)	Direct revenue contributions	(399)
(4,760)	MRP (Minimum Revenue Repayment)	(6,013)
17,462	Movement in Year	15,169
144,176	**Closing Capital Financing Requirement**	159,345
	Explanations of movement in year	
5,466	Increase in underlying need to borrow (supported by government financial assistance)	6,102
16,756	Increase in underlying need to borrow (unsupported by government financial assistance)	14,327
-	Assets acquired under finance leases	753
	Assets acquired under PFI/ PPP contracts	
(4,760)	MRP/ loans fund principal	(6,013)
17,462	**Increase/ (decrease) in Capital financing Requirement**	15,169

41. LEASES

Authority as Lessee

Finance Leases

The Authority has acquired a number of assets under finance leases, which relate principally to IT, photocopiers and transport. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

2009/10 £000's		2010/11 £000's
-	Other Land and Buildings	-
2,411	Vehicles, Plant, Furniture and Equipment	1,578
2,411		1,578

NOTES TO THE CORE FINANCIAL STATEMENTS

The Authority has not acquired any property assets under finance leases.

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

2009/10 £000's		2010/11 £000's
-	Finance lease liabilities (net present value of minimum lease payments)	
1,101	- Current	1,039
1,736	- Non-current	947
261	Finance costs payable in future years	131
3,098	Minimum lease payments	2,117

The minimum lease payments will be payable over the following periods:

	Minimum lease payments		Finance lease liabilities	
	2009/10 £000's	2010/11 £000's	2009/10 £000's	2010/11 £000's
Not later than one year	1,244	1,125	1,101	1,039
Later than one year and not later than five years	1,854	992	1,736	947
Later than five years	-	-	-	-
	3,098	2,117	2,837	1,986

Due to the short-term nature of the leases entered into by the Authority, no contingent rents were payable by the Authority in 2010/11 (2009/10 £0).

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

Operating Leases

The Authority has acquired a number of assets through entering into agreements with external suppliers. These agreements contain operating leases arrangement as well as maintenance charges and cost of materials. Examples of the assets that have been acquired include:

- Fleet of refuse collection vehicles (extensions after primary rental period), typical life less than one year
- IT equipments in ICT managed services, typical lives of three years
- Hygiene units, typical lives of five years
- Photocopying equipments, typical lives of three years

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

Commitment at 31.3.10 £000's		Commitment at 31.3.11 £000's
8,015	Not later than one year	8,319
9,719	Later than one year and not later than five years	17,251
3,374	Later than five years	3,792
21,108		29,362

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:

2009/10 £000's		2010/11 £000's
8,803	Minimum lease payments	8,769
81	Contingent rents	81
8,884		8,850

Authority as Lessor

Finance Leases

The Authority acts as lessor for a small number of property leases, with start dates between 1967 and 1994 and remaining lease terms of between 5 and 27 years. The Authority 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 Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

2009/10 £000's		2010/11 £000's
	Finance lease debtor (net present value of minimum lease payments)	
8	- Current	9
427	- Non-current	418
513	Unearned finance income	481
-	Unguaranteed residual value of property	-
948	Gross Investment in the lease	908

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

	Minimum lease payments		Finance lease liabilities	
	2009/10 £000's	2010/11 £000's	2009/10 £000's	2010/11 £000's
Not later than one year	40	40	40	40
Later than one year and not later than five years	162	160	162	160
Later than five years	746	708	746	708
	948	908	948	908

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 2010/11 contingent rents of £124k were receivable by the Authority (2009/10 £122k).

Operating Leases

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

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

2009/10 £000's		2010/11 £000's
2,092	Not later than one year	1,907
5,950	Later than one year and not later than five years	4,974
11,858	Later than five years	11,521
19,900		18,402

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 2010/11 contingent rents of £906k were receivable by the Authority (2009/10 £906k).

42. PFI AND SIMILAR CONTRACTS

The Authority has one PFI scheme for the provision of 3 primary schools with Sewell Education (York) Ltd and 2010/11 was the sixth year of the 30-year PFI contract. 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 Authority's Balance Sheet along with a liability for the financing provided by the PFI operator. Payments made by the Authority 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 Authority 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 Authority'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 Authority 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 Authority 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 2011 (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	1,258	1,372	745	3,375
Between 2 Yrs and 5 Yrs	1,621	2,223	818	4,662
Between 6 Yrs and 10 Yrs	1,725	3,007	1,017	5,749
Between 11 Yrs and 15 Yrs	1,313	3,692	794	5,799
Between 16 Yrs and 20 Yrs	1,110	3,963	912	5,985
Between 21 Yrs and 25 Yrs	1,255	3,417	1,630	6,302
	8,282	17,674	5,916	31,872

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

43. IMPAIRMENT LOSSES

The impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure are disclosed in Note 12 and reconciles the movement over the year in the Property, Plant and Equipment balances.

During 2010/11, no impairment loss occurred on vehicle or infrastructure assets of the authority.

44. CAPITALISATION OF BORROWING COSTS

No borrowing costs were capitalised during 2010/11 as is consistent with previous years.

45. TERMINATION BENEFITS

The Authority terminated the contracts of a number of employees in 2010/11 as a result of its ongoing efficiency programme. This resulted in redundancy costs of £760k (£482k in 2009/10) and a pension liability of £855k (£516k in 2009/10).

46. PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Authority 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 Authority 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 Authority 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 2010/11 the Authority paid £7.092m (2009/10 £6.950m) to CTP in respect of teachers' retirement benefits, which represents 14.0% (2009/10 14.1%) of teachers' pensionable pay.

In addition the Authority is responsible for the costs of any additional benefits awarded upon early retirement which are not the responsibility of the CTP. These amounted to £665k (2009/10 £624k) and are fully accrued in the pensions liability described in the figures that follow in Note 47.

47. DEFINED BENEFIT PENSION SCHEMES

The Authority 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 Authority 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.

The Authority 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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 Authority 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 Authority's liabilities to its current and former employees can be identified within the fund, and the Authority will be liable to meet these, irrespective of the future performance of the fund. This is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The information below relates to the cost of pension arrangements borne by this Authority and included in the revenue accounts.

Transactions relating to post-employment benefits

The cost 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:

2009/10 £000's	Local Government Pension Scheme	2010/11 £000's	2010/11 £000's
	Comprehensive Income and Expenditure Statement		
	Cost of Services		
9,016	Current service cost	15,171	
2	Past service cost	(27,247)	
535	Settlements and Curtailments	793	
9,553			(11,283)
	Financing and Investment Income and Expenditure		
21,233	Interest cost	24,414	
(9,613)	Expected return on assets in the scheme	(15,847)	
11,620			8,567
21,173	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**		(2,716)
	Other Post Employment Benefit Charged to Comprehensive I&E statement		
32,964	Actuarial gains and losses		(23,402)
	Movement in Reserves statement		
(21,173)	Reversal of net charges made to the Surplus or Defecit for the Provision of Services for post employment benefits in accordance with the Code		2,716
	Actual amount charged against the General Fund Balance for pensions in the year:		
15,101	Empoyers' contributions payable to scheme		15,787

NOTES TO THE CORE FINANCIAL STATEMENTS

Pensions Costs and Net Pensions Liability Movement in Year

In addition to the gains and losses included in the Provision of Services section of the Consolidated Income and Expenditure Statement, actuarial gains and losses amounting to a gain of £23.402m (2009/10 loss of £32.964m) are included as in the same statement in the Other Comprehensive Income and Expenditure section. The cumulative amount of actuarial gains and losses is a loss of £91.918 m.

The NYPF, which is a Local Government Pension Scheme, is a defined benefit scheme, since the Authority's liabilities to its current and former employees can be identified within the fund, and the Authority will be liable to meet these, irrespective of the future performance of the fund. Further information can be found in NYPF's Annual Report that is available upon request from Financial Services, County Hall, Northallerton, DL7 8AL.

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 31.3.10 Local Government Pension Scheme £000's	As at 31.3.10 Unfunded Teachers Scheme £000's		As at 31.3.11 Local Government Pension Scheme £000's	As at 31.3.11 Unfunded Teachers Scheme £000's
287,911	8,880	Balance at 1 April	420,933	10,663
9,016	-	Current service cost	15,171	-
20,626	607	Interest cost	23,846	568
5,137	-	Contributions by scheme participants	5,304	-
106,861	1,638	Actuarial (gains)/losses	(14,022)	1,140
(8,949)	(668)	Benefits/transfers paid	(10,715)	(665)
-	2	Past service costs	(26,599)	(648)
331	204	Curtailments	738	55
420,933	10,663	Balance at 31 March	414,656	11,113

The reconciliation of the fair value of the scheme assets is as follows:

As at 31.3.10 Local Government Pension Scheme £000's	As at 31.3.10 Unfunded Teachers Scheme £000's		As at 31.3.11 Local Government Pension Scheme £000's	As at 31.3.11 Unfunded Teachers Scheme £000's
(145,849)	-	Balance at 1 April	(241,618)	-
(9,613)	-	Expected rate of return	(15,847)	-
(75,535)	-	Actuarial (gains)/losses	(10,520)	-
(14,433)	(668)	Employer contributions	(15,122)	(665)
(5,137)	-	Contributions by scheme participants	(5,304)	-
8,949	668	Benefits/transfers paid	10,715	665
(241,618)	-	Balance at 31 March	(277,696)	-

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

NOTES TO THE CORE FINANCIAL STATEMENTS

The actual return on scheme assets in the year was a gain of £19.520m (2009/10 gain of £85.148m). 2010/11 actuarial gains on assets has been increased by £6,996,000 following the recent audit of the Local Government Pension Scheme's accounts.

Scheme History

The history of the liabilities and assets over the last five years have been:

	2006/07 Restated £000's	2007/08 Restated £000's	2008/09 £000's	2009/10 £000's	2010/11 £000's
Present Value of Liabilities					
Local Government Pension Scheme	301,497	338,000	287,911	420,933	414,656
Unfunded Teachers Pensions	8,530	10,146	8,880	10,663	11,113
Fair Value of Assets					
Local Government Pension Scheme	(214,450)	(212,575)	(145,849)	(241,618)	(277,696)
(Surplus)/Deficit in the Scheme					
Local Government Pension Scheme	87,047	125,425	142,062	179,315	136,960
Unfunded Teachers Pensions	8,530	10,146	8,880	10,663	11,113
Total Scheme (Surplus)/Deficit	95,577	135,571	150,942	189,978	148,073

The liabilities show the underlying commitments that the Authority has to pay, namely retirement benefits in the long-term. The total liability of £148.073m (2009/10 £189.978m) has a substantial impact on the net worth of the Authority 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 Authority 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.

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2012 is £15m.

Basis for Estimating Assets and Liabilities

In calculating the Authority'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 2010.

NOTES TO THE CORE FINANCIAL STATEMENTS

The principal assumptions used by the actuary have been:

As at 31.3.10		As at 31.3.11
	Post Retirement Mortality Assumptions	
PA92mc YoB Tables + 1 year	Non-retired members (retiring in the future in normal health)	PA92mc YoB Tables + 1 year
PA92mc YoB Tables + 1 year	Current pensioners (retired in normal health)	PA92mc YoB Tables + 1 year
	Life expectancy	
22.2 yrs	Of a male future pensioner aged 65 in 20 years time	22.2 yrs
25.0 yrs	Of a female future pensioner aged 65 in 20 years time	25.0 yrs
21.2 yrs	Of a male current pensioner aged 65	21.2 yrs
24.1 yrs	Of a female current pensioner aged 65	24.1 yrs
	Commutation of pension for lump sum at retirement	
50%	Take maximum cash	50%
50%	Take 3/80ths cash	50%

The following shows the inflation factors used:

As at 31.3.10 % pa LGPS	As at 31.3.10 % pa UTS		As at 31.3.11 % pa LGPS	As at 31.3.11 % pa UTS
3.30	3.20	Rate of Inflation	2.90	2.80
5.05	N/A	Rate of increase in salaries	4.65	N/A
3.30	3.20	Rate of increase in pensions	2.90	2.80
5.60	5.50	Discount rate	5.50	5.40

The Unfunded Teacher's Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

As at 31.3.10 %		As at 31.3.11 %
76.2	Equities	74.7
7.8	Government Bonds	8.9
13.9	Other Bonds	15.9
-	Property	-
2.1	Cash/liquidity	0.5
-	Other	-
100.0		100.0

The long-term rate of expected return on the investments are as follows:

As at 31.3.10 % pa		As at 31.3.11 % pa
7.50	Equities	7.50
4.50	Government Bonds	4.40
5.20	Other Bonds	5.10
N/A	Property	N/A
0.50	Cash/liquidity	0.50
N/A	Other	N/A

History of Experience Gains and Losses

The actuarial gains and losses identified as movements on the pensions reserve can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March:

	Local Government Pension Scheme				
	2006/07	2007/08 Restated	2008/09	2009/10	2010/11
	%	%	%	%	%
Differences between expected and actual return on assets	0.5	(13.0)	(63.1)	31.3	3.8
Experience gains and losses on liabilities	-	2.2	-	-	2.9

	Unfunded Teachers Pensions				
	2006/07	2007/08 Restated	2008/09	2009/10	2010/11
	%	%	%	%	%
Differences between expected and actual return on assets	-	-	-	-	-
Experience gains and losses on liabilities	-	(0.2)	-	-	(8.9)

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the Authority's liabilities in the North Yorkshire Pension Fund by £26.599m and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund or Housing Revenue Account.

48. CONTINGENT LIABILITIES

North Yorkshire County Council will enter into a commercial agreement for the provision of a long term waste management service contract prior to September 2011 with AmeyCespa (Contractor). As part of the agreement City of York Council will enter a Joint Waste Management Agreement with the County Council.

The contract includes provision whereby compensation would be payable by the County Council to the Contractor in specific circumstances should the contract not proceed to financial close. As part of the Joint Waste Management Agreement the City Council would be liable for 21% of the compensation value. It is, however, anticipated that this situation is very unlikely.

A joint committee of which the Authority is a member authority has been asked by a regulatory body to provide information in relation to its activities. At present it is not known whether this will lead to any action or if there will be any financial impact.

49. CONTINGENT ASSETS

No contingent assets have been identified.

NOTES TO THE CORE FINANCIAL STATEMENTS

50. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- credit risk – the possibility that other parties might fail to pay amounts due to the Authority
- liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Authority 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 three 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 Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with 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, as are three in-year updates.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 25/02/10 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for the 2010/11 was set at £192m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £172m. 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 108% and –8% 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

This Council uses the creditworthiness service provided by Sector Treasury Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and 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 2010/11 was approved by Full Council on 25/02/10 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 Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £35.2m 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 Authority's deposits, but there was no evidence at the 31 March 2011 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.

	Amount at 31.3.11	Historical Experience of Default	Historical Experience Adjusted for Market Conditions	Estimated Maximum Exposure to Default and Uncollectability
	£000's	%	%	£000's
Deposit with banks and financial institutions	35,346	-	-	-
Bonds	-	-	-	-
Customers	15,803	3.42%	3.42%	541
	51,149			541

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 £2.832m of the £21.009m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31.03.10 £000's	31.3.11 £000's
Less than three months	1,229	676
three to six months	562	506
Six months to one year	575	565
More than one year	1,156	1,085
Total	3,521	2,832

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. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. 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 assets is as follows:

	31.03.10 £000's	31.3.11 £000's
Less than 1 year	26,108	35,346
Between 1 and 2 years	-	-
Between 2 and 3 years	-	-
More than 3 years	-	-
Total	26,108	35,346

All trade and other payables (£37.895m) are due to be paid in less than one year and are not shown in the table above.

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 Minimum limits %	Approved Maximum Limit %	Authority Actual at 31.3.10 £000's	Authority Actual at 31.3.11 £000's
Less than 1 year	0%	20%	(7,000)	(5,000)
Between 1 and 2 years	0%	20%	-	(3,000)
Between 2 and 5 years	0%	25%	(7,673)	(6,674)
Between 5 and 10 years	0%	40%	(22,000)	(28,000)
More than 10 years	30%	90%	(79,565)	(90,565)
Total			(116,238)	(133,239)

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 rates 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.

In respect of the HRA borrowings the risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

31.3.10 £000's		31.3.11 £000's
-	Increase in interest payable on variable rate borrowings	-
89	Increase in interest receivable on variable rate investments	113
	Impact on Surplus or Deficit on the Provision of Services	
-	Increase in government grant receivable for financing costs	-
89	Impact on Income and Expenditure Account	113
18	Share of overall impact credited to the HRA	18
10,616	Decrease in fair value of fixed rate borrowing liabilities (no impact on surplus or deficit on the provision of services or other CIES)	11,621

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.

51. IMPACT OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS:

The statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

An explanation of the differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements is set out in the following tables and notes that accompany the tables.

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the date of transition to IFRS (1st April 2009)

	Previous GAAP	Effect of transition to IFRS: Presentational changes	Cash & cash Equivalents	Absences	Leases	PFI	Non-current Assets	Grants	IFRS
		1	2	3	4	5	6	7	
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
LONG-TERM ASSETS									
Property, Plant and Equipment	712,996	-	-	-	(964)	-	15,510	-	727,542
Investment Property	65,964	-	-	-	-	-	(20,055)	-	45,909
Intangible Assets	3,266	-	-	-	-	-	-	-	3,266
Long - Term Investments	5,215	-	-	-	-	-	-	-	5,215
Long - Term Debtors	21,560	-	-	-	444		-	-	22,004
LONG - TERM ASSETS	809,001	-	-	-	(520)	-	(4,545)	-	803,936
CURRENT ASSETS									
Short-Term Investments	27,534	-	(5,347)	-	-	-	-	-	22,187
Assets Held for Sale	13,528	-	-	-	-	-	(13,528)	-	-
Inventories	556	-	-	-	-	-	-	-	556
Short-Term Debtors	23,378	-	-	-	-	-	-	-	23,378
Cash and Cash Equivalents	59	8,841	5,091	-	-	-	-	-	13,991
Schools Cash at Bank	8,841	(8,841)	-	-	-	-	-	-	-
CURRENT ASSETS	73,896	-	(256)	-	-	-	(13,528)	-	60,112
CURRENT LIABILITIES									
Short-Term Borrowing	(5,556)	-	-	-	-	-	-	-	(5,556)
Provisions due to be settled within 12 months	-	-	-	(5,110)	-	-	-	-	(5,110)
Short-Term Creditors	(35,328)	-	-	-	-	-	-	(284)	(35,612)
Cash Overdrawn	(256)	-	256	-	-	-	-	-	-
CURRENT LIABILITIES	(41,140)	-	256	(5,110)	-	-	-	(284)	(46,278)
LONG TERM LIABILITIES									
Long-Term Creditors	(55)	-	-	-	-	-	-	-	(55)
Provisions	(3,437)	-	-	-	-	-	-	-	(3,437)
Government Grants Defererred Account	(43,251)	43,251	-	-	-	-	-	-	-
Developers contributions Deferred Account	(7,480)	7,480	-	-	-	-	-	-	-
Deferred Liabilities	(27,046)	27,046	-	-	-	-	-	-	-

NOTES TO THE CORE FINANCIAL STATEMENTS

Long-Term Borrowing	(96,943)	-	-	-	-	-	-	-	(96,943)
Other Long-Term Liabilities	-	(27,047)	-	-	(1,341)	-	-	-	(28,388)
Capital Grants Receipts in Advance	(2,581)	-	-	-	-	-	-	2,581	-
Liability related to Defined Benefit Pension Scheme	(150,942)	-	-	-	-	-	-	-	(150,942)
LONG-TERM LIABILITIES	(331,735)	50,730	-	-	(1,341)	-	-	2,581	(279,765)
NET ASSETS	510,022	50,730	-	(5,110)	(1,861)	-	(18,073)	2,297	538,005
RESERVES									
Usable Reserves									
Capital Receipts Reserve	-	-	-	-	-	-	-	-	-
General Fund Balance	15,663	-	-	-	-	-	-	-	15,663
Housing Revenue Account Reserve	7,514	-	-	-	-	-	-	-	7,514
Major Repairs Reserve	62	-	-	-	-	-	-	-	62
Capital Grants Unapplied	-	-	-	-	-	-	-	733	733
Earmarked Reserves	17,673	-	-	-	-	-	-	1,564	19,237
	40,912	-	-	-	-	-	-	2,297	43,209
Unusable Reserves									
Revaluation Reserve	25,760	-	-	-	(36)	-	(655)	-	25,069
Capital Adjustment Account	596,336	50,730	-	-	(1,825)		(17,418)	-	627,823
Available-for-sale Financial Instruments Reserve	-	-	-	-	-	-	-	-	-
Financial Instruments Adjustment Account	(2,343)	-	-	-	-	-	-	-	(2,343)
Pensions Reserve	(150,942)	-	-	-	-	-	-	-	(150,942)
Collection Fund Adjustment Account	299	-	-	-	-	-	-	-	299
Employee Benefit Adjustment Account	-	-	-	(5,110)	-	-	-	-	(5,110)
	469,110	50,730	-	(5,110)	(1,861)	-	(18,073)	-	494,796
TOTAL RESERVES	510,022	50,730	-	(5,110)	(1,861)	-	(18,073)	2,297	538,005

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the end of the latest period presented in the most recent financial statements under previous GAAP (31st March 2010)

	Previous GAAP	Effect of transition to IFRS							IFRS
		Presentational changes	Cash & cash Equivalents	Absences	Leases	PFI	Non-current Assets	Grants	
		1	2	3	4	5	6	7	
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
LONG-TERM ASSETS									
Property, Plant and Equipment	740,745	-	-	-	209	-	15,869	-	756,823
Investment Property	67,265	-	-	-	-	-	(23,018)	-	44,247
Intangible Assets	2,214	-	-	-	-	-		-	2,214
Long - Term Investments	1,215	-	-	-	-	-	-	-	1,215
Long - Term Debtors	3,587	-	-	-	437	-	-	-	4,024
LONG - TERM ASSETS	815,026	-	-	-	646	-	(7,149)	-	808,523
CURRENT ASSETS									
Short-Term Investments	26,107	-	(9,290)	-	-	-	-	-	16,817
Assets Held for Sale	11,513	-	-	-	-	-	(11,513)	-	-
Inventories	506	-	-	-	-	-	-	-	506
Short-Term Debtors	26,989	-	-	-	-	-	-	-	26,989
Cash and Cash Equivalents	59	9,690	8,119	-	-	-	-	-	17,868
Schools Cash at Bank	9,690	(9,690)	-	-	-	-	-	-	-
CURRENT ASSETS	74,864	-	(1,171)	-	-	-	(11,513)	-	62,180
CURRENT LIABILITIES									
Short-Term Borrowing	(8,676)	-	-	-	-	-	-	-	(8,676)
Provisions due to be settled within 12 months	-	(2)	-	(5,903)	-	-	-	-	(5,905)
Short-Term Creditors	(36,973)	-	-	-	-	-	-	(2,206)	(39,179)
Cash Overdrawn	(1,171)	-	1,171	-		-	-	-	-
CURRENT LIABILITIES	(46,820)	(2)	1,171	(5,903)	-	-	-	(2,206)	(53,760)
LONG TERM LIABILITIES									
Long-Term Creditors	(41)	-	-	-	-	-	-	-	(41)
Provisions	(2,498)	1	-	-	-	-	-	-	(2,497)
Government Grants Defererred Account	(48,049)	48,049	-	-	-	-	-	-	-
Developers contributions Deferred Account	(7,619)	7,619	-	-	-	-	-	-	-
Deferred Liabilities	(6,914)	6,914	-	-	-	-	-	-	-

NOTES TO THE CORE FINANCIAL STATEMENTS

Long-Term Borrowing	(108,147)	-	-	-	-	-	-	-	(108,147)
Other Long-Term Liabilities	-	(6,913)	-	-	(2,016)		-	-	(8,929)
Capital Grants Receipts in Advance	(5,476)	-	-	-	-	-	-	5,476	-
Liability related to Defined Benefit Pension Scheme	(189,978)	-	-	-	-	-	-	-	- (189,978)
LONG-TERM LIABILITIES	(368,722)	55,670	-	-	(2,016)	-	-	5,476	(309,592)
NET ASSETS	474,348	55,668	-	(5,903)	(1,370)	-	(18,662)	3,270	507,351
RESERVES									
Usable Reserves									
Capital Receipts Reserve	154	-	-	-	-	-	-	-	154
General Fund Balance	13,726	-	-	-	-	-	-	-	13,726
Housing Revenue Account Reserve	8,880	-	-	-	-	-	-	-	8,880
Major Repairs Reserve	803	-	-	-	-	-	-	-	803
Capital Grants Unapplied	-	-	-	-	-	-	-	1,843	1,843
Earmarked Reserves	16,234	-	-	-	-	-	-	1,427	17,661
	39,797	-	-	-	-	-	-	3,270	43,067
Unusable Reserves									
Revaluation Reserve	56,031	-	-	-	(36)	-	(14,325)	-	41,670
Capital Adjustment Account	569,721	55,668	-	-	(1,334)		(4,337)	-	619,718
Available-for-sale Financial Instruments Reserve	-	-	-	-	-	-	-	-	-
Financial Instruments Adjustment Account	(2,198)	-	-	-	-	-	-	-	(2,198)
Pensions Reserve	(189,978)	-	-	-	-	-	-	-	(189,978)
Collection Fund Adjustment Account	975	-	-	-	-	-	-	-	975
Employee Benefit Adjustment Account	-	-	-	(5,903)	-	-	-	-	(5,903)
	434,551	55,668	-	(5,903)	(1,370)	-	(18,662)	-	464,284
TOTAL RESERVES	474,348	55,668	-	(5,903)	(1,370)	-	(18,662)	3,270	507,351

Reconciliation to total comprehensive Income & Expenditure under IFRS for the latest period in the most recent annual financial statements (Year ended31st March2010)

	Previous GAAP	Presentational changes	Cash & cash Equivalents	Absences	Leases	PFI	Non-current Assets	Grants	IFRS
		Effect of transition to IFRS							
		1	2	3	4	5	6	7	
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Central Services to the Public	9,085	(458)	-	152	(448)	-	(2,061)	-	6,270
Cultural, Environmental and Planning Services	38,135	(637)	-	22	(7)	-	(1,001)	119	36,631
Children's and Education Services	32,166	999	-	546	(27)	(222)	(5,310)	12	28,164
Highways, Roads and Transport Services	11,369	(4,460)	-	7	(165)	-	24	(8)	6,767
Local Authority Housing (HRA)	(775)	-	-	(5)	-	-	(5,396)	-	(6,176)
Other Housing Services	3,303	3	-	8	-	-	-	60	3,374
Adult Social Care	44,418	(383)	-	64	-	-	(128)	135	44,106
Court Services	304	-	-	-	-	-	-	-	304
Corporate and Democratic Core	4,190	-	-	(1)	-	-	-	-	4,189
Non-Distributed Costs	847	-	-	-	-	-	-	-	847
Exceptional Items	(799)	-	-	-	-	-	-	-	(799)
Cost of Services	142,243	(4,936)	-	793	(647)	(222)	(13,872)	318	123,677
Other Operating Expenditure	194	-	-	-	-	-	-	-	194
Financing and Investment Income and Expenditure	15,426	-	-	-	155	-	791	-	16,372
Taxation and Non-Specific Grant Income	(123,686)	-	-	-	-	-	-	(1,292)	(124,978)
(Surplus)/Deficit on Provision of Services	**34,177**	**(4,936)**	**-**	**793**	**(492)**	**(222)**	**(13,081)**	**(974)**	**15,265**
Surplus/loss arising on the revaluation of property, plant and equipment assets									(17,797)
Surplus/loss arising on the revaluation of available-for-sale financial assets									-
Actuarial (gains)/losses relating to pensions									32,964
Other Comprehensive Income and Expenditure									15,167
Total Comprehensive Income and Expenditure									30,432

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Presentational Changes

The adoption of IFRS gives rise to a revised format of the Authority's accounts. A new financial statement 'Movement in Reserves Statement' is introduced and combines the prior statement on the Movement on the General Fund Balance together with other reserve movements; the new Comprehensive Income and Expenditure Statement now incorporates the former Statement of Total Recognised Gains and Losses. Presentational changes have also been applied to the Balance Sheet and Cash Flow Statements.

2. Cash & Cash equivalent

Cash Equivalents is a new balance sheet heading to include both cash and highly liquid short term investments that are held for cash management purposes (which are considered as the 'equivalent' of cash), such as call accounts and short term deposits.

3. Short Term Accumulating Compensated Absences:

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

4. Leases:

Under the Code, definitions of a finance lease and an operating lease are different from previous. This change can result in leases being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Authority is the lessee) will be unchanged. Where the council is the lessor, the regulations allow the Authority to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

The Authority has a number of leases where the accounting treatment has changed following the introduction of the Code.

Authority as Lessee

The Authority leases its fleet of refuse collection vehicles from several external suppliers, with typical lease term of five years starting on various dates. A number of York schools procure IT equipment under ICT managed service agreement with Vital York Ltd, typically with lease term of three years. In addition, the Authority leases photocopiers from external suppliers, with typical lease term of five years.

These leases were previously classified as operating leases, but under the Code, they have been classified as finance leases.

As a consequence of these changes, the financial statements have been amended as follows:

- The Authority has recognised the assets (vehicles, IT equipments, and photocopiers) at depreciated historical cost and corresponding finance lease liabilities.
- The operating lease charges within individual lines on Cost of Services have been removed and replaced by depreciation charges.
- The depreciation charges have been transferred from the General Fund to the Capital Adjustment Account, and the General Fund has been charged with the Minimum Revenue Provision (with the credit being made to the Capital Adjustment Account). These transfers are reflected in the balance sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year.
- The interest element of the lease payments is charged to the Financing and Investment income and expenditure line in Surplus or Deficit on the Provision of Services.

Authority as Lessor

Among Authority-owned properties that are leased out to external bodies, five were previously classified as operating leases, but under the Code, they have been classified as finance leases. Of those, four were investment properties (No 23, 31 & 39 Hospital Fields Road, and 27/28 St Marys, York), and one was a surplus property (Theatre Royal). The lease terms are between thirty and sixty years, commencing from July 1994 at the latest.

As a consequence of these changes, the financial statements have been amended as follows:

- The Authority has removed the five properties from its recognised assets and has recognised finance lease long term debtors for them.
- The Impairment Losses on No 23, 31 & 39 Hospital Fields Road have been removed from Cost of Services and credited back to the Capital Adjustment Account. This adjustment is reflected in the balance sheet as at 31 March 2010, and reported in the Movement in Reserves Statement for the year.
- Loss on disposals have been charged to the General Fund and subsequently transferred from the General Fund to the Capital Adjustment Account. These transfers are reflected in the balance sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year.
- The revaluation gain on 27/28 St Mary's in 2009/10 has been transferred from the Revaluation Reserve to the Capital Adjustment Account. This transfer is reflected in the balance sheet as at 31 March 2010, and reported in the Movement in Reserves Statement for the year.

5. PFI

For the 2010/11 financial statements three schools are now incorporated in the PFI scheme, to include the two voluntary aided schools that were previously excluded. Under the 2010/11 code these voluntary aided schools must now be included in the Authority's accounts. Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority. However, in the case of the voluntary aided schools where the Authority does not own the assets, the non current assets are recognised and written back out of the Balance Sheet.

6. Non-current Assets

IFRS introduces a number of new accounting treatments in respect of non-current assets. Investment Properties are now a distinct category of asset and separately identified on the face of the balance sheet. Movements in the valuation of investment properties are now recorded through the surplus or deficit of provision of services rather than recognised within the Revaluation Reserve. A new Balance Sheet heading of Assets held for Sale is recognised for those properties that are marketed and anticipated to be sold within a twelve month period of the reporting date. The Authority does not currently have any assets in this category.

7. Grants

Grant income is to be recognised within the Revenue Account when conditions of the grant have been met rather than apply a matching principle to expenditure. This results in a number of adjustments being required.

Capital Grants Deferred Account
The Capital Grants Deferred Account was the accumulated balance of capital grants received that had funded assets held on the Balance Sheet; applying a matching principle this grant income was released to the revenue account to match the depreciation charge for those assets. Under IFRS the treatment is to recognise Capital grant income when the conditions of the grant have been met and then release this income to the revenue account at this point. The adjustment above is to remove the historic accumulated balance and movements on this account.

Grant Recognition
As grants are recognised when the conditions of the grant have been met, rather than necessarily held to match future expense, this results in the release of certain grant income from creditors. The revenue for this grant income is recognised within the Comprehensive Income and Expenditure Statement; adjustments have then been made to transfer this additional income either to an earmarked reserve for revenue items of the Capital Grant Unapplied Reserve for capital grants.

52. 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.

Balance at 31.3.10 £000's		Expenditure During Year £000's	Income During Year £000's	Balance at 31.3.11 £000's
(61)	Strensall & Towthorpe Village Trust	-	(1)	(62)
(46)	Haughton/Gardiner Trust	-	(1)	(47)
(11)	Staff Lottery	18	(36)	(29)
(23)	Edward Lamb Automoton Clock Legacy	-	-	(23)
(22)	Edmund Wilson Trust	2	-	(20)
(139)	Other Funds	35	(9)	(113)
(302)		55	(47)	(294)

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

HOUSING REVENUE ACCOUNT

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

2009/10 £000's		Note	2010/11 £000's
	Income		
(25,708)	Dwellings Rents	(3)	(25,994)
(605)	Non-dwelling rents		(598)
(813)	Charges for Services and Facilities		(829)
(778)	Contributions Towards Expenditure		(505)
-	Other Government Grants		-
(27,904)	**Total Income**		(27,926)
	Expenditure		
6,130	Repairs and maintenance		6,237
7,170	Supervision and management		7,007
223	Rents, Rates, Taxes and Other Charges		205
5,808	Negative Housing Revenue Account subsidy payable	(5)	6,175
2,349	Depreciation and Impairment of non-current assets		7,553
8	Debt Management Costs		9
40	Movement in the allowance for bad debts	(4)	105
-	Exceptional Items	(10)	104,311
21,728	**Total Expenditure**		131,602
(6,176)	**Net Cost of Services included in the Comprehensive Income and Expenditure Statement**		**103,676**
	<u>Share of Corporate Costs</u>		
269	HRA share of Corporate and Democratic Core	(7)	218
10	HRA share of other amounts included in the Council Net Cost of Services but not allocated to specific services	(8)	(732)
(5,897)	**Net Cost of HRA Services**		**103,162**
	HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
334	Payments to the Government Housing Capital Receipts pool		704
1	Gain or (loss) on sale of HRA non-current assets		756
1,117	Interest payable and similar charges		865
(265)	Interest and investment income		(183)
497	Income and expenditure in relation to investment properties and changes in their fair value		(106)
325	Pensions interest cost and expected return on pensions assets		227
-	Capital grants and contributions receivable		(562)
(3,888)	**(Surplus)/Deficit on Provision of Services**		**104,863**

MOVEMENT IN THE HOUSING REVENUE ACCOUNT RESERVE

2009/10 £000's			2010/11 £000's
(7,514)	**Balance on the HRA at the end of the previous year**		**(8,880)**
(3,888)	Surplus/(Deficit) for the year on the HRA Income and Expenditure Statement	104,863	
	Adjustments between accounting basis & funding basis under regulations		
(269)	HRA share of Corporate Democratic Core	(218)	
(7,564)	Depreciation and impairment charges	(7,553)	
5,215	Revaluation charges	-	
(497)	Market valuation investment properties	106	
-	Capital grants	562	
(596)	Non-current assets written off	(2,587)	
707	Capital Expenditure funded by the HRA	399	
595	Income from non-current asset sales	1,831	
(334)	Transfer from Capital Receipts Reserve	(704)	
5,127	Depreciation costs met by MRR	5,243	
(601)	Reitrement benefits	76	
426	Pension payments	406	
5	Accumulated absences	32	
(1,674)	**Net Increase/Decrease before Transfers to or from reserves**	**102,456**	
308	Transfers to/(from) reserves	337	
(1,366)	**Increase/Decrease in Year on the HRA**		**102,793**
(8,880)	**Balance on the HRA at the end of the current year**		**93,913**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. SIGNIFICANCE OF THE STATUTORY HOUSING REVENUE ACCOUNT

Although there is a deficit of £115.753m (2009/10 surplus of £3.888m) on the Housing Revenue Account Income and Expenditure Account this becomes a surplus of £1.518m (2009/10 £1.366m) 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. Authorities 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

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, government subsidy 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, preventing the subsidisation of rents from the general income of the Council.

HRA subsidy includes the Major Repairs Allowance which acts as a proxy for depreciation of council dwellings which is intended to reflect the actual cost of maintaining the present condition of the housing stock and aid medium and long term financial planning.

3. GROSS RENTS

Gross rent income is the total amount due for the year after allowance for voids of £58k (2009/10 £243k) which represents 0.22% (2009/10 0.94%) of the gross rent income including charges for services. Average rents in March 2010 were £61.79 (2009 £60.14) a week. In April an increase of 1.83% (2009 2.86%) was applied increasing the average rent at that time by £1.14 (2009/10 £1.72).

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.

2009/10 £000's		2010/11 £000's
(10,344)	Rents due from Tenants	(10,110)
(15,364)	Rents remitted by Rent Rebates through the Housing Benefit System	(15,884)
(25,708)	Total Rent Income	(25,994)

The Council was responsible for managing 7,926 (2009/10 7,955) dwellings at 31 March. In addition to this total are 223 (2009/10 214) properties that the Council manages on behalf of two Housing Associations and 50 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:

NOTES TO THE HOUSING REVENUE ACCOUNT

	Pre 1919	1919/ 1944	1945/ 1964	After 1964	Total
Low Rise Flats	1	546	660	736	1,943
Medium Rise Flats	4	3	836	765	1,608
Houses and Bungalows	16	2,133	1,533	693	4,375
	21	2,682	3,029	2,194	7,926

The movement in the stock in the year can be analysed as follows:

2009/10 Total		2010/11 Houses/ Bungalows	2010/11 Flats	2010/11 Total
	Operational Stock			
8,008	Balance at 1 April	4,399	3,556	7,955
(5)	Sales	(5)	(5)	(10)
(40)	Awaiting Demolitions	(19)	-	(19)
-	Dwellings declared surplus	-	-	-
-	Dwellings reprovided with Housing Association	-	-	-
	Re-categorisation			
(8)	To General Fund	-	-	-
-	To HRA non-housing stock	-	-	-
7,955	Balance at 31 March	4,375	3,551	7,926

4. PROVISIONS 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 2010/11 rent arrears as a proportion of gross rent income have decreased from 5.14% of the amount due to 3.67%. The rent arrears figures are as follows:

2009/10 £000's			2010/11 £000's
501	Arrears at 31 March	- Current tenants	444
917		- Former tenants	571
89	Amounts Written Off during the Year		419
36	Increased/(Reduced) Provision during the Year		47
1,211	Provision for Bad and Doubtful Debts		834

The rent arrears as a proportion of gross rent income is split between current and former tenants as shown in the following table:

2009/10 %			2010/11 %
	Dwelling rent arrears as a % of gross rent debit		
1.82		- Current tenants	1.60
3.32		- Former tenants	2.07
5.14			3.67

A bad and doubtful debt provision is made for debts outstanding on rechargeable repairs. The arrears figures are as follows:

2009/10 £000's		2010/11 £000's
82	Arrears at 31 March	45
14	Amounts Written Off during the Year	31
4	Increased/(Reduced) Provision during the Year	8
49	Provision for Bad and Doubtful Debts	27

NOTES TO THE HOUSING REVENUE ACCOUNT

5. SUMS DIRECTED BY THE SECRETARY OF STATE/HOUSING REVENUE ACCOUNT SUBSIDY

The HRA subsidy is based on a notional account with the deficit on the account being the entitlement to subsidy and a surplus meaning that the Council is in a ‘negative subsidy’ status and must pay the surplus to the Secretary of State. The notional account is:

2009/10 £000's		2010/11 £000's
	Expenditure	
12,352	Management and Maintenance	12,791
1,431	Capital Financing Charges	1,078
-	Other Items	-
5,127	MRA	5,243
18,910		19,112
	Income	
(24,713)	Rent Income	(25,286)
(5)	Interest	(1)
(24,718)		(25,287)
(5,808)	Negative HRA subsidy payable	(6,175)

6. 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.

7. 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:

2009/10 £000's		2010/11 £000's	2010/11 £000's
	Income and Expenditure Account Entries		
	Net Cost of HRA Services		
266	Current service cost	429	
-	Past service cost	(753)	
10	Curtailment Cost	21	
276			(303)
	Financing and Investment Income and Expenditure		
609	Interest cost	675	
(284)	Expected return on assets in the scheme	(448)	
325			227
601	**Net Charge to the Income and Expenditure Account**		(76)
	Statement of Movement on the Housing Revenue Account Balance Entries		
	Reversal of net charges made for retirement benefits		
(601)	Contribution to/(from) Pensions Reserve		76
	Actual amount charged to the Housing Revenue Account for		
426	Pensions in the year		406

NOTES TO THE HOUSING REVENUE ACCOUNT

8. 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. Under item 8 of part VI of the Local Government and Housing Act 1989 any difference between the depreciation credit on the reserve and the Major Repairs Allowance has to be transferred back to the HRA. Councils are able to charge capital expenditure directly to the reserve. The following table shows the transfer to the HRA in the year.

2009/10 £000's		2010/11 £000's
(215)	Depreciation on other HRA assets	(204)
(2,222)	Depreciation on dwellings higher than MRA	(2,106)
(2,437)	Total Transfer from MRR	(2,310)

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:

2009/10 £000's		2010/11 £000's
(62)	Balance at 1 April	(803)
(7,349)	Depreciation on HRA dwellings	(7,349)
(215)	Depreciation on other HRA assets	(204)
2,437	Transfer to HRA during the financial year	2,310
4,386	Capital expenditure on houses within the HRA charged to the reserve	5,379
(803)	Balance at 31 March	(667)

9. 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:

NOTES TO THE HOUSING REVENUE ACCOUNT

2010/11

	Council dwellings £000's	Other land and buildings £000's	Vehicles, plant furniture & equipment £000's	Infra-structure Assets £000's	Assets under Cons-truction £000's	Total Property, plant & Equipment £000's	PFI Assets included in Property, plant & equipment £000's
Net Book Value							
At 1 April 2010	374,077	8,018	-	16	-	382,111	-
Category Adjustments	-	20	-	-	-	20	-
Restated 1 April 2010	374,077	8,038	-	16	-	382,131	-
Additions	7,039	4	-	-	-	7,043	-
Donations	-	-	-	-	-	-	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(7,499)	(481)	-	-	-	(7,980)	-
Revaluation increases/ (decreases) recognised in the (Surplus)/Deficit on the Provision of services	(104,311)	-	-	-	-	(104,311)	-
Derecognition - disposals	(2,587)	-	-	-	-	(2,587)	-
derecognition - other	-	-	-	-		-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-
Depreciation charge	(7,349)	(203)	-	(1)	-	(7,553)	-
Impairment losses/ (reversals) recognised on the Provision of Services	-	-	-	-	-	-	-
Net Book Value							
At 31 March 2011	**259,370**	**7,358**	**-**	**15**	**-**	**266,743**	**-**

NOTES TO THE HOUSING REVENUE ACCOUNT

2009/10

	Council dwellings £000's	Other land and buildings £000's	Vehicles, plant furniture & equipment £000's	Infra-structure Assets £000's	Assets under Cons-truction £000's	Total Property, plant & Equipment £000's	PFI Assets included in Property, plant & equipment £000's
Net Book Value							
At 1 April 2009	367,454	8,559	-	17		376,030	-
Prior Year Adjustment	-	-	-	-	-	-	-
Restated 1 April 2009	367,454	8,559	-	17	-	376,030	-
Additions	6,093	-	-	-	-	6,093	-
Donations	-	-	-	-	-	-	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	8,475	-	-	-	-	8,475	-
Revaluation increases/ (decreases) recognised in the (Surplus)/Deficit on the Provision of services	-	(30)	-	-	-	(30)	-
Derecognition - disposals	(596)	-	-	-	-	(596)	-
derecognition - other	-	-	-	-		-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-
Depreciation charge	(7,349)	(214)	-	(1)	-	(7,564)	-
Impairment losses/ (reversals) recognised on the Provision of Services	-	(297)	-	-	-	(297)	-
Net Book Value							
At 31 March 2011	**374,077**	**8,018**	**-**	**16**	**-**	**382,111**	**-**

10. 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 are now included at 31% of the open market valuation. This revaluation loss of £104.311m is on the face of the HRA Income & Expenditure statement as an exceptional item. As a consequence of the revaluation loss, the Council recognises council dwellings at a value of £259.369m (2009/10 £374.076m) on the balance sheet. At vacant possession the same dwellings would have a value of £814.325m (2009/10 £795.909m), therefore recognising an economic cost to the government of providing council housing at less than open market rents of £554.956m (2009/10 £408.767m).

NOTES TO THE HOUSING REVENUE ACCOUNT

11. SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

The capital expenditure to be financed in 2010/11 is £7.039m (2009/10 £6.093m). The analysis of the expenditure and the sources of financing used are set out in the following table:

2009/10 Total £000's		2010/11 Dwellings £000's	Infra-structure £000's	Equipment £000's	Total £000's
6,093	**Total capital expenditure**	6,879	-	160	7,039
	Financing				
(1,000)	Borrowing	(848)	-	(152)	(1,000)
-	Capital Receipts	(101)	-	-	(101)
(4,386)	Major Repairs Reserve	(5,379)	-	-	(5,379)
-	Grants	(160)	-	-	(160)
(707)	Revenue Contributions	(391)	-	(8)	(399)
(6,093)		(6,879)	-	(160)	(7,039)

12. CAPITAL RECEIPTS

In accordance with Part 1 of the Local Government Act 2003 housing capital receipts are now subject to capital pooling requirements. Generally this means that only 25% of dwelling receipts can be used with the remainder paid into the Government Pool. 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:

2009/10 Total £000's		2010/11 Council Dwellings £000's	Land £000's	Total £000's
(546)	Sales proceeds	(1,028)	(793)	(1,821)
5	less: administrative costs	2	-	2
(541)	Net proceeds	(1,026)	(793)	(1,819)
(39)	Right to buy discount repaid	-	-	-
(15)	Mortgage principal repaid	(12)	-	(12)
(595)		(1,038)	(793)	(1,831)
	of which:			
(261)	Usable			(1,127)
(334)	Payable to Housing Pooled Capital Receipts			(704)
(595)				(1,831)

The administrative costs are a permissible charge to the Council's Capital Adjustment Account.

13. INVESTMENT PROPERTIES

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority 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:

	2009/10 £000's	2010/11 £000's
Balance at start of the year	3,803	3,306
Additions	-	-
Disposals	-	-
Net gain or loss on Fair Value	(497)	106
Transfers:		
to/ from Inventories	-	-
to/ from Property, Plant & Equipment	-	(20)
Other changes	-	-
Balance 31 March	3,306	3,392

COLLECTION FUND

COLLECTION FUND

INCOME AND EXPENDITURE ACCOUNT

2009/10 £(000)		Note	2010/11 £(000)	2010/11 £(000)
	Income			
(78,920)	Council Tax Income	(2)		(80,831)
	Transfer from General Fund:			
(9,671)	Council Tax Benefit			(10,397)
(82,492)	Income from business ratepayers	(3)		(80,875)
(171,083)	**Total Income**			(172,103)
	Expenditure			
	Precepts and Demands			
13,092	North Yorkshire Police Authority		13,591	
4,002	North Yorkshire Fire and Rescue Authority		4,126	
70,405	City of York Council		73,061	
87,499				90,778
	Business Rates			
82,194	Payment to National Pool		80,579	
298	Costs of Collection		296	
82,492				80,875
	Council Tax Provision for uncollectable			
(41)	accounts and outstanding appeals			(44)
	Contribution from previous years'			
	Collection Fund surpluses			
44	North Yorkshire Police Authority			53
13	North Yorkshire Fire and Rescue Authority			16
236	City of York Council			288
170,243	**Total Expenditure**			171,966
(840)	**(Surplus)/Deficit for the year**			(137)

COLLECTION FUND BALANCE

2009/10 £(000)		Note	2010/11 £(000)
(840)	(Surplus)/Deficit for the Year on the Income and Expenditure Account		(137)
(371)	Collection Fund surplus brought forward		(1,211)
(1,211)	Collection Fund surplus carried forward	(4)	(1,348)

NOTES TO THE COLLECTION FUND

1. LEGISLATIVE BACKGROUND

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, North Yorkshire Police Authority, North Yorkshire Fire and Rescue Authority, parish councils and the government.

2. COUNCIL TAX

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. Specific reductions are made, in accordance with government regulations, for persons on lower incomes (council tax benefits). Government grant is received for this reduction.

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 x 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 2010/11 charges are:

Property Band	Property Value			Proportion of Band D	Estimated Tax Base for Year	Year-End Tax Base	Average Charge In Year
A reduced	up to		£40,000	5/9	7.67	7.68	£759.03
A	up to		£40,000	6/9	5,708.47	5,737.45	£910.84
B	£40,000	to	£52,000	7/9	15,741.91	15,837.31	£1,062.65
C	£52,000	to	£68,000	8/9	19,397.71	19,467.16	£1,214.45
D	£68,000	to	£88,000	9/9	10,989.72	10,996.94	£1,366.26
E	£88,000	to	£120,000	11/9	7,728.62	7,800.67	£1,669.87
F	£120,000	to	£160,000	13/9	4,133.02	4,206.77	£1,973.49
G	£160,000	to	£320,000	15/9	2,280.62	2,278.70	£2,277.10
H	over		£320,000	18/9	114.88	114.57	£2,732.52
TOTAL					66,102.62	66,447.25	

In addition, the government makes a contribution for properties classed as "Crown" properties in lieu of paying Council Tax. These contributed £444k (2009/10 £433k) to the Council Tax income.

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 £282k (2009/10 £605k) 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 £237k (2009/10 £574k) and the level of the provision for banding appeals was increased by £1k (2009/10 reduced by £10k). The net effect of these is a reduction in the value of provisions of £44k (2009/10 £41k).

NOTES TO THE COLLECTION FUND

The amount credited to the Collection Fund is analysed as follows:

2009/10 £(000)		2010/11 £(000)
(433)	Crown Contribution	(444)
(88,158)	Charge (66,447.25 x £1,366.26)	(90,784)
(88,591)		(91,228)
	where the charge total comprises:	
(78,920)	Income due from Chargepayers, including Crown properties	(80,831)
(9,671)	Council Tax Benefit	(10,397)

3. INCOME FROM BUSINESS RATES

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 2010 was 202,718,617 (2009/10 202,718,617) and the rate for 2010/11 was 41.6p (2009/10 48.5p), with a reduction to 40.7p (2009/10 48.1p) for small businesses. The Council has no control over these values.

The total amount collected, less certain reliefs and deductions, is paid to a central pool (NNDR Pool) managed by Central Government, which in turn pays each local authority their apportionment of the pool. This income is credited directly to the Income and Expenditure Account. Under these arrangements the amount due is as follows:

2009/10 £(000)		2010/11 £(000)	2010/11 £(000)
	Rates payable for year		
(98,319)	(242,622,439 x 41.4 p)		(100,446)
5,583	Less: Transitional Relief and part occupancy	6,975	
6,282	Charitable Relief	6,749	
2,133	Adjustments re previous years rates	3,295	
1,829	Other adjustments including making provision for bad debts, interest payments made and small business relief	2,552	
15,827			19,571
(82,492)			(80,875)

4. DISTRIBUTION OF YEAR END (SURPLUS)/DEFICIT

As was set out in note 1 the year-end (surplus)/deficit is distributed to City of York Council, the North Yorkshire Police Authority (NYPA) and the North Yorkshire Fire and Rescue Authority (NYFRA).

2009/10 £000's		2010/11 £000's
(975)	City of York Council	(1,085)
(181)	North Yorkshire Police Authority	(202)
(55)	North Yorkshire Fire and Rescue Authority	(61)
(1,211)		(1,348)

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.* 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 regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

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 2011 and up to the date of approval of the Statement of Accounts for 2010/11.

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 Corporate Strategy expresses the council's priorities until 2012 and priorities and associated milestones are refreshed each year. The council has also developed a standard directorate and service planning process which integrates priority setting with resource allocation and performance management. The Council is currently in the process of refreshing its strategic plan for 2011-2015 'Delivering for the People of York' and this will be formally launched during 2011/12.

Political and Managerial Structures and Processes

The full Council is responsible for agreeing overall policies and setting the budget. The Executive is responsible for decision making within the policy and budget framework set by full Council. The Corporate Management Team (CMT) 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.

In accordance with new legislative requirements, a new Leader and Cabinet model was introduced in May 2011. The Cabinet, which replaced the Executive, meets every fortnight and the CMT meets every week. The Cabinet and CMT monitor and review council activity to ensure corporate compliance with governance, legal and financial requirements. The officer Quality Control Group also reviews reports before they are presented to the Cabinet to ensure that all legal, financial and other governance issues have been adequately considered. Arrangements have been developed to introduce officer agenda planning for all Cabinet decisions. This will ensure that all reports receive a legal overview.

The council implemented new scrutiny arrangements during 2009/10 which have increased the effectiveness of the scrutiny function.

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.

The council has a Standards Committee that is responsible for promoting good ethical governance within the organisation. 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 Standards Committee has a membership that includes members of the council, members of the public and representatives of the parish councils. In addition, the Chair of the Committee must be one of the independent members.

The Council's Governance Framework cont'd

The Audit and Governance and Standards Committees have committed to working together improve the oversight of corporate governance.

Management and Decision Making Processes

As part of the refreshed strategic council plan, a core organisational capability will be to develop into a confident, collaborative organisation, requiring us to make sound decisions swiftly. This will be supported through the implementation of a Workforce Development Strategy which develop and harness staff the skills of our staff to effectively deliver our priorities.

Corporate management and leadership is supported and developed through the Corporate Leadership Group.

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 Whistleblowing, 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 (see paragraph 3.19 below). Any amendments must be 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 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 alignment 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.

The Council's Governance Framework cont'd

In delivering these responsibilities he leads and directs a finance function:

- that is resourced to be fit for purpose; and
- 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 Statements of Recommended Practice, Accounting Codes of Practice, 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 are subject to ongoing scrutiny by the Audit Commission 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.

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 Council's Governance Framework cont'd

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 2003 (as amended). The service in 2010/11 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 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
- support to 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 has continued to work to secure further improvements in 2010/11. This includes establishing the Business Intelligence Hub, within the new 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 financial based monitoring. During 2010/11 each directorate reported finance and performance monitoring progress to members through the established Scrutiny arrangements. Corporate joint finance and performance reporting to CMT (monthly) and Executive (quarterly) takes place at a corporate level.

In 2009/10 the council embarked on an ambitious programme of efficiency improvements. The programme was approved by members in principle in July 2009 and in detail, supported by detailed business plans, in October 2009. During 2010/11 the programme had a clear governance structure with CMT as its Programme Board and a clear project management approach with financial and performance monitoring processes in place.

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. These have been enshrined in the council's 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
- the Talkabout Citizen's Panel
- regular residents' surveys

The Council's Governance Framework cont'd

- publications such as Your City and Your Ward
- involvement in devolved budget decision-making at ward level
- budget and other consultation processes including the on-line 'You Choose' budget survey
- 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. In addition, the council is seeking to build on existing protocols for partnership working that ensure that the responsibilities are clearly defined to ensure that the relationship works effectively, for the benefit of service users. For each partnership the legal status of the entity is defined and also the extent that decisions taken by the partnership will be binding for each organisation. Regular review of the existing partnerships database is undertaken to monitor the extent of joint working and its effectiveness. An annual review of governance arrangements of the council's key partnerships is undertaken and further development of this work is covered in the section on Significant Governance Issues below.

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) and the Assistant Director of Customer & Business Support Services - Governance & ICT (the Monitoring Officer), the Assistant Director of Customer & Business Support Services – Financial Services 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 Chief Internal Auditor, presented to the council's Audit and Governance Committee
- significant issues and recommendations included in reports received from the Audit Commission and other inspection agencies
- the results of internal audit and fraud investigation work undertaken during the period
- the Review of the Effectiveness of Internal Audit
- 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 including the review of significant partnership governance arrangements
- the outcomes of service improvement reviews and performance management processes
- progress in dealing with control issues identified in the 2009/10 Annual Governance Statement.

5. **Significant Governance Issues**

In considering the significant internal control issues contained within the 2009/10 AGS, it is noted that the following enhancements have been achieved:

- Improved use of scrutiny, including training for members and officers
- Organisational leadership and cultural change: it has been recognised that although issues remain, this is not a matter relevant for inclusion as a significant governance issue within this statement.

In addition to the above, a number of issues referred to in the 2009/10 AGS have been partially actioned in 2010/11 and will be further progressed during 2011/12 and beyond (through the named plans in brackets):

- Embedding of project and programme management. Examples of good project management have been demonstrated during 2010/11 however embedding of the processes is necessary across all projects (Office of the Chief Executive Directorate Plan)
- Partnership governance including shared use of resources (Council Plan)
- Further improvements to officer and member decision-making processes (Customer & Business Support Services Directorate Plan)
- Officer Code of Conduct awareness including a revision of current procedures such as the Whistleblowing Policy and Gifts and Hospitality (Customer & Business Support Services Directorate Plan).
- Compliance with Financial Regulations and Contract Procedure Rules to ensure lawful, effective and efficient use of the council resources in relation to procuring goods and services; in particular the raising of purchase orders for all relevant items of expenditure (CBSS Directorate Plan)
- Further development of effective processes for bank reconciliations. Although the current system is considered fit for purpose, the item remains on the statement as further key actions are planned for 2011/12 through maximising the functionality of the Council's Financial Management System to secure further control and assurance around the bank reconciliation process (CBSS Directorate Plan)
- Information Governance including compliance with the requirements of the Information Governance Strategic Framework including ensuring that information security requirements are adhered to (CBSS Directorate Plan).

New areas identified through the effectiveness review at Section 4 above, are outlined below with details of the plans which will be monitored by the OGG during 2011/12 for evidence of improvement:

- Improvements in procurement activity and contract control and management, including the introduction of a new electronic contract register (CBSS Directorate Plan)
- A refocus on Business Continuity (Council Plan).

Significant Governance Issues cont'd

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 31/08/11
K. England
Chief Executive

Signed .... Dated 30/06/11
Cllr J. Alexander
Leader of the Council

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.

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.

Area Based Grant (ABG)

This is a non-ringfenced general grant with no conditions on its use imposed by the government which is paid to the Income and Expenditure Account in support of the Charging Authority's revenue expenditure.

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.

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 Authority

The Authority responsible for administering the Collection Fund, including raising bills for and collecting the appropriate council tax and national non-domestic rates (NNDR).

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 Authority, 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 Authority's area. The income from the charge was used to finance a proportion of the Authority'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 authority. 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.

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.

Curtailment

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 Authority 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 Authority 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 Authority 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.

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 authority 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.

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 Reporting Standards (FRSs)

Statements prepared by the Accounting Standards Committee. Many of the Financial Reporting Standards (FRSs) and the earlier Statements of Standard Accounting Practice (SSAPs) apply to local authorities and any departure from these must be disclosed in the published accounts.

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 Authority services either specifically (e.g. improvement grants) or generally (e.g. revenue support grant).

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.

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.

Landfill Allowance Trading Scheme

Each waste disposal authority in England has been issued with allowances to use landfill sites for waste disposal. These allowances have been issued on the basis of 15 annual compliance periods. If the full allowance is not needed in any year it can be traded. If more than the allowance is needed then either an additional allowance has to be purchased from another organisation or a fine will be levied.

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.

Long-Term Contracts

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

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 Quentin Baker, Head of Legal, Civic and Democratic Services.

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 Authority requires from a Charging Authority to meet its expenditure requirements.

Precepting Authority

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 Account

An account which records the Council's day to day expenditure and income on such items as salaries and wages, running costs of service provision and the financing of capital expenditure.

Revenue Expenditure Funded from Capital Under Statute

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 Authority'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.

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.

Statement of Recognised Practice (SORP)

This is the guidance issued by CIPFA to enable Council's to ensure that the Accounts published comply with UK GAAP as it applies to local authority financial matters.

Statement of Standard Accounting Practice (SSAPs)

Statements prepared by the Accounting Standards Committee. Many of these have been replaced by Financial Reporting Standards (FRSs), but any departure from them must be disclosed in the published accounts.

Stocks

Items of raw materials and stores purchased by the Authority to use on a continuing basis which have not been used. The value of items not used at the balance sheet date are included as assets of the Council.

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.

Trust Funds

Money owned by an individual or organisation that is administered by the Authority.

UK GAAP

This is the "generally accepted accounting practice with respect to accounts of UK companies that are intended to give a true and fair view for the purposes of the relevant provisions of the Companies Acts". It includes, but is not limited to, Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) issued by the Accounting Standards Board and its predecessors.

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.

Agenda Item 6

Audit and Governance Committee 29 September 2011

Report of the Director of Customer & Business Support Services

Annual Governance Report – Audit Commission

Summary

1. The International Standard on Auditing (United Kingdom and Ireland) – ISA (UK&I) - 260 requires the Audit Commission to report to those 'charged with governance', issues arising from the audit of Financial Statements. The purpose of this report is to bring to Members attention the Audit Commission's Annual Governance Report, agree the Council's response and seek approval to changes to the 2010/11 Financial Statements. A copy of the Audit Commission Annual Governance Report is attached at Annex A.

Background

2. In 2006 the Audit Commission introduced revised reporting arrangements that included the requirement for an Annual Governance Report to be presented to those 'charged with governance' at the council. The council must consider the report before a statutory deadline of the 30 September each year. This report is made in addition to the Annual Audit Letter, which will be published in December 2011.

3. International Standard on Auditing (ISA) 260 also requires the Audit Commission to give an opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion). An unqualified Audit Opinion on the Council's arrangements is anticipated by the 30th September 2011.

4. The Pre-Audit Statement of Accounts 2010/11 were approved by the Director of Customer & Business Support Services on 30th June 2011 in accordance with the planned timetable and revised Accounts and Audit Regulations.

5. The 2010/11 audit is now substantially complete. The audit of the accounts will formally continue until the statutory deadline of the 30th September 2011, however it is not expected that the position will change significantly from this report. During the course of the audit to date, a number of material misstatements have been identified which the Council proposes to amend, pages 5 and 6 of the Audit Commission's Annual Governance Report attached at Annex A details these "Errors in the financial statements". Page 6 of the Annual Governance Statement also provides information of three misstatements to the accounts which the Council proposes not to amend and not reflect in the accounts ("Errors and uncertainties not adjusted").

6. A Letter of Representation (as required by International Auditing Standards) has been prepared for signature by the Chair of this Committee following Members consideration of this item. The Council's S151 Officer will also be required to sign this letter. The Letter of Representation will include information to show that the accounts show a true and fair view of the financial position and financial performance of the Council and also explain that management believes the uncorrected misstatements to be immaterial, both individually and in aggregate, to the financial statements as a whole. The letter has been drafted in accordance with the template provided by the Audit Commission.

7. A revised Statement of Accounts reflecting all the agreed changes has also been provided at of item 5, Annex B, of this agenda.

8. In planning their work, the Audit Commission identified four key areas of risk that have been considered during the audit. The Annual Governance Report on page 6 and 7 details the findings on these areas. In particular, in respect of the risk on two key Council projects – Waste PFI and the new office Accommodation – amendments to the accounts have been agreed in respect of costs incurred on West Offices. In respect of the risk around errors to the fixed asset valuations and accounting, there has been improvement overall, although adjustments have been required to disclosure notes and sheltered housing revaluation.

9. The Audit Commission's Annual Governance Report on page 8 has identified three issues to bring to Members attention regarding the quality of financial statements:
   - The financial statements containing errors
   - The implementation of the new IFRS and Code requirements

- Meeting the submission deadline for the Whole of Government Accounts work.

10. The production of the Statement of Accounts is the subject of continuous review and improvements will be sought in 2011/12. This year will focus on (i) raising the profile of Final Accounts (ii) further prioritisation of resources to the preparation of the Accounts (iii) increased frequency of meetings with the external auditors (iv) further specific training sessions for accountants (iv) enhanced project planning to ensure all deadlines are achieved.

Consultation

11. The report of the External Auditor has been discussed with the relevant responsible officers and has been approved in draft by the S151 Officer. It is reported here for due consultation with those members charged with governance at the council.

Options

12. Not relevant for the purpose of the report.

Analysis

13. Not relevant for the purpose of the report.

Corporate Priorities

14. This report contributes to the overall effectiveness of the council's governance and assurance arrangements.

Implications

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

Risk Management

16. The council will fail to comply with legislative and best practice requirements to provide for the proper audit of the authority if it does not consider this report or approve and sign off the letter of representation now required by International Auditing Standards.

17. By not responding effectively to the matters contained in this report, the council will fail to properly comply with legislative and best practice requirements.

Recommendations

18. Members are asked to:

(a) Note and discuss the matters set out in the Annual Governance Report presented for discussion 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) Consider the items identified as material misstatements on pages 5 and 6 of the Annual Governance Report at Annex A (Errors in the financial statements) and agree to amend the 2010/11 Statement of Accounts for those items.

(c) Consider the items identified on page 6 of the Annual Governance Report at Annex A (Errors and uncertainties not adjusted) and agree not to amend the 2010/11 Statement of Accounts for those items.

(d) Approve the amended Statement of Accounts 2010/11

(e) Approve the letter of representation for signature by the Chair of this Committee, having first considered whether it sufficiently reflects the views and beliefs of the Committee as those charged with governance at the Council

Reason
To ensure compliance with International Auditing Standards and relevant legislative requirements.

(f) Note the anticipated receipt of an unqualified Audit Opinion to both the Statement of Accounts 2010/11 and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Reason
To ensure Members of the Audit and Governance Committee are aware of any matters arising from the annual audit of the Statement of Accounts.

Contact Details

Author:	Chief Officer Responsible for the report:
Keith Best Assistant Director (Finance) Telephone: 01904 551745	Ian Floyd Director of Customer & Business Support Services Telephone: 01904 551100
	Report Approved √ **Date** 26/09/11

Specialist Implications Officers

Not applicable

Wards Affected: **All** √

For further information please contact the author of the report

Background Papers:

Audit and Governance Committee 26th July 2011 – Pre-Audit Statement of Accounts 2010/11

Audit and Governance Committee 29h September 2011 Annex A – Schedule of Changes to the Pre-Audit Statement of Accounts 2010/11

Annex

Annex A - Annual Governance Report; City of York Council; Audit 2010/11

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Annual governance report

City of York Council

Audit 2010/11

audit commission

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Key messages

This report summarises the findings from my 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

Audit opinion and financial statements

- My audit is now substantially complete and subject to satisfactory clearance of outstanding queries, I plan to issue an audit report including an unqualified opinion on the financial statements.
- My report highlights numerous amendments that have been made to the Council's financial statements since they were originally presented to you in July.

Value for money

- I am required to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. This is known as the value for money conclusion.
- I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Before I complete my audit

I confirm to you	My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you. **Independence** I confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11, except for claims certification.
I ask you to confirm to me	**I ask the Audit and Governance Committee to:** ■ take note of the adjustments to the financial statements which are set out in this report, and the errors identified during the course of the audit where management has decided not to adjust; ■ provide me with written assurances to confirm how you have discharged your responsibilities during 2010/11 as “those charged with governance”; and ■ approve the letter of representation, provided at Appendix 2, on behalf of the Council before I issue my opinion and conclusion.

Financial statements

The financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Status of the Audit

My 2010/11 audit work is now substantially complete, with the exception of the following matters:

- I await written confirmations from the Council's property services team regarding asset valuations
- There are a small number of outstanding queries and explanations from officers in relation to debtor and creditor balances and grant income

Providing these issues are resolved by 29 September 2011, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Submission of the Council's audited Whole of Government Accounts pack is scheduled to be completed by 14 October 2011.

Errors in the financial statements

Implementing the new requirements of International Financial Reporting Standards, which have full retrospective effect, has been a challenging process for all local authorities. At City of York Council this challenge was compounded by staffing and organisational changes. Consequently a significant number of amendments have been made to the unaudited financial statements originally presented to you.

The Cash Flow Statement, Movement in Reserves Statement, segmental analysis and restatement of prior years' balances have all been significantly reworked following our initial review and officers' own reflections on the draft accounts. Additional disclosures were also made in the Housing Revenue Account (HRA) to meet Code requirements, together with reclassification and analysis of investment property transactions, grant income and cash and cash equivalents.

The following errors were identified during the course of the audit and which officers have amended the financial statements:

- £27.2m pension gain to be removed from non distributed costs and treated as an exceptional item
- £115m housing stock valuation adjustment to be treated as an exceptional item in the HRA
- Accounting entries for schools PFI schemes have been changed to meet Code requirements and comply with Audit Commission technical guidance
- £6.2m West Office expenditure included in the accounts twice in error
- £11.3m sheltered housing revaluation adjustment incorrectly calculated
- Re-analysis of debtor and creditor balances to meet Code requirements.

A number of other, more minor amendments have also been made to improve the presentational aspects of the accounts, meet Code disclosure requirements, and to ensure internal consistency between core statements and disclosure notes. These related particularly to disclosures in:

- note 12 (property, plant and equipment)
- note 24 (unusable reserves)
- notes 18 and 20 (net current assets); and
- note 47 (pensions).

The explanatory foreword has been amended as a consequence of the above changes to the accounts.

Errors and uncertainties not adjusted

The following errors were identified where management has decided not to adjust:

- 2009/10 council house sales totalling £0.5m have been incorrectly reflected in 2010/11 accounts
- Court costs £0.3m have been shown separately on the face of the Comprehensive Income and Expenditure Statement, not as part of central services to the public
- Future lease income and future finance lease obligations are correctly stated in total but have not been analysed between long and short term debtors and creditors as required by the Code.

I am satisfied that these discrepancies are not material to the Council's financial position either individually or in aggregate. However, they have been reported to you, and are referred to in management's Letter of Representation, for completeness and to assist you in meeting your governance responsibilities.

Key risks and audit findings

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
1. Implementation of new IFRS requirements	We have considered Audit Commission and CIPFA guidance and referred more complex and contentious issues to our central technical team. Restatement of prior years' balances has been reworked following initial review, and an adjustment has been made to restate accounting entries in respect of church school PFI schemes in line with Audit Commission guidance.
2. The joint waste PFI contract and new office accommodation both represent material and potentially complex transactions in the Council's accounts.	We have reviewed progress on these two projects at regular intervals during the year and reviewed accounting treatments. We are satisfied that the contingent liability and subsequent events disclosures in respect of the joint waste contract are fairly stated and we have agreed amendments to the accounts with officers in respect of costs incurred to date on West offices.
3. 2009/10 audit work identified material errors in fixed asset valuations and accounting	We have undertaken detailed testing on fixed asset records, capital accounting and capital financing adjustments. In overall terms there has been some improvement. However, a number of adjustments have been made to the relevant disclosure notes, (primarily to ensure internal consistency within the accounts and to meet Code requirements), and the revaluation adjustment in respect of sheltered housing has been re-calculated.
4. Income recognition, cut off and housing benefit assertions represent inherent risks of mis-statement due to fraud and error.	We have undertaken substantive testing in these areas, and have reviewed work undertaken by Internal Audit in relation to housing benefit fraud. No significant issues were identified as a result of our audit work.

Following our initial review of the Council's draft financial statements we also identified specific audit risks in relation to the Movement on Reserves and Cash Flow Statements, and related disclosure notes. We have undertaken additional audit work accordingly and both of these core statements have been significantly reworked since the unaudited accounts were presented to you in July.

Significant weaknesses in internal control

The internal controls I consider during the course of the audit are only those relevant to the financial statements. My audit work does not necessarily consider all the components of internal control that might be relevant to you.

Issues identified prior to receipt of the Council's financial statements have been reported to you as part of my regular progress reports during the year. The only additional weaknesses I wish to bring to your attention is that the Framework I system, used to record approved care contracts, was not regularly reconciled to the general ledger during the year.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

There are three such matters that I wish to bring to your attention.

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
The financial statements submitted for audit included significant errors and inconsistencies.	The Council should strengthen its internal review of the draft financial statements so that obvious errors and inconsistencies are eliminated prior to audit.
New IFRS and Code accounting requirements introduced this year presented a risk for all local authorities that their financial statements will not be completed correctly.	I did not receive sight of the proposed IFRS restatement in time to identify potential issues at an early stage. In the event, restatement of prior years' balances and note 51 (transition to IFRS) required adjustment. I also identified a number of disclosures that needed to be amended or included in the financial statements to meet the requirements of the Code.
The deadline for Whole of Government Account submissions have been brought forward this year. The Council was unable to submit its Whole of Government Accounts pack by the due date and the number of required amendments meant that we in turn were unable to meet our target date for completing the audit.	The Council should plan and manage its closedown processes to allow sufficient time for both preparation and audit of the Whole of Government Accounts pack by the deadline dates.

Other matters to bring to your attention

As part of my audit work each year I review the Council's capital financing requirement and ensure that adequate provision has been set aside to meet repayment of future debt. I am satisfied that the set aside is adequate in 2010/11. However, officers have informed me that they intend to review set aside arrangements in the coming year. Any such changes should be properly approved by members, and supported by a full review of the Council's treasury management strategies and supporting calculations.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. I have included the draft letter of representation at Appendix 2.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience **The organisation has proper arrangements in place to secure financial resilience.** Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	Criteria met. The Council has adopted an integrated process for updating the medium term financial plan and setting annual budgets. Both have been significantly reworked in the light of the Government's spending review and reflect anticipated reductions to funding levels of over coming years. Extensive consultation with staff, stakeholders, local people and businesses has enabled the Council to revisit its priorities and a series of reports to members, staff newsletters and public meetings have taken place to ensure that the Council's financial position is clearly and widely understood. Key changes approved for 2011-12 include: ■ Focussing services on vulnerable people and those most in need ■ Reducing the cost of management and back office services ■ Reducing expenditure following government reductions to specific grants.

Criterion	Findings
	Members have played their full part in this debate, and draft budgets were subject to detailed review by portfolio holders and Executive before finalisation and Full Council approval. Financial plans clearly set out the key risk areas and how these will be managed, and make reasonably prudent assumptions about funding levels, interest rates, pay and price increases. Plans indicate that the Council is intending to deliver a balanced budget going forward without significant reductions to reserves and working balances, which have been maintained at £6.1m in line with Council policy. The Council has developed a good track record of delivering to budget in recent years. Pressures on budgets in specific service areas such as social care and looked after children are now promptly identified and tackled. Treasury Management is also sound, with no statutory breaches or impairment losses reported in 2010-11 and above average rates of return. Quarterly reports to members are comprehensive and comprehensible, providing forecast outturn as well as year to date. More centralised financial management arrangements are being put in place for 2011-12 to implement a more standardised approach to budget setting and monitoring between Council departments.
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	Criteria met. The Council has generally low service costs per head of population, low management and back office costs and low Council Tax levels, when compared to others. Performance reports, scrutiny reviews and other reports to members contain comparative information so there is generally a sound awareness of how costs and quality of service compare with others. There is a good track record of delivering efficiencies from an already low cost base. An ongoing efficiency programme looks to identify and deliver savings, based on comparing the Council to “best in class”. A staff suggestion scheme is also in place to foster a value for money culture and identify more opportunist operational savings. There are some examples of shared service provision and outsourcing, and plans for a joint waste PFI scheme are well underway. Most services are still delivered iin-house however and the Council may need to consider alternative models of service delivery in the future. Most support services have now been centralised, area based service delivery and more

Criterion	Findings
	homeworking for revenues and benefits staff are also helping to reduce costs. Fees and charges are regularly reviewed and services the Council can provide to partners and third parties are pro-actively marketed. Office relocation plans are progressing well, and should secure significant financial savings as well as improved facilities for customers and staff. However there has been minimal investment in Council property over recent years, and asset records require improvement. A significant number of management and back office posts have been taken out of the establishment over recent years. This has reduced costs but also in some areas increased risk. For example now that the central partnership team has been wound up it is not clear how the Council will ensure that it is receiving value for money from partnerships.

Appendix 1 – Independent auditor's report to the Members of City of York Council

Opinion on the Council's accounting statements

I have audited the accounting statements of City of York Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 the auditor

As explained more fully in the Statement of Responsibilities, 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 Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Council; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of City of York Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

Council's responsibilities

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.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself 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 me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, 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 me to consider under the Code of Audit Practice in satisfying myself 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 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I 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 my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am 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 2011.

Certificate

I certify that I 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.

Steve Nicklin
District Auditor
Audit Practice, Audit Commission
Nickalls House
Gateshead

September 2011

Appendix 2 – Draft management representation letter

To:
Mr S Nicklin, District Auditor
Audit Practice, Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

City of York Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of City of York Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The following items have been identified during the course of the audit, however I am proposing not to adjust the financial statements because I am satisfied that they do not have a significant impact, either individually or in aggregate, on the Council's financial position:

- 2009/10 council house sales totalling £0.5m have been reflected in 2010/11 accounts
- Court costs £0.3m have been shown separately on the face of the Comprehensive Income and Expenditure Statement, not as part of central services to the public
- Future lease income and future finance lease obligations have not been analysed between long and short term debtors and creditors as required by the Code.

Supporting records

All relevant information and access to persons within the Council has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, including insurance and equal pay and single status claims, have been disclosed to the auditor and have been identified, accounted for and disclosed in accordance with the applicable financial reporting framework. There are no additional contingent liabilities or post balance sheet events that I am aware of, other than those already disclosed in the financial statements.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value, as disclosed in the financial statements. I am satisfied that in asll material respects:

- depreciation charges are adequate; and that
- property, plant and equipment has been identified, valued, and categorised in accordance with Code requirements

Related party transactions

I confirm that I have disclosed the identity of related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Specific representations

- All relevant information required for the correct calculation of pension fund liabilities have been made to the administering authority and their consulting actuaries, as requested. All unfunded liabilities have been included within the IAS 19 liabilities, so far as I am aware.
- I am satisfied that adequate steps have been taken to identify group arrangements, and that group accounts are not required in view of the non-material nature of the transactions involved

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on 29 September 2011

Signed on behalf of City of York Council

Name

Position

Date

Appendix 3 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion **[where there is no regularity leg]**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

[Where there is a regularity leg]

- I find that some spending or income was irregular.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;

- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

www.audit-commission.gov.uk

September 2011

Audit and Governance Committee 29 September 2011

Report of the Chair of the Audit Committee

Annual Report of the Audit and Governance Committee

Summary

1 This report seeks Members' views on the draft annual report of the Audit and Governance Committee for the year ended 30 September 2011, prior to its submission to Full Council. The report also presents a draft assurance statement which the Committee has been requested to provide to the council's external auditors, the Audit Commission.

Background

2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that audit committees operate effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.

3 In order to comply with International Standards for Auditing, there is a requirement on the external auditor to obtain specific assurances from the organisation's management and 'those charged with governance'. In terms of the Audit and Governance Committee this assurance relates to the organisation's arrangements for preventing and detecting fraud and for ensuring compliance with existing laws and regulations. The external auditor must gain an understanding of:

(a) How management exercise key governance processes in relation to:

- Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;

- Identifying and responding to risks of fraud in the organisation;
- Communication to employees of views on business practice and ethical behaviour; and
- Communication to those charged with governance the processes for identifying and responding to fraud.

(b) How those charged with governance oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control.

(c) Whether management or those charged with governance have knowledge of any actual, suspected or alleged frauds.

(d) How management, and those charged with governance, obtain assurance that all relevant laws and regulations have been complied with.

(e) How management has satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements.

4 From 2009/10, the Audit Commission has requested written assurances from those 'charged with governance' on these matters in addition to the formal letter of representation in relation to the assertions in the financial statements, which is obtained from management each year.

Annual Report of the Audit and Governance Committee

5 A copy of the draft annual report of the Committee is attached at Appendix 1. A copy of the Committee's terms of reference as set out in Section 8, Part 3C of the Constitution is also attached to the report at Appendix A, for information.

Written Assurance from those 'Charged with Governance'

6 A copy of the draft statement from the Audit and Governance Committee to the external auditor is attached at Appendix 2. The statement is intended to provide assurance in respect of the matters set out in paragraph 3 above.

Options

7 This report sets out the proposed wording of the Committee's Annual Report and the statement of assurance to the external auditor. Members are asked to suggest alternative wording if necessary.

Analysis

8 Not relevant for the purpose of the report.

Corporate Priorities

9 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do.

Implications

10 The implications are:

- **Financial** – the external auditors may have difficulty in providing an unqualified opinion on the Statement of Accounts if they fail to obtain the necessary assurance from 'those charged with governance'.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** – there are no equalities implications to this report.
- **Legal** – there are no legal implications to this report.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** – there are no IT implications to this report.
- **Property** – there are no property implications to this report.

Risk Management

11 Assurance in respect of the council's arrangements for managing risk, the maintenance of effective controls including those designed to prevent and detect fraud, and compliance with relevant legislation, may not be provided if the Audit and Governance Committee does not produce an annual report and/or provide a written statement to the external auditors.

Recommendations

12 Members are asked to:

- Consider and comment on the Annual Report of the Audit and Governance Committee prior to its submission to Full Council.
- Approve the wording of the assurance statement to the external auditor from 'those charged with governance' and confirm that the statement can be signed on behalf of the Audit and Governance Committee by the Chair.

  Reason
  To enable the Committee to fulfil its role in providing assurance about the adequacy of the council's internal control environment and arrangements for managing risk and for reporting on financial and other performance.

Contact Details

Author:	**Chief Officer Responsible for the report:**
Helen Malam Systems Accountant 01904 551738	Keith Best Assistant Director CBSS (Financial Services) Telephone: 01904 551745
	Report Approved ✔ **Date** 19/9/11

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable **All** ✔

For further information please contact the author of the report

Background Papers:

- CIPFA ‘A Toolkit for Local Authority Audit Committees’
- International Standard for Auditing 240 Fraud
- International Standard for Auditing 250 Laws and Regulations

APPENDIX 1

REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE FOR THE YEAR TO 30 SEPTEMBER 2011

PURPOSE OF THE REPORT

To provide Members of the council with details of the work of the Audit and Governance Committee covering the year to 30 September 2011. The report also details how the Audit and Governance Committee has fulfilled its terms of reference.

BACKGROUND

The Audit and Governance Committee is responsible for overseeing the council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The functions of the Audit and Governance Committee are set out in Section 8, Part 3C of the Constitution. A copy of the list of the Committee's responsibilities is attached at **Appendix A** for information.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that audit committees are operating effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.

WORK UNDERTAKEN

The Audit and Governance Committee has met on six occasions in the year to 30 September 2011. During this period, the Committee has assessed the adequacy and effectiveness of the council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, internal audit and the external auditors, the Audit Commission. The Committee has sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified by auditors or inspectors during this period. The Committee has also sought to ensure effective relationships exist between internal and external auditors, inspection agencies and other relevant bodies.

The specific work undertaken by the Committee is set out below. The Committee has:

1 Received and considered the Audit Commission's plan for the audit of the 2010/11 financial statements and Value for Money opinion, the certification of grant claims and the council's participation in the National Fraud Initiative, together with the associated fee for undertaking this work.

2 Considered the outcome of the Audit Commission's review of the council's grant claim arrangements for the 2009/10 financial year. The Committee noted a positive report that action had been taken to address a number of issues identified previously by the Audit Commission, notably timely submission of documents. This progress had resulted in a reduction in the fees charged by the Audit Commission for this work.

3 Received and considered the Annual Audit Letter of the Council's District Auditor. Members noted the inconsistencies highlighted about workforce planning and management, but were pleased to note that the Letter recognised improvements in a number of areas, and had made reference to the national award that Veritau had received for its shared service arrangements.

4 Received and considered the results of internal audit work completed during the period and monitored the progress made by management to address identified control weaknesses. The Committee considered breaches of the council's Financial Regulations and Contract Procedure Rules identified during audit work.

5 Received, considered and approved the Internal Audit and Counter Fraud Plan for 2011/12.

6 Received and considered the outcome of counter fraud work, including details of the investigation of suspected benefit and housing tenancy related fraud. The Committee also considered the outcomes of the work being undertaken in respect of the Audit Commission's National Fraud Initiative (NFI).

7 Received and considered the results of the annual review of the effectiveness of the system of internal audit for 2010/11. The outcome of this review informed the preparation of the Annual Governance Statement 2010/11.

8 Received and considered the Annual Report of the Head of Internal Audit which provided an overall opinion on the council's control environment. The Head of Internal Audit confirmed that the

council's internal controls provided substantial assurance although the Committee's attention was drawn to a number of significant control weaknesses. Again this informed the conclusions reported within the Annual Governance Statement 2010/11.

9 Considered a draft, and approved the final Statement of Accounts for 2010/11.

10 Considered and approved the Annual Governance Statement for 2010/11, noting that action plans would be put in place to address each of the significant governance issues identified in section 5.

11 Continued the role of scrutinising the council's treasury management strategy and policies. The Committee received and considered the Treasury Management Annual Report and review of Prudential Indicators for 2010/11 which compared actual performance against the budget and treasury management strategy for the year.

12 Received and considered a draft Income Collection Policy, prior to referral to the Executive and approval by Full Council.

13 Assessed the adequacy and effectiveness of the council's risk management arrangements through consideration of the progress made by officers to address the Key Corporate Risks (KCRs). Details of the KCR's were reported to the Committee on a quarterly basis. The Committee requested further information on a number of high risk areas in order to gain assurance that these risks were being appropriately managed. These included the Community Stadium, Fairness and Inclusion, the new iTrent payroll system and the Council HQ Project.

14 Considered a number of proposed changes to the Council's Constitution, and recommended their adoption by Full Council. These included changes to the delegated powers of Cabinet members following the Organisational Review; amendments required by the Transition to a new style Leader and Cabinet Model, regulating the contents of the Constitution and removing certain internal protocols.

15 Approved the new Protocol for Liaison between Internal Audit and External Audit. Members also approved some minor amendments to the Internal Audit Terms of Reference.

16 Received and considered a report about the new Transparency Reporting requirements of the Department for Communities and

Local Government, including how the Council is meeting the requirements to publish online, all details of salaries over £50k, spending items over £500 and Councillor allowances and expenses in real time, rather than annually.

17 Received and considered minor changes to the Counter Fraud and Corruption and the Fraud and Corruption Prosecution policies prior to referral to the Cabinet Member for Corporate Services for approval.

18 Received and considered a further report setting out how the council intends to respond to the petitions duty in the Local Democracy, Economic Development & Construction Act 2009. The committee was asked to provide its views on the proposed scheme and members recommended a number of amendments prior to its submission to Full Council for approval.

19 Received three more updates on the progress being made to prepare for the change in financial reporting from UK Generally Accepted Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS).

20 Received regular updates on national reports produced by the Audit Commission.

21 At each meeting the Committee has maintained a rolling Forward Plan for a number of meetings ahead to ensure that its responsibilities are discharged in full and appropriate reports are brought by officers on a timely basis.

Cllr Lynn Jeffries
Chair of the Audit & Governance Committee

APPENDIX A

AUDIT AND GOVERNANCE COMMITTEE TERMS OF REFERENCE

Part 3 C of the Constitution (Council Committees and Other Bodies)

8.1 The functions of the Audit & Governance Committee are:

No.	Delegated authority	Conditions
	Audit	
1	To consider the annual report and opinion of the Assistant Director (Customer Service & Governance) including a summary of internal and external audit activity (actual and proposed in the relevant accounting period) and the level of assurance that can be given over the corporate governance arrangements at the Council and to advise the Executive accordingly.	
2	To consider summaries of specific internal audits reports as scheduled in the forward plan for the Committee or otherwise requested by Members.	
3	To consider reports dealing with the management and performance of the Internal and External Audit functions.	
4	To consider reports from Internal Audit on agreed recommendations not implemented within agreed timescales.	
5	To consider the action plan arising from the Annual Letter of the External Auditor.	With respect to the Annual Letter being first considered and accepted by the Executive.
6	To consider all other relevant reports from the District Auditor as scheduled in the forward plan for the Committee as agreed with the External Auditor or otherwise requested by Members.	
7	To comment on the scope and depth of External Audit work and ensure it provides value for money.	

No.	Delegated authority	Conditions
8	To liaise with the Audit Commission over the appointment of the Council's External Audit body.	
9	To approve the Annual Plans of the Internal Audit Service and the External Auditor.	
10	To commission work from the Internal Audit Service and External Audit with regard to the resources available and the existing scope and breadth of their respective work programmes and the forward plan for the Committee.	Subject to budgetary provision.
11	To provide advice to the Council on issues arising out of a fraud investigation and report any action which has or ought to be taken by the Council.	
	Governance & Regulatory	
12	To keep under review the Council's contract procedure rules, financial regulations, working protocols and codes of conduct and behaviour (not otherwise reserved to the Standards Committee).	
13	To review any relevant issue referred to it by the Chief Executive, S151 Officer, the Assistant Director (Customer Service & Governance), the Monitoring Officer or any other Council body.	
14	To consider any reports of the Assistant Director (Customer Service & Governance) referred to the Committee for consideration further to Article 13 of this Constitution.	
15	To monitor the effective development and operation of risk management and corporate governance across the Council.	
16	To monitor Council policies on 'whistle blowing', the Anti-Fraud & Corruption Strategy and consider any issues referred to it in accordance with the Council's whistle blowing policy and procedures as set out in Part 5 of this Constitution.	

No.	Delegated authority	Conditions
17	To consider the Council's arrangements for corporate governance and make recommendations about all actions necessary for compliance with best practice to Full Council.	
18	To consider the Council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice.	
19	To bring to Full Council all proposals for amendment to this Constitution submitted by Members in accordance with this Constitution.	Subject to the advice of the Assistant Director of Governance and ICT.
	Annual Governance Statement and Accounts etc	
20	To approve the Statement of Accounts and the Annual Governance Statement.	
21	To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.	
22	To scrutinise the Treasury Management Strategy and Monitoring Reports.	

APPENDIX 2

DRAFT STATEMENT FROM THOSE CHARGED WITH GOVERNANCE

Responsibility for preventing and detecting fraud is identified by the International Standard for Auditing (UK and Ireland) 240 as resting with management and 'those charged with governance', i.e. the Audit and Governance Committee. A similar standard (ISA 250) requires the organisation to ensure its operations are conducted in accordance with existing laws and regulations and also assigns responsibility for the prevention and detection of non compliance. This statement covers the role of the Audit and Governance Committee in discharging its responsibilities.

ISA 240 Fraud

1 The International Standards for Auditing views fraud as either:

- the intentional misappropriation of assets (cash, property, etc), or,
- the intentional manipulation or misstatement of the financial statements.

2 Management discharges its responsibilities via systems of internal control, including Financial Regulations, Contract Procedure Rules and the Employee Code of Conduct, and via disciplinary procedures where fraud is highlighted as a dismissible event. The organisation also has in place Counter Fraud and Corruption and Prosecution Policies which clearly outline to staff the commitment to the elimination of fraud and the steps that they should take in the event of fraud being suspected.

3 The organisation commissions local counter fraud specialists from the council's shared service provider, Veritau Limited, to undertake an annual counter fraud plan of work on its behalf. The Assistant Director - Financial Services meets on a regular basis with the Head of Internal Audit (Veritau) and relevant counter fraud specialists to discuss progress.

4 The council's Counter Fraud and Corruption Policy and the annual counter fraud plan cover the following main areas:

- the creation of an anti-fraud culture
- deterrence
- prevention

- detection
- investigation
- sanction
- redress

5 All reported cases of suspected fraud are investigated by Veritau. Details of the counter fraud work undertaken by Veritau and the outcome of investigations into suspected fraud are reported to the Audit and Governance Committee.

6 Management also commissions internal audit services from Veritau. The company is required to report on the council's systems for financial accounting and financial management as part of its annual internal audit plan. This includes reporting potential errors or control weaknesses which may result in financial misstatement. The assurance gained contributes to the preparation of the Annual Governance Statement.

7 The Audit and Governance Committee receives assurance from management through:-

- receipt and approval of the annual internal audit and counter fraud plan
- receipt of regular update reports from the Head of Internal Audit detailing the results of internal audit and counter fraud work, including the audit of the financial accounting and financial management systems of the organisation
- receipt of the annual report of the Head of Internal Audit which provides an overall opinion on the council's control environment, including the arrangements to prevent and detect fraud.

8 The Audit and Governance Committee also receives and considers regular reports from its external auditors.

ISA 250 (Laws and Regulations)

9 The organisation has developed and implemented a system of assurances based on:

- Objective setting – whereby the council's strategic objectives are identified and assigned to individual directors or assistant directors

- Risk assessment – whereby each director or assistant director identifies and prioritises the risks related to achieving those strategic objectives
- A Local Code of Corporate Governance – which is consistent with the principles of the CIPFA/SOLACE 'Delivering Good Governance in Local Government' framework and the council's own Business Model
- Annual Governance Statement (AGS) – which sets out the council's governance framework. The key elements of the governance framework 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. A review of the governance framework is undertaken as part of the process to prepare the AGS. All significant governance issues are highlighted in the published AGS.

10 The council's Cabinet is responsible for decision making within the policy and budget framework set by Full Council. The corporate management team has responsibility for implementing council policies and decisions, providing advice to members and for co-ordinating the use of resources and the work of the Council directorates. The Cabinet and corporate management team monitor and review council activities to ensure corporate compliance with governance, legal and financial requirements.

11 Specific policies, regulations and written guidance exist to support the council's corporate governance arrangements. The Officer Governance Group is responsible for monitoring the effectiveness of these arrangements and for the maintenance of appropriate systems of assurance. Assurance is obtained from the work of internal and external audit, inspection agencies and other relevant bodies.

12 The Audit and Governance Committee acts as the responsible body charged with governance on behalf of the council. In doing so the Committee provides independent assurance on the adequacy of the risk management framework and the associated control environment, and independent scrutiny of the council's financial and non-financial performance to the extent that it affects the Council's exposure to risk. It also oversees the council's financial reporting processes and approves the Statement of Accounts.

13 The Audit and Governance Committee's terms of reference include the requirement to monitor the effective development and operation of risk management and corporate governance as well as to consider the council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice. The Committee is also responsible for keeping under review the council's Financial Regulations, Contract Procedure Rules, working protocols and codes of conduct and behaviour.

ISA+ 540 Accounting Estimates and Accounting policies

14 The Audit and Governance Committee has discussed the significant accounting estimates and accounting policies contained in the accounts with the Assistant Director – Financial Services and his staff. The Committee has obtained assurances to confirm that these estimates and policies are reasonable and have been consistently applied.

ISA+ 570 Going Concern

15 The Audit and Governance Committee has received regular reports from officers on the financial position of the council in terms of performance compared to budget, future financial plans and forecast levels of resources. The Committee has challenged officers on the going concern assumption and are satisfied that it is reasonable to apply this assumption to the 2010-11 accounts.

Conclusion

Having reviewed the work of internal and external audit, the management processes and the governance arrangements throughout the year, we are not aware of any events, and nothing has come to our attention, which would require additional disclosure or adjustment in the 2010/11 Financial Statements. We are also aware of the assurances provided by management which support the conclusion we have made.

Cllr L. Jeffries
Signed on behalf of the Audit and Governance Committee
29 September 2011

Audit & Governance Committee **29 September 2011**

Report of the Assistant Director CBSS (Financial Services)

Key Corporate Risk Monitor Two 2011/12

Summary

1. The purpose of this paper is to present to Audit & Governance Committee (A&G) an overview of the risks associated with the councils Key Corporate Risks (KCRs) as at the end of August 2011.

Background

2. The High and Critical KCRs are reported to A&G four times a year and at least twice a year to Corporate Management Team (CMT) as part of the council's overall governance arrangements. The KCRs along with directorate level risks are also regularly reviewed at Directorate Management Teams (DMT's).

Changes to the way risk are reported

3. As approved at A&G on the 26 July 2011 as well as providing an overview of High and Critically ranked KCRs each quarter the monitor will also allow directorates the opportunity to present an overview of their own High and Critical risks. This will be delivered on a rolling programme with directorates presenting to A&G at least once during the course of the year. The programme for 2011/12 was approved at the same committee meeting and is shown at Table 1 below.

Table 1

A&G Committee Date		**Directorate**
29 September 2011	-	Customer & Business Support Services/Office of the Chief Executive
5 December 2011	-	Community & Neighbourhoods/City Strategy
13 February 2012	-	Adults Children & Education

4. T
The two Directorates presenting their risk registers at monitor two are Customer & Business Support Services (CBSS) and Office of the Chief Executive (OCE). Their overviews are set out at Annex A and B respectively.

Monitor 2

5. There has been no change in the number of critical KCRs since Monitor 1 2011/12. There are three critical risks corporately and the up to date risk owners comments are set out below:

KCR 0016 Capital Programme

Failure to obtain funding for Access York Phase 1

'The delivery risk for Access York Phase 1 is considered to be critical because the way that the government distributes funding for transport major schemes has significantly altered since the scheme obtained Programme Entry status in March 2010. The other key risks such as planning consent and land purchase have all been resolved satisfactorily but the availability of the principal funding source, confirmed by the previous administration, is now more uncertain.

To maximize the likelihood of funding being provided the project put forward to the DfT has been reduced in scope to the Askham Bar and Poppleton Bar sites and associated works only. In addition the funding allocation from the Council has been increased to £6.6m representing *approximately 30% of the total £21.9m cost. A Best and Final Funding Bid for these two sites was submitted to the DfT on 9 September. 45 schemes valued at approx. £870m are bidding for £600m of funds. A decision is expected in December 2011. Alternative funding sources for the remaining site at Clifton Moor are being investigated.*

If the Access York Phase 1 scheme is successful in obtaining funding, it is anticipated that the project would be completed and the Park & Ride sites operational, by summer 2014.'

KCR 0019 Safeguarding

<u>Safeguarding</u>

"In common with every other local authority this risk remains a constant. The controls in place are regularly reviewed and updated in line with emerging national guidance. Measures to review and strengthen the controls in place to manage this risk in the next quarter include, participation in an LGID Peer Review of our Local Safeguarding arrangements, implementation of our local action plan following the recent unannounced inspection of our contact, referral and assessment service, implementation of a new supervision policy for all children's social care workers involved in child protection activity and improved case file auditing arrangements."

KCR 0022 Financial Pressures

<u>Reduction in Revenue Budgets</u>

"The requirement to reduce revenue budgets by approximately 28% and a 45% reduction in capital funding over the next 4 years presents a challenging financial scenario for the council to manage. Whilst long term financial planning provides a key control, critical to the organisation been able to manage this risk effectively lies in identifying and achieving the savings identified in service reviews and delivered through the Business Change & Performance (BCP) efficiency program."

6. The current 14 High key corporate risks (with their owners in brackets) which are set out below:

Ageing Population – KCR 0018

- Increasing social care support costs (Graham Terry);
- Understanding & responding to the demands of an ageing population (Graham Terry).

Fairness & Inclusion – KCR 0015

- Vulnerable people are unable to access our services including employment opportunities (Pauline Stuchfield);
- Councillor's vision and expectations of a fair inclusive and customer-focussed organisation will not be realised (Sally Burns);
- We do not provide fair and inclusive customer-focused services (Sally Burns);
- Vulnerable staff are bullied, harassed and feel excluded (Sally Burns).

Financial Pressures – KCR 0022

- Savings identified beyond 2011/12 are not achieved (Keith Best);
- Reduced levels of economic development due to less investment in national & regional transport infrastructure (Richard Wood).

Waste Management Strategy – KCR 0003

- Delays to the project (Bill Woolley);
- Failure to secure planning consent on any of the selected sites (Bill Woolley).

Emergency Planning – KCR 0010

- Inability to respond to and assist in the recovery of city of York following a major incident (Richard Wood);
- Inability to continue to deliver services following a business disruption event (Richard Wood).

<u>Capital Programme – KCR 0016</u>

- Administration & Accommodation Review – Developers unable to meet the requirements of the development brief (Ian Asher);
- Administration & Accommodation Review – Failure to discharge planning conditions (Ian Asher).

7. Since the last monitor Risk 1844 - Commercial Development of the Community Stadium has been reduced from High to Medium and removed from the monitor. The responsible officers comment in relation to this risk is:

   "Although there still remains a risk that the funds cannot be raised, the project has progressed significantly since the last report. The enabling development that will provide funding for the project has progressed to the point of there being two anchor commercial tenants who have taken formal options. This provides some degree of security that the funds will be available, thus reducing the risk from high to medium. The controls and actions relating to due diligence will also help to further mitigate this risk."

8. The appropriate risk owner from the relevant directorate can provide more detailed information, if it is required, in relation to any of the above risks.

Directorate Risks

9. As approved at A&G in July 2011 the risks in respect of CBSS and OCE are attached to this report at Annex A and B respectively. Officers from both directorates are in attendance to answer any queries you have in respect of the risks contained within these annexes.

Directorate High & Critical Risks

10. In terms of high and critical directorate risks there are none requiring escalation to A&G for this monitor.

Options

11. Not applicable.

Corporate Strategy

12. The effective consideration and management of risk within all of the council's business processes will contribute to achieving an 'Effective Organisation' and aid the successful delivery of each theme within the Corporate Strategy.

Implications

(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. In compliance with the council's Risk Management Strategy, there are no risks directly associated with the recommendations of this report. The activity resulting from this report will contribute to improving the council's internal control environment.

Recommendations

14. A&G are asked to:

    a. Consider the key corporate risks set out at paragraph 5 and 6 respectively;

       Reason
       To provide assurance that risks to the council are continuously reviewed and updated

    b. Consider the directorate risks for CBSS & OCE set out at Annex A and B respectively;

       Reason
       To provide assurance that risks to the council are continuously reviewed and managed at directorate level.

Contact Details

Author:	**Chief Officer Responsible for the report:**
David Walker Head of Financial Procedures Phone No. 01904 552261	Keith Best Assistant Director of Financial Services Customer and Business Support Services
	Report Approved √ **Date** 13/09/11

Specialist Implications Officer(s) Not applicable

Wards Affected Not applicable

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For further information please contact the author of the report

Background Papers

Key Corporate Risk Monitor One 2011/12.

Annexes

- Annex A – CBSS Risks
- Annex B – OCE Risks

Annex A

Directorate Risks – CBSS

Reduced Funding

1. In looking at the overall risks facing the Directorate, the overwhelming major risk area is that of reduced funding and the implications that brings to the Directorate.

2. The scale of the funding reductions, and the level of savings required is unprecedented, and is on the back of major reductions that have already taken place.

3. Within CBSS efficiency savings of over £4m have already being achieved in the last 2-3 years. This has been achieved through restructuring, consolidation of services, and additional income.

4. Looking ahead however, a further £2m of savings will be expected of the Directorate in the next two years, and further savings beyond that.

5. These savings in both the immediate and longer term give rise to a number of risks, and in particular there are two broad themes to these.

   - Reduced staffing levels which will lead to lower service levels, impacting on both internal and external customers and the ability to manage significant financial risk.
   - Impact on staff morale, due to ongoing restructuring/potential job loss

6. Each of these areas is discussed more below

Reduced staffing levels, and the implications for service delivery

7. Key services are provided by the CBSS Directorate, covering Finance, ICT, HR, Legal, Customer Services, Benefits, Democratic Services. These services are provided to both internal customers (eg other departments), to the Council as a whole (eg financial management/democratic) and to external customers (eg benefits/customer centre)

8. At a time of major change, and financial pressures, many of these "support" services are in greater need than they have been. For example the need for sound financial advice, for HR support in dealing with staffing changes, and in ICT in delivering more efficient solutions. This brings with it a huge challenge – in simple terms the demands and expectations of the services are increasing but the resources available to deliver those are declining.

9. There are natural risks in all of this – a failure to deliver some of these critical services, due to reduced resource levels, could lead to further implications and cost. Failure to manage budgets effectively, or to properly address the HR implications of major change, could result in added cost pressures.

10. In respect of external customers, the expectations of Customers are rightly increasing, with people expecting more ways to interact with the Council, and at different times. This brings with it potential resource issues, and also related ICT implications in developing new solutions. In respect of benefits, there is a huge national agenda, with complex changes in the benefits system, alongside increased client numbers seeking assistance.

11. The risks are clear then, and the challenge is how best to respond, as the one certainty is that we face reduced funding.

12. The Directorate has to date shown its ability to deliver major efficiency changes, and structural change. The recent organisation review of senior management over achieved its target by over £100,000 and work in relation to income collection/debt management has been very successful, along with wide ranging changes in all areas.

13. Opportunities are being reviewed to see what areas of service we could trade with other organisations (ie attract income), and to see how we can work effectively other providers

14. There will be continued detailed review of all service areas, to seek out opportunities for efficiency. However, its clear that not all savings can be delivered through "efficiency", there will need to be a significant element of "cuts". Managing those cuts, and

prioritising service delivery, will need very careful handling to mitigate the potential risks.

Financial Risk

15. CBSS is responsible for much of the councils financial resource including:

- Employee budget £14M
- Council Tax collection £80m
- NNDR (business rates) £80m
- Benefits paid £50m
- Other Fees & Income £50m
- Debt portfolio £120m
- Treasury Management circa £400m turnover
- Payroll £100m
- Payments processed to suppliers over £100m
- Approaching a £1bn cash turnover

16. There are significant risks associated with the management of this level of financial resource. These have to be managed at a time when staff resources have been cut and key new challenges are arising that will need to be effectively risk managed in the short and medium term including:

- £100m of new debt in respect of the HRA
- Localisation of NNDR (Business Rates)
- Localisation of Council Tax Benefits

Impact of Staff Morale

17. In order to achieve high levels of service, during a time of reduced resource, there is a need to ensure that staff remain committed and deliver services to the highest standards.

18. However, with the considerable change, and at times uncertainty, that staff are facing, there is a natural danger that morale suffers and that this leads to some implications in terms of service.

19. Throughout such periods it is important to be open with staff, and to engage with the workforce, and this is something the Directorate

will seek to achieve at all times. Close working exists with the Unions, and the Directorate is committed to avoid compulsory redundancies wherever possible.

Major Projects

20. The Directorate supports a number of major projects, but these sit within other Director responsibilities.

21. Specific Projects in the Directorate that do have potential risks are set out below.

New Payroll/HR System – iTrent

22. This is a major project which will deliver transformation in how we deliver and integrate HR and payroll services. It will require a cultural shift in manager and employee self service if we are to recognise the significant benefits and efficiencies from implementing the system. There have been challenges in getting the right skills and processes in place in order to effectively deliver such a wide ranging project successfully which has required and will require careful management over the next 6 months.

Delivery of the Customer and Workforce Strategies

23. These will be reliant on officers across the council working effectively together using a well planned and resourced project management approach to delivery

Annex B

Office of the Chief Executives Risk Overview

Change Programme:-

Risk - **Resources** - Lack of skills or resources within support services (BCP, HR, ICT, CPH) to support change projects
Impact: (a) projects run late and miss the in-year savings targets; (b) additional costs to buy-in people to fill the gap reducing the savings achieved; (c) poor implementation leading to reduced benefits or additional costs because re-working is needed.
Mitigations: (a) BCP co-ordinate planning between directorates and services to maintain an overview of the whole programme and forecast resources gaps or peaks enabling them to be managed [buy-in resources, prioritise allocation, re-schedule work];

Risk: **Challenge** - Individual proposals may be challenged or opposed by Members, customer groups, managers, staff or Trade Unions
Impact: (a) projects are delayed while concerns are resolved [extra costs, reduced in year savings, knock-on to other projects]; (b) proposals are amended reducing the benefits; (c) damage to Council's reputation and negative perceptions of services; (d) staff morale suffers causing delays and difficulty achieving the planned benefits.

Mitigation: (a) stakeholder mapping and communication planning management is carried out in every project;; (b) projects have governance arrangements to ensure that adequate communication planning is done at start-up and communication activity is maintained and monitored throughout the project; (c) stakeholder communication begins during the development of proposals for approval and continues through to benefits realisation; (d) regular progress reporting to management and Members, orchestrated by BCP, to set out progress against targets and further decisions to be made; (e) BCP co-ordinate communication planning to ensure that communication with stakeholder groups is coherent; (f) BCP identify projects with critical communications needs and, together with the Communications teams, provide advice, support and monitoring.

Risk: **Governance** - Failure to manage the Change Programme and individual projects effectively
Impact: (a) benefits and savings will be late or reduced; (b) delays and additional costs from unnecessary work; (c) morale and reputation damaged by a perceived confusion of Council management
Mitigation: (a) engagement of BCP with directorates and project boards to support and advise; (b) progress reporting to directorate and council

management managed and monitored centrally by BCP; (c) co-ordination of the plans for all medium and major projects by BCP.

Performance Management:-

Risk: **City Engagement** - We fail to gain commitment and support from partnerships for a city-wide hub
Impact: (a) it will limit the range of data in the hub and hence it's usefulness; (b) we won't properly integrate with the big partners (e.g. PCT and NY Police) making city-wide planning more difficult. Taking a partnership approach will also improve data collection on previously difficult areas such as health data.
Mitigation: (a) Already sent paper to WoW/EDB and got sign-up in principle to the hub (b) continue to send papers and regular updates to LSP & WoW-EDB; (b) Taking paper to WoW/EDB on co-ordinated approach to customer consultation & engagement (possibly in December);

Risk: **Timing** - Implementing a new PMF at the same time as restructures, blueprints & major changes to govt framework
Impact: It's similar to trying to bake a cake without knowing all the ingredients. If we fail to ensure that PMF and intelligence hub effectively feed into restructures and blueprints, the final result could be a disjointed or out-of-date city-wide PMF
Mitigation: (a) Working closely with BCPMs as they oversee the directorate restructures; (b) involvement of BI Hub Manager in BCP planning and co-ordination meetings; (c) Completed roadshow of BI hub presentations at DMTs; (d) Regular BMSGs.

Risk: **Comparator data** – Need to establish effective benchmarking data and procedures to replace the previous old Audit Commission regime of comparative quartiles.
Impact: Difficult to put performance into context and to establish effective VFM data in the BI hub. May hamstring the Council's approach to ASDM and the list of challengeable services.
Mitigation: (a) Working closely with BCPMs and finance managers to establish effective driver and cost data (b) Joined CIPFA VFM toolkit consortium and should have first results in September/October..

Agenda Item 9

CITY OF YORK COUNCIL

Audit and Governance Committee 29 September 2011

Report of the Assistant Director, Financial Services

Internal Audit Report On Follow Up Of Agreed Actions

Summary

1. This is the regular six monthly report to the committee setting out progress made by council departments in implementing actions agreed as part of internal audit work.

Background

2. 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 carry out follow up work to check 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.

3. A summary of the findings from follow up work is presented to this committee twice a year. The current report covers agreed actions with target dates up to 31 August 2011. There were no external audit recommendations requiring follow up by internal audit in this period.

Consultation

4. Details of the findings of follow up work are discussed with the relevant service managers and chief officers.

Follow up of internal audit agreed actions

5. A total of 95 actions have been followed up since the last report to this committee in April 2011. 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	1
2	14
3	80
Total	**95**

* *The priorities run from 1 (high risk issue) to 3 (lower risk)*

6. 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	Chief Executives	City Strategy	CANS	ACE	CBSS
1	0	0	0	1	0
2	0	8	1	3	2
3	2	16	14	33	15
Total	**2**	**24**	**15**	**37**	**17**

7. Of the 95 agreed actions 52 (54.7%) had been satisfactorily implemented and 7 (7.4%) were no longer needed[1].

8. In a further 34 cases (35.8%) 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 show the priority of these actions.

[1] For example because of other changes to procedures or because the service has ended or changed significantly.

Figure 3: priorities of actions with revised implementation dates

Priority of actions	Number of actions with a revised implementation date
1	0
2	5
3	29
Total	**34**

9. In two cases (2.1%) no suitable action had been taken by the responsible officer to address the issue raised. These issues have now been escalated to a more senior manager.

Conclusions

10. The follow up testing undertaken confirms that generally, good progress continues to be made in implementing actions agreed as a result of audit work. However, there has been an increase in the percentage of actions where a revised date for implementation has been agreed. On average, the percentage of actions with revised dates is 15% - this has risen to 35% in the last six months. There are no obvious changes to the system for following up actions, or any specific audit related issues that have given rise to this – it is the cumulative effect across many different audits and may just be an anomaly in this reporting period. However, it is likely that it reflects the large amount of change currently taking place within the council (action dates are often revised to coincide with implementation dates for new systems and procedures). No specific action is recommended at this stage. Future trends will continue to be monitored and reported to this committee.

Review of Procedures

11. The internal audit service is currently in the process of reviewing the procedures it follows when following up and escalating agreed actions. The current process is relatively formalised and involves a number of different hierarchical levels. In practice this has become unwieldy and does not always make it easy to escalate and report key issues. The intention is to simplify the process and make it more flexible. The details of the revised procedure will be agreed with the Assistant Director, Financial Services as client officer for internal audit. It is likely that the revised process will change the information reported to this committee in future. In particular, it is

hoped that the revised process will facilitate earlier reporting to the committee where significant actions are not implemented promptly.

Options

12. Not relevant for the purpose of the report.

Analysis

13. Not relevant for the purpose of the report.

Corporate Priorities

14. This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

Implications

15. 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

16. The Council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if it fails to follow up on audit recommendations and report progress to the appropriate officers and members.

Recommendations

17. Members of the Audit and Governance Committee are asked to:

- consider the progress made in implementing internal audit agreed actions as reported above (paragraphs 5 – 10)
- note that changes will be made to the escalation procedure in agreement with the Assistant Director, Financial Services (paragraph 11).

  Reason
  To enable Members to fulfil their role in providing independent assurance on the council's control environment.

Contact Details

Author:	**Chief Officer Responsible for the report:**
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	Report Approved ✔ **Date** 14 Sept 2011

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable **All** ✔

For further information please contact the author of the report

Background Papers:

None

Annexes

None

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CITY OF YORK COUNCIL

Audit and Governance Committee 29 September 2011

Report of the Assistant Director, Financial Services

Audit, Counter Fraud & Information Governance Monitoring Report

Summary

1 This report provides an update on progress made in delivering the internal audit workplan for 2011/12 and on current counter fraud and information governance activity.

Background

2 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the CIPFA Code of Practice for Internal Audit in Local Government. In accordance with the code of practice, the 2011/12 audit and fraud plan was approved by the Audit and Governance Committee on 19 April 2011. The plan included a programme of audit reviews, together with details of planned counter fraud and information governance activities.

3 It was also recognised that changes might need to be made to the audit plan through the year as a result of new or changed priorities and/or if new risks were identified. To reflect the contractual relationship between the council and Veritau, all proposed variations to the agreed audit plan arising as a result of emerging issues and/or requests from management are subject to a change control process. Where the variation exceeds 5 days then the change must be authorised by the Assistant Director - Financial Services who is the client manager for the service. All agreed variations are subsequently communicated to the Audit and Governance Committee for information.

2011/12 Internal Audit Plan – Progress to Date

4 Two of the priorities for Veritau are to deliver at least 93% of the audit plan and to ensure that the service continues to operate to recognised professional standards (as determined by the Code of Practice).

5 Internal audit successfully delivered 95.3% of the 2010/11 audit plan. To date, 25.3% of the 2011/12 audit plan has been completed (compared to 20% at the same point last year). This figure is based on reports issued and does not take into account further audit fieldwork which has been completed. It is anticipated that the 93% target will be exceeded by the end of April 2012 (the cut off point for 2011/12 audits). Details of the audits completed and reports issued since the last report to this committee in June 2011 are given in annex 1.

6 As noted in paragraph 3 above, it has been necessary to make a number of variations to the audit plan. Details of the audit plan variations approved by the client manager since the beginning of the year are given in annex 2.

Counter Fraud

7 Counter fraud work has been undertaken in accordance with the approved plan. Annex 3 provides details of the investigations completed to date and provides a summary of the work undertaken.

Information Governance

8 The team provides ongoing support and advice to service departments in managing information governance issues. This includes measures to reduce the risk of data security breaches.

9 So far this year (to 31 August) the team has tracked 376 Freedom of Information requests, up from 273 in the same period last year (a 38% increase).

Breaches of Financial Regulations

10 There have been no significant breaches of the council's financial regulations identified since the last report to this committee in June. However, a number of relatively minor

breaches have been noted. Details of these breaches are summarised in annex 4.

Consultation

11 Not relevant for the purpose of the report.

Options

12 Not relevant for the purpose of the report.

Analysis

13 Not relevant for the purpose of the report.

Corporate Priorities

14 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. In doing so it contributes to the corporate objective of making the council an effective organisation.

Implications

15 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

16 The council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if the results of audit work are not reported to those charged with governance.

Recommendation

17 Members are asked to:

(a) Note the progress made in delivering the 2011/12 internal audit work programme, and current counter fraud and information governance activity.

<u>Reason</u>
To enable members to consider the implications of audit and fraud findings.

(b) Note the variations to the 2011/12 audit plan as set out in annex 2.

<u>Reason</u>
To enable members to consider the delivery of the internal audit plan.

Contact Details

Author:	**Chief Officer Responsible for the report:**
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Report Approved	✓	**Date**	15/9/11

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

Al
l ✔

For further information please contact the author of the report

Background Papers

- 2011/12 Internal Audit & Counter Fraud Plan

Annexes

Annex 1 – 2011/12 Audits Completed and Reports Issued
Annex 2 – Variations to the 2011/12 Audit Plan
Annex 3 – Counter Fraud Activity
Annex 4 – Summary of Breaches of Financial Regulations

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ANNEX 1

AUDITS COMPLETED AND REPORTS ISSUED

The following categories of opinion are used for audit reports.

Opinion	Level of Assurance
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.
Moderate	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.

Priority	Long Definition	Short Definition – for use in Audit Reports
1 (High)	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. 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. Such issues may require the input at Corporate Director/Assistant Director level	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.

Priority	Long Definition	Short Definition – for use in Audit Reports
	and may result in significant and immediate action to address the issues raised.	
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. Such issues may require the input at Head of Service or senior management level and may result in significantly revised or new controls.	A significant system weakness, whose impact or frequency presents risks to the system objectives, and which needs to be addressed by management.
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. Such issues are usually matters that can be implemented through line management action and may result in efficiencies.	The system objectives are not exposed to significant risk, but the issue merits attention by management.

Draft Reports Issued
7 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:

Opinion	**Number**
"High Assurance"	3
"Substantial Assurance"	2
"Moderate Assurance"	0
"Limited Assurance"	0
"No Assurance"	0
"Not given"	2

Final Reports Issued

The table below shows audit reports finalised since the last report to this committee in June 2011. In all cases the recommendations made have been accepted by management, and will be followed up by internal audit.

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
Millthorpe Secondary School	7/6/11	Moderate Assurance	11	0	A school audit. Actions were agreed to improved procedures in a number of areas including the review and authorisation of policies, budgets and purchasing, recruitment checks, inventories, and checks on drivers using the school minibus. None of the issues were individually significant.
Information Security	13/6/11	Substantial Assurance	2	0	The audit looked at procedures for managing access controls to the council network and specific IT systems. Controls were generally good and two actions were agreed to further improve systems.
Performance Management	14/6/11	None Given	NA	NA	This work was undertaken in support of the new arrangements for performance management being developed within the council. It included an assessment of the new framework against the Audit Commission standard of effective performance management.
Disciplinary Procedures	4/7/11	Moderate Assurance	6	0	A review of the council's employee disciplinary arrangements. A comprehensive framework for disciplinary action is in place although a number of areas for development were identified during the audit. Actions agreed

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					included enhanced procedures for training, the need for post-disciplinary file review to ensure consistency and further clarification of procedures and documentation.
Clifton Green Primary School	12/7/11	High Assurance	5	0	A school audit. No significant issues were identified.
Environment & Sustainability	29/7/11	None Given	NA	NA	An audit of the council's submission for the CRC Energy Efficiency Scheme, and compliance with evidence requirements for the scheme. Assurance was given that the energy consumption figures reported by the council appeared to be fairly stated. Advice was also provided on how to meet evidence requirements.
Council Tax and NNDR	1/8/11	High Assurance	2	0	No significant issues were identified
Badger Hill Primary School	24/8/11	High Assurance	4	0	A school audit. No significant issues were identified.

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
Grants & Adaptations	14/9/11	Substantial Assurance	5	0	A review of systems for managing housing related grants and loans for example Disabled facilities Grants, Empty Property Grants, Decent Home Loans, and Home Safety Loans. The overall arrangements were good. Actions were agreed to improve control in a number of areas including the clarification of eligibility criteria for grants and loans, the correction of errors in recording loans on the local land charges systems, improving record keeping, and the need to review procurement arrangements for minor works.

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ANNEX 2

VARIATIONS TO THE 2010/11 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 Assistant Director - Financial Services as the client manager for internal audit. Any significant variations will then be communicated to the Audit and Governance Committee for information.

2010/11 Audit Plan Variations

The following variations have been approved to date in 2011/12. They represent a net allocation of 38 days from the audit contingency and an overall reduction of the audit plan by 16 days.

Audit	Days	Justification For Change
Deletions from the Audit Plan		
Trainee Secondment	-16	A small reduction in the overall audit plan to reflect actual secondment dates of professional trainees to Veritau.
Property Lease management	-20	The audit was originally planned at the request of the service department to support an internal review, but subsequently was not required.
	-36	

Additions to the Audit Plan		
Contract Letting	50	An additional audit undertaken at the request of the Officer Governance Group. The audit will look at wide selection of contracts, to assess the extent to which council financial regulations and contract procedure rules are being complied with.
Use of Taxis	8	An audit of the use of taxis on council business, including control over their use and a review of value for money considerations.
	58	

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ANNEX 3

COUNTER FRAUD ACTIVITY 2011/12

The table below shows the total numbers of fraud referrals received and summarises the outcomes of investigations completed. While benefit fraud is still a major role for the team, there is a continuing increase in the work the team undertakes in other areas. The indicators have been updated from previous years to reflect this and now include the full range of counter fraud work undertaken.

	2011/12 (as at 31/8/11)	**2011/12 (Target: Full Yr)**	**2010/11 (Actual: Full Yr)**
Number of Fraud referrals received. *The target is designed to promote fraud awareness and encourage people to report suspected fraud.*	302	400	456
% 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). *The target is designed to measure the effectiveness of counter fraud activity*	36%	30%	62%
Value of fraudulent benefit overpayments identified. *The target is designed to measure the effectiveness of counter fraud activity*	£238k	£350k	£390k

Number of investigations completed	145	N/A	266[1]
Number of successful outcomes[2]	52	N/A	53

The relevant caseload figures for the period are:

	As at 1/4/11	As at 31/8/11
Awaiting allocation	91	66
Under investigation	259	248

Summary of counter fraud activity:

Activity	Work Completed or in Progress
Data Matching	Investigation of National Fraud Initiative cases is underway. The counter fraud team has completed the investigation of 341 matches thus far; however these have only resulted in £3.4k in overpayments being detected. 25 cases are still under

[1] The comparative figure for 2010/11 has been restated from that previously reported, to exclude Housing Benefit Matching Service (HBMS) cases. This enables fraud referrals and outcomes to be considered on a like for like basis.
[2] 2011/12 figures will be higher than previous years as it includes all successful outcomes rather than just benefit related sanctions and prosecutions.

Activity	Work Completed or in Progress
	investigation. Housing Benefit Matching Service (HBMS) referrals continue to be investigated - the counter fraud team has received 339 HBMS referrals to date in 2011/12. The total value of benefit overpayments identified through HBMS matches since 1 April 2011 is £73k. HBMS cases have resulted in 2 prosecutions and 8 sanctions in the year so far. The counter fraud team has run a proactive exercise to identify benefit claimants who have not declared work for agencies operating in North Yorkshire. Employee lists have been obtained from a number of agencies and these have been data matched with benefit claimants. This has highlighted 13 cases of possible benefit fraud which are due to be investigated shortly.
Fraud Detection and Investigation	As in previous years, the majority of investigations undertaken relate to benefit fraud. In 2011/12 to date 10 people have been prosecuted and 15 people have been sanctioned for benefit fraud offences. The investigation of housing fraud has continued to be a priority for the counter fraud team. 22 referrals have been received in 2011/12. These referrals cover three areas – illegal subletting, non-residency/abandonment, and false applications for housing. Working closely with the housing department the Fraud Team has recovered 3 properties and blocked 4 false applications for housing this financial

Activity	Work Completed or in Progress
	year. Joint working with other teams remains a priority for the service. So far this year 36% of sanctions and prosecutions are the result of joint working with the DWP. The team continues to undertake other special investigations (including internal fraud) and provide advice to council departments on fraud matters. 5 referrals have been received so far in 2011/12, and a number of investigations are ongoing.
Fraud Awareness	Ongoing activity includes publication of successful prosecutions through the local press and other media, other internal and external publicity, and feedback on the results of fraud investigations to council officers to improve the quality of referrals and to put in place appropriate controls to prevent and detect fraud.
Cases of note	The fraud team completed the prosecution of Sarah Beattie, of Water Lane, at the end of March this year. Sarah Beattie had been living with her partner Paul Willetts whilst claiming as a single person. Paul Willetts owned the property next door and maintained that he lived there. In fact he rented it out to tenants over a number of years. This was a very difficult fraud to prove given the close proximity of the two properties. The Department for Work and Pensions had attempted to prove this allegation in 2002 but were unsuccessful. This meant that the couple were very aware of possible investigation and took precautions to avoid detection. A decision was made to raid both properties with the assistance of North Yorkshire police and

Activity	Work Completed or in Progress
	have both parties arrested. This raid enabled the investigation to gather crucial evidence that led to Sarah Beattie pleading guilty in Crown Court. She was sentenced to 250 hrs of community punishment to be completed over a 12 month period. The total amount of money Beattie and Willetts defrauded from the Council was £25,600.

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ANNEX 4

SUMMARY OF BREACHES OF FINANCIAL REGULATIONS IDENTIFIED DURING INTERNAL AUDIT WORK COMPLETED IN THE PERIOD

Description of Breach	Instances
Select list not adequately reviewed	1
Coding slips not being used correctly	1
Income not banked intact	1
Inventory records not properly maintained	3
Budget not approved	1
Staff allowances paid outside standard conditions and payments not correctly made or recorded	1
Waiver not used for expenditure over £5,000 with less than 3 quotes	1
Salary advances given not via payroll system	1
Inadequate budgetary control	1

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