Notice of meeting of

Audit & Governance Committee

To:	Councillors Cunningham-Cross (Chair), Barnes, Brooks (Vice-Chair), Burton, Cuthbertson, Watson and Steward
Date:	Wednesday, 25 July 2012
Time:	5.00 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 4:30 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 - 8)

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on **28th June 2012**.

3. **Public Participation**

At this point in the meeting members of the public who have registered their wish to speak regarding an item on the agenda or an issue within the Committee's remit can do so. The deadline for registering is **5:00 pm on Tuesday 24th July 2012**.

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

This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to June 2013.

5. **Draft Statement of Accounts 2011/12.** (Pages 17 - 162)

The report sets out the background for the requirement of Members to review the draft pre-audit Statement of Accounts. The Annual Financial Report, which includes the draft pre-audit Statement of Accounts, is attached at Annex B.

6. **Scrutiny of the Treasury Management Annual Report 2011/12.** (Pages 163 - 188)

The purpose of this report is for Members of A&G to scrutinise the "Treasury Management Annual report & Review of Prudential Indicators 2011/12" 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").

7. **Key Corporate Risk Monitor Quarter 1.** (Pages 189 - 206)

The purpose of this paper is to present to Audit & Governance Committee an update on the key corporate risks, and to highlight in more detail any emerging risk issues with a view to members considering any further information they would wish to receive.

8. **Urgent Business**

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

Democracy Officer:

Name: Jayne Carr
Contact details:

- Telephone – (01904) 552030
- E-mail – jayne.carr@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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Holding the Cabinet to Account

The majority of councillors are not appointed to the Cabinet (39 out of 47). Any 3 non-Cabinet councillors can 'call-in' an item of business following a Cabinet meeting or publication of a Cabinet Member decision. A specially convened Corporate and Scrutiny Management Committee (CSMC) will then make its recommendations to the next scheduled Cabinet meeting, 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

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City of York Council — Committee Minutes

MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	28 JUNE 2012
PRESENT	COUNCILLORS CUNNINGHAM-CROSS (CHAIR), BARNES, BROOKS (VICE-CHAIR), BURTON, CUTHBERTSON, WATSON AND STEWARD

1. DECLARATIONS OF INTEREST

At this point in the meeting Members were asked to declare any personal or prejudicial interests they may have in the business on the agenda. None were declared.

2. MINUTES

RESOLVED: That the minutes of the meeting held on 2 April 2012 be approved and signed by the Chair as a correct record subject to minute 67(c) being amended to read "Barnes" and not "Burton".

3. PUBLIC PARTICIPATION

It was reported that there were no registrations to speak at the meeting under the Council's Public Participation Scheme.

4. FORWARD PLAN

Consideration was given to a paper which presented the future plan of reports expected to be presented to the Committee during the forthcoming year to April 2013.

Members were pleased to note that the Statement of Accounts for 2011/12 would be signed-off within the statutory timescale and would be presented to the Committee at the next meeting. Tribute was paid to the work that Louise Branford-White had carried out in respect of the accounts.

Members were asked to identify any further items they wished to add to the Forward Plan. It was agreed that the Audit and Governance Committee Effectiveness Working Group would report back to the Committee at the meeting on 27 September 2012.

RESOLVED:	That, subject to the inclusion of the feedback report from the Audit and Governance Committee Effectiveness Working Group, the work plan for the period up to April 2013 be approved.
REASON:	To ensure that the Committee receives regular reports in accordance with the functions of an effective audit committee and can seek assurances on any aspect of the Council's internal control environment.

5. EXTERNAL AUDIT 2011/12 - AUDIT PROGRESS REPORT

Members considered a report that presented the progress report of the council's external auditor, the Audit Commission, in achieving their 2011/12 Audit Plan.

It was noted that the assessment had progressed according to plan. The testing that had taken place had confirmed that the systems that were in place were fit for purpose. The only outstanding work was to review the Council's year end financial statements, annual governance review, and performance report.

At the request of Members, an explanation was provided as to the role of the proposed new independent audit appointment panel.

Clarification was sought as to the reference in the report which suggested that a more strategic review of internal control arrangements might be opportune. The officer from the Audit Commission stated that the issue was not that weaknesses had been identified but related to possible budget savings, for example consideration as to whether any of the current processes could be replaced by less labour intensive procedures.

RESOLVED:	That the progress report be noted.
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.

6. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

Members considered a report that advised them of the process and the outcomes of the 2011/12 review of the effectiveness of the Council's internal audit arrangements.

Details were given of the work that had taken place, as outlined in paragraph 15 of the report.

Members' attention was drawn to the areas of development which had been identified as part of last year's self-assessment. The information on progress made in the year was noted.

Consideration was given to the results of the Customer Satisfaction Survey. It was noted that there had been an improvement in a number of areas covered by the survey. No areas had deteriorated.

Members noted that reports from the Head of Internal Audit to the Audit and Governance Committee had previously been in the name of the council's client officer. It was proposed that this should change in the future with all internal audit related reports issued in the name of the Head of Internal Audit.

RESOLVED:

(i) That the results of the annual review of the effectiveness of internal audit be noted.

(ii) That the changes in reporting arrangements in respect of reports to the Committee on internal audit matters (as detailed in paragraph 23 of the report) be approved.

REASONS:

(i) To enable Members to consider the overall adequacy and effectiveness of the Council's control environment.

(ii) To ensure the council complies with the CIPFA Code of Practice.

7. ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT

Members considered a report that summarised the outcome of audit and fraud work undertaken in 2011/12 and which provided an opinion on the overall adequacy and effectiveness of the council's internal control arrangements.

Members noted the audits completed and reports issued, as detailed in Annex 2 of the report. Officers reported that 96% of the Audit Plan had been delivered against a target of 93%.

Members questioned officers on a number of issues including any risks identified in respect of:

- Information security
- Health and Safety
- Partnership working - it was noted that although the Council had a good record of partnership working, CMT would be considering the lack of overarching controls to monitor and manage the Council's involvement in partnerships.
- Pre-employment checks for agency staff
- Personalisation and direct payments

RESOLVED: (i) That the results of audit and fraud work undertaken in 2011/12 be noted.

(ii) That the opinion of the Head of Internal Audit on the adequacy and effectiveness of the Council's internal control environment be accepted.

(iii) That the significant control weaknesses identified during the year which are relevant to the preparation of the Annual Governance Statement be noted.

(iv) That further information on the risks associated with partnership working and the personalisation direct payments be presented to the Committee[1].

REASONS: (i) To enable Members to consider the implications of audit and counter fraud findings.

(ii) To enable Members to consider the opinion of the Head of Internal Audit.

(iii) To enable the Annual Governance Statement to be prepared.

(iv) To enable Members to give full consideration to the issues and be assured that appropriate arrangements are in place.

Action Required

1. Include on Committee's Work Plan	EA

8. DRAFT ANNUAL GOVERNANCE STATEMENT

Members received a report that presented the Annual Governance Statement (AGS) 2011/12 for approval. A signed version of the AGS, as agreed by the Leader and Chief Executive of the Council would accompany the Statement of Accounts 2011/12.

Members' attention was drawn to the significant governance issues, as detailed in section 5 of the statement. The issues in respect of information governance and business continuity were highlighted, particularly in view of the move to the new offices.

Some Members expressed concern that recent changes that had been implemented in respect of governance had not been reflected in the statement, including the arrangements regarding Cabinet Member Decision Sessions and Ward Committee meetings. They suggested that this had led to a reduction in opportunities for the public to engage effectively with the council. It was also suggested that, although the new scrutiny arrangements that had been implemented during 2009/10 had provided opportunities to increase the effectiveness of the scrutiny function, it was only recently that this was beginning to have an impact. Some Members therefore suggested that the statement regarding scrutiny within the authority had presented an overly positive view of the current position. Other Members commented that the governance statement should make reference to the financial constraints faced by the Council and the impact that this had on issues in respect of governance.

Members also noted the statement that the Audit and Governance and the Standards Committee had committed to working together to improve the oversight of corporate governance. Members reiterated their support for this arrangement but agreed that further consideration should be given as to a mechanism by which this could be best be achieved.

Officers explained that the governance statement was intended to be a descriptor of the governance arrangements that were in place rather than containing an assessment of their effectiveness. Nevertheless the draft statement would be amended to seek to address some of the concerns that had been raised. The revised statement would be circulated to Members via email with a view to the final version being adopted at the next meeting.

RESOLVED:

(i) That the draft Annual Governance Statement be updated to reflect the views put forward by the Committee (as outlined above).

(ii) That the revised AGS be circulated to Members via email for consideration prior to the next meeting[1].

(iii) That an item be included on the Forward Plan to consider how best the Audit and Governance Committee and the Standards Committee could work together to improve the oversight of corporate governance.

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

<u>Action Required</u>

1. Update AGS and email to Members	EA

Councillor Cunningham Cross, Chair.
[The meeting started at 4.30 pm and finished at 5.55 pm].

Audit and Governance Committee 25 July 2012

Report of the Director of CBSS

Audit & Governance Committee Forward Plan to June 2013

Summary

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to June 2013.

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 June. 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. Three amendments have been made to the forward plan since the previous version was presented to this Committee in June 2012. Firstly two reports have been added to the agenda for the September meeting at the request of members, including a feedback report on the effectiveness of the Audit & Governance working group and an update report on Personalisation.

4. Additionally the External Audit 2012/13 Audit Plan has been removed from the July Agenda as external Audit will not be in a position to discuss the planning until after the TUPE transfer.

Consultation

5. 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

6. Not relevant for the purpose of the report.

Analysis

7. Not relevant for the purpose of the report.

Council Plan

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

Implications

9.
   (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

10. 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

11.
   (a) The Committee's Forward Plan for the period up to June 2013 be noted.

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

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

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

Contact Details

Author:	**Chief Officer Responsible for the report:**
Emma Audrain Trainee Cipfa Accountant Customer & Business Support Services Telephone: 01904 551170	Ian Floyd Director of CBSS Telephone: 01904 551100 **Report Approved** √ **Date** 17/07/2012

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 June 2013

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Annex

Audit & Governance Committee Draft Forward Plan to June 2013

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

- **Committee 27th September 2012**

  2011/12 Final Statement of Accounts

  Annual Governance Report 2011/12

  Annual Report of the Audit & Governance Committee

  Key Corporate Risk Monitor Quarter 2 (Including CBSS Risks)

  Follow-up of Internal and External Audit Recommendations

  Internal Audit & Fraud Plan Progress Report

  Audit & Governance Committee Effectiveness working group feedback report

  Personalisation working update report

  Report on mechanism for A&G to work with the Standards committee to improve oversight of corporate governance

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

- **Committee 12th December 2012**

  Key Corporate Risk Monitor Quarter 3 (Including CANS/ CS Risks)

  Annual Audit Letter – Audit Commission

  2012/13 Review of the Effectiveness of Internal Audit

  Internal Audit & Fraud Plan Progress Report

Audit & Governance Committee Effectiveness working group feedback report

Scrutiny of the Treasury Management Monitor 2 Report 2012/13 and Review of Prudential Indicators

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

- **<u>Committee 13th February 2013</u>**

Audit Commission 2010/11 Grant Claim Certification Work

Key Corporate Risk Monitor Quarter 4 (Including ACE Risks)

Scrutiny of the Treasury Management Monitor 3 Report 2012/13 and Review of Prudential Indicators

Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators

Counter Fraud: Risk Assessment and Review of Policies

Internal Audit Plan Consultation

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

- **<u>Committee 17 April 2013</u>**

Approval of Internal Audit Plan

Internal Audit & Fraud Plan Progress Report

Follow up of Internal and External Audit Recommendations

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 2013 (Date TBC)</u>**

Review of effectiveness of Internal Audit

Annual Report of the Head of Internal Audit

Draft Annual Governance Statement

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

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Audit & Governance **25 July 2012**

Report of the Cabinet Member for Corporate Services

Statement of Accounts 2011/12 – Annual Financial Report

Summary

1. The pre-audited Statement of Accounts in 2011/12 is part of the wider Annual Financial Report. This is a change in 2011/12 in accordance with the clarification received from CIPFA in the interpretation of Section 9 of the Audit Commission Act 1998. This states that the auditor must give an opinion on the Statement of Accounts and the information that auditors are expected to be able to determine as true & Fair. Therefore, this includes all aspects of the Annual Financial Report except the Explanatory Forward, Independent Auditor's Report and Annual Governance Statement (AGS).

2. The draft pre-audit Statement of Accounts for 2011/12 are authorised in the Statement of Responsibilities by the Chief Finance Officer (CFO), the clarification between the Annual Financial Report and the Statement of Accounts removes the risk that the responsible financial officer could be taken to have provided assurance that the AGS was true and fair. The CFO – Director of Customer & Business Support Services – signed the draft pre-audit Statement of Accounts for 2011/12 on 29 June 2012. This requirement is in accordance with the revised Accounts and Audit Regulations 2011.

2. In accordance with CIPFA it is good practice that authorities report the draft pre-audit Statement of Accounts to Members after they have been signed by the CFO. This allows Members to review the draft pre-audit Statement of Accounts together with the Annual Governance Statement (AGS) before the audit of the Accounts and raise any points that may need to be addressed.

Background

3. The report sets out the background for the requirement of Members to review the draft pre-audit Statement of Accounts. The Annual

Financial Report, which includes the draft pre-audit Statement of Accounts, is attached at Annex B.

4. To assist Members and readers in the understanding of the draft pre-audit Statement of Accounts a brief explanation and information on the constituent parts of the Statement of Accounts (in the order in which they are produced) are attached at Annex A. The presentation provided to the Audit & Governance Committee today – Wednesday 25 July 2012 - will enhance Members' understanding of the Accounts and facilitate robust scrutiny prior to final review and approval of the Statement of Accounts in September 2012.

5. Following the authorisation of the Chief Finance officer on 29 June 2012 and the review of Members of Audit & Governance Committee on 25 July 2012 of the draft pre-audit Statement of Accounts, the accounts will be made available for public inspection on 3 August 2012 for 20 working days, with 30 August 2012 being the date on or after which local government electors for the area to which the Accounts relate may exercise their rights to question the auditor about the accounts. The Audit Commission expects to issue a report and opinion by the end of September 2012.

6. The pre-audit Statement of Accounts 2011/12 has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK. The pre-audit Statement of Accounts is produced in line with International Financial Reporting Standards (IFRS) which are the accounting standards used across the world making Local Authorities' Accounts more comparable with the private sector and worldwide.

7. The main changes that have occurred to the Accounts in 2011/12 are detailed in the paragraphs below and include:
   (i) the introduction of Heritage Assets,
   (ii) service analysis in the Comprehensive Income and Expenditure Statement,
   (iii) schools that have converted to Academy Status and
   (iv) change in the reporting name from Statement of Accounts to Annual Financial Report.

8. There is now a new category of heritage assets included within non-current assets on the balance sheet. These are assets with historical, artistic, scientific, technological, geophysical or environmental qualities

held principally for their contribution to knowledge and culture rather than for any operational reasons. Some heritage assets (e.g. buildings) were previously categorised as property, plant & Equipment are now categorised specifically as heritage assets. Others (mainly museum collections and artwork) have been newly identified as assets following adoption of this standard. Following recategorisation as heritage assets, some buildings / structures such as war memorials and York Walls are carried at nil value, as there is no reliable way of valuing these and therefore no meaningful value which can be assigned to them. The carrying amounts for other heritage assets are based on insurance values.

9. The service analysis under Net Cost of Services in the Comprehensive Income and Expenditure Statement has been expanded, with the previous heading of cultural, environmental and planning services now being split into its three component parts. In addition, material items have been disclosed separately to provide a clearer understanding of the authority's financial performance. Three transactions have been included:
   (i) In 2010/11 the impact on non-distributed costs of the change in the inflation measure for retirement benefits from RPI to CPI,
   (ii) In 2010/11the revaluation losses attributable to the revision of the DCLG's adjustment factors for social housing
   (iii) In 2011/12 the self financing settlement payment to buy the HRA housing stock from the Governments HRA subsidy system.

10. There were 2 schools that have converted to Academy Status at 1 April 2012 – Manor CE School and Archbishop Holgate CE School. Both Schools were Voluntary Aided Schools meaning that the value of their assets (i.e. school building) were never included on the balance sheet and their reserves, which were included on the balance sheet, were written out.

11. The change in the reporting name from Statement of Accounts to Annual Financial Report is explained in paragraphs 1 and 2 of this report.

12. The preparation of the Statement of Accounts in 2011/12 gave consideration to the risk areas identified in paragraph 16 of this report under the Risk Management heading and also the recommendations identified by the Audit Commission in their 2010/11 Final Accounts Memorandum Audit & Governance Report.

Consultation

13. All services areas of the Authority have contributed to the pre-audit Statement of Accounts and working papers.

Options

14. That the Audit & Governance Committee reviews the pre-audit Statement of Accounts in accordance with CIPFA best practice for the financial year ended 31 March 2012 and also approves the final Statement of Accounts 2011/12 after the audit, prior to 30 September 2012 in accordance with the statutory requirement.

Corporate Priorities

15. 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 Statement of Accounts are approved by the Audit & Governance Committee after the audit by 30 September 2012.

Implications

16. The implications are

- Financial – The Statement of Accounts show that for 2011/12 there is a provisional under spend of £349k. This position arises primarily as a result of continued stringent cost control methods exercised during the year which ensure the Councils financial standing has been maintained. The full details of the outturn position were reported in the Financial Outturn 2011/12 report presented to Cabinet on 17th July 2012. The level of General Reserves is some £6.4m, compared to a recommended minimum level of reserves of £6.1m. Clearly there are significant financial challenges facing all public sector organisations and the need to maintain reserves will be essential throughout this period.
- Human Resources - there are no human resource implications to this report
- Equalities - there are no equality 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 - there are no information technology implications to this report
- Property - there are no property implications to this report
- Other - there are no other implications to this report

Risk Management

17. 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 2011/12 and clarified in the Audit Commission's Audit Plan (presented to this Committee in June 2012) were
- The new requirement in the Code to adopt heritage Assets
- The inherent risk of the Fixed asset Register valuation and accounting consolidation
- The consolidation of the statement of Accounts relying on the use of spreadsheet, potentially resulting material mis-statements

Conclusion

18. 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.

19. Bringing the Statement of Accounts to Audit & Governance provides an opportunity for Member led debate and compliance with defined best practice. It is an important part of Member involvement in corporate governance that a full scrutiny is undertaken of the Council's Accounts.

20. It is intended that following a receipt of an unqualified opinion on the accounts from the District Auditor, that the finalised Statement of Accounts 2011/12 will be published and distributed to all Members and Chief Officers electronically. The District Auditor is required to give his opinion as part of the Annual Governance Report to be considered by Audit and Governance Committee no later than the 30th September 2012.

Recommendations

21. That the Audit & Governance Committee notes:
    (a) the draft pre-audit Statement of Accounts for the financial year ended 31 March 2012.
    (b) the annual governance statement.

22. Reason: It is a statutory requirement that a committee of the Council or Full Council approves the Statement of Accounts for 2011/12 by 30 September 2012 and that prior to the final audit it is good practice for Members to review the pre-audit Statement of Accounts.

Contact Details

Author:	**Chief Officer responsible for the report:**		
Louise Branford-White Technical Finance Manager 01904 551187	Ian Floyd Director of Customer and Business Support Services		
	Report approved √	Date	16/07/12

Specialist Implications Officer(s) None

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

For further information please contact the author of this report

Background Working Papers

Statement of Accounts 2011/12
Supporting Working papers held by Finance Departments across the Council.
Code of Practice on Local Authority Accounting 2011/12
Code of Practice on Local Authority Accounting 2011/12 Guidance Notes

Annex A

A brief explanation on the constituent parts of the Annual Financial Report

Foreword

1. This is designed to help give readers an understanding of the accounts. It sets out a description of all the individual sections, gives an overview of the revenue and capital position in the year, identifies the position on the Council's borrowing powers and reserves and future issues that may influence how the Council is run. It also provides the opportunity to explain any changes in accounting policies that have been used in the preparation of the Accounts.

District Auditors' Report

2. This is the auditor's certificate on the accuracy or otherwise of the authority's accounts and is issued at the end of the audit process. York has never had a qualification to its audit certificate. This will be inserted into the Statement of Accounts for approval by Members of Audit & Governance Committee at the end of September every year.

Annual Governance Statement

3. The 2007 guidance also introduced the requirement on local authorities to prepare an Annual Governance Statement (AGS) instead of a SIC (for 2007/08, and future accounting years). In preparing the AGS, the Council must address the overall governance arrangements of the organisation rather than specifically the systems of internal control.

Statement of Responsibilities

4. This is a simple statement that sets out the different legal responsibilities of the Council and the 'Section 151 Officer' / Chief Finance Officer (Director of Customer & Business Support services). It is where the certificate has to be signed by the Director of Resources to authorise the draft pre-audit Statement of Accounts on 30 June each year, that the accounts represent fairly the position of the Council.

Statement of Accounting Policies

5. This statement sets out all the policies that have been followed in preparation of the accounts. It also intended to demonstrate where, if at all, the policies followed by Council differ from either the best practice or the CIPFA guidelines.

Comprehensive **Income and Expenditure Statement**

6. The Income and Expenditure Statement shows the net cost of all the functions for which the Council is responsible. It compares the cost of service provision with the income raised by fees and charges, from specific Central Government grants and from the Collection Fund. The surplus or deficit on this account represents the amount by which income is greater than or less than expenditure, where income and expenditure are measured using essentially the same accounting conventions that a large (but unlisted) company would use in preparing its audited annual financial statements.

7. This statement also attempts to analyse changes in the council's asset base due to:
   - Surplus or deficits on income and expenditure
   - The revaluation of the council's fixed assets
   - Changes in pension liabilities due to actuarial revaluation

   In many instances these revaluations impact primarily on the council's balance sheet.

Movement in Reserves Statement

8. This account reconciles the amounts that must be taken into account when determining the Council Tax of the Council in accordance with statute and non-statutory proper practices and the sums included in the Income and Expenditure Account.

Balance Sheet

9. The balance sheet shows the overall financial position of the Council with external bodies by bringing together the year-end balances of all the Council's accounts. It shows the balances and reserves at the Council's disposal, the long-term indebtedness, the net current assets and summary information on the fixed assets held.

Cash Flow Statement

10. This statement provides a link between the Balance Sheet at the beginning of the year, the revenue accounts for the year and the Balance Sheet at the end of the year. It summarises on a subjective basis the expenditure and income of the Council for revenue and capital purposes.

Housing Revenue Account Income and Expenditure

11. This account summarises the income and expenditure of providing Council houses. There is a statutory requirement to keep this account separate from other Council activities.

Statement of Movement on the Housing Revenue Account Balance

12. 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

13. This fund shows the transactions of the Council acting as Charging Authority in relation to Council Tax, Community Charge and Non-Domestic Rating in aid of local services and shows how much monies have been distributed to the Council, North Yorkshire Police Authority, North Yorkshire Fire and Rescue Authority, and parish councils.

14. The Accounts and Audit Regulations 2003 introduced the requirement for each local authority to conduct a review of the effectiveness of its system of internal control and to publish a Statement on Internal Control (SIC) as part of the Annual Statement of Accounts. The Council first published a SIC in 2003/04. The SIC formed an important part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of its corporate governance arrangements, particularly those in respect of risk management and internal control. Publication of the SIC enabled the Council to formally report on governance related issues identified during the relevant accounting period. The SIC demonstrated openness and accountability to the public and other stakeholders, and provided a framework for improving the adequacy and effectiveness of corporate governance arrangements.

15. The Department for Communities and Local Government issued guidance in 2006 (Circular 03/2006) which gave the existing CIPFA/SOLACE Corporate Governance Framework document ‘proper practice’ status. CIPFA/SOLACE, in 2007, published an updated Framework document. The new document ‘*Delivering Good Governance in Local Government Framework’* sets out the core principles of governance which authorities are required to adopt.

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CITY OF YORK COUNCIL

DRAFT
Annual Financial Report

2011/12

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.)

CONTENTS

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 2012 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 international financial reporting standards (IFRS), 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.

EXPLANATORY FOREWORD

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

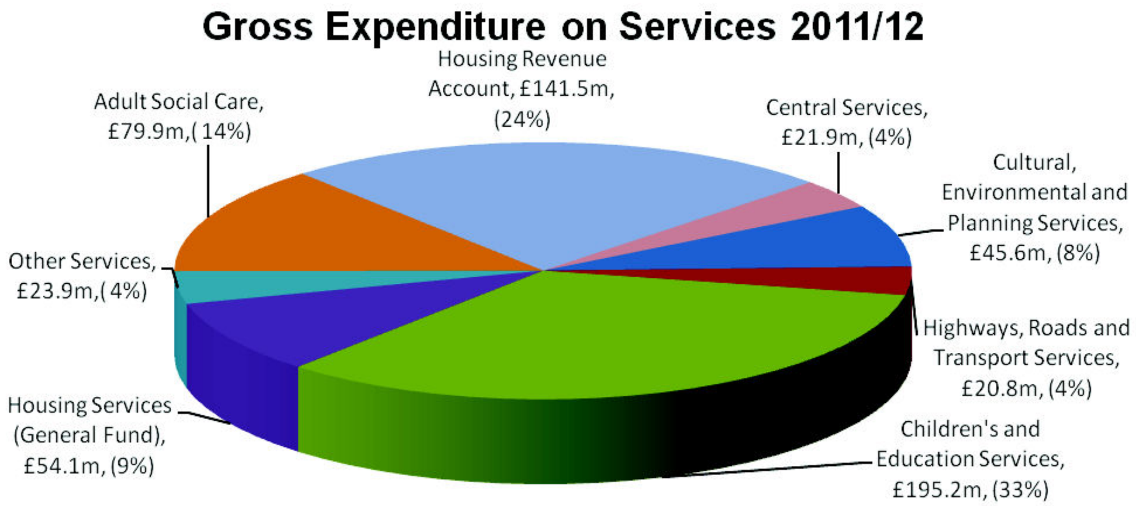
Despite continuing pressures on public sector expenditure and responding to the challenges of the 2010 Spending Review, the Authority has been able to maintain its good financial health. Growth of £9.4m was approved in the 2011/12 budget process, although this was accompanied by savings of £21.0m.

The Authority's General Fund budget for its own net expenditure was set at £123.9m. To this sum the parish precepts added a further £0.6m.

The out-turn position is a net expenditure, including parish precepts, of £124.2m, representing an underspend of £0.3m. Included within the net underspend are several service areas where there have been significant budgetary pressures, for example additional costs have arisen due to increased client numbers in relation to adult care and looked after children.

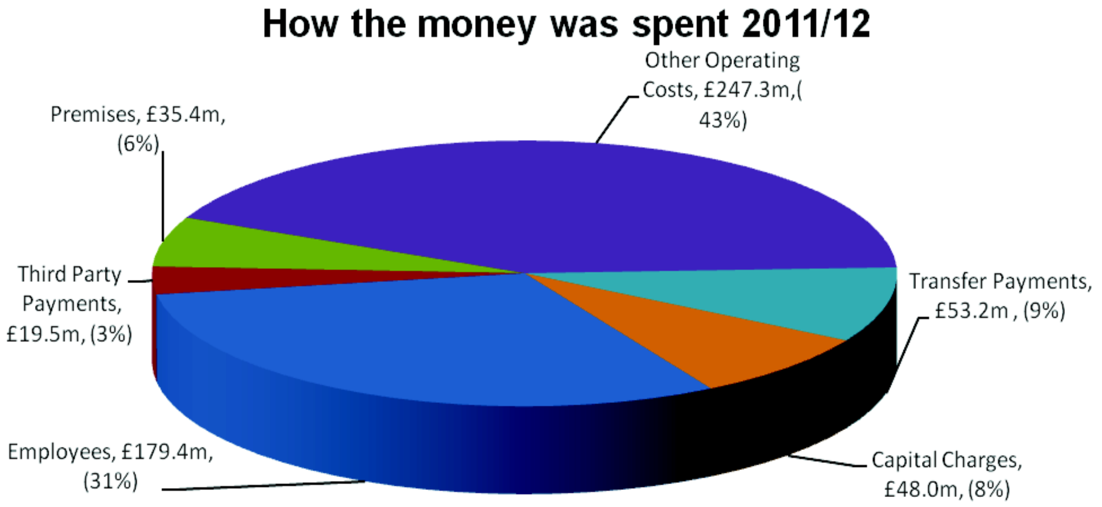
These pressures have been mitigated by reduced expenditure/additional income in other areas, and this has been achieved through effective monitoring of the budget throughout the year to ensure that spending has remained within budget across the Council. Full details on the individual service areas position for 2011/12 were reported to Cabinet in July 2012.

The Authority's gross expenditure on services, as shown on the Income and Expenditure Account, was £582.8m and the following two diagrams show this firstly on a service by service basis and then by category of expenditure:



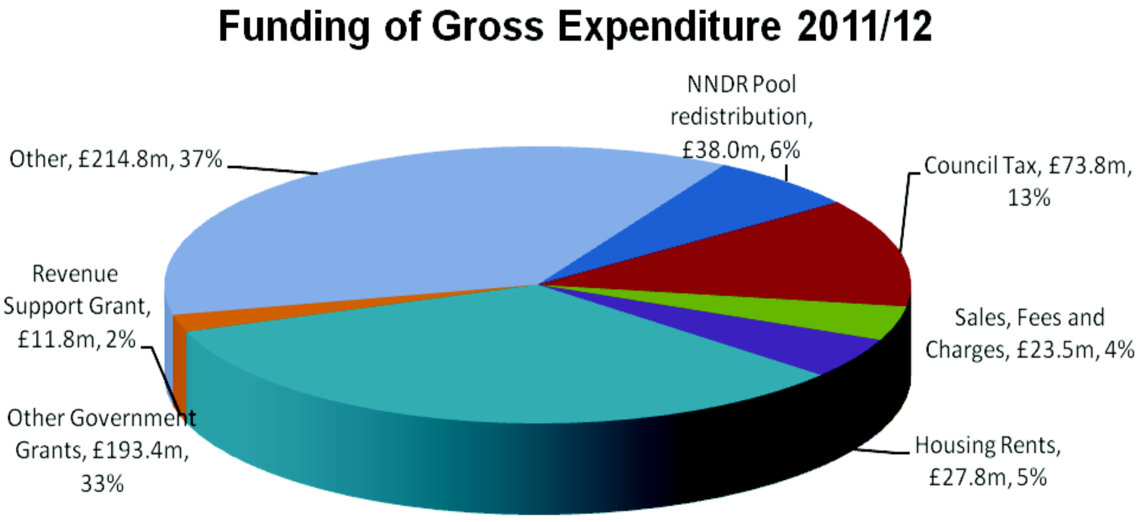
Included within other services is expenditure on court services, corporate and democratic core, non-distributed costs and exceptional items.

EXPLANATORY FOREWORD



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:



The diagram above shows General Fund income of £583.1m, £0.3m more than was needed to fund expenditure. The surplus is transferred to general fund balances, which now total £13.4m. However, of this total £7.0m 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 £6.4m.

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 2011/12 revenue estimates were approved, rents were increased by £4.05 per week or 6.4%, 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 2011/12 was estimated to be £7.746m compared to an actual at the year-end of £7.726m.

This variation together with those to other original budgets have resulted in a surplus on the HRA of £10.811m at the year-end, which is an increase of £1.491m from that originally budgeted for. The most significant variations have resulted from:

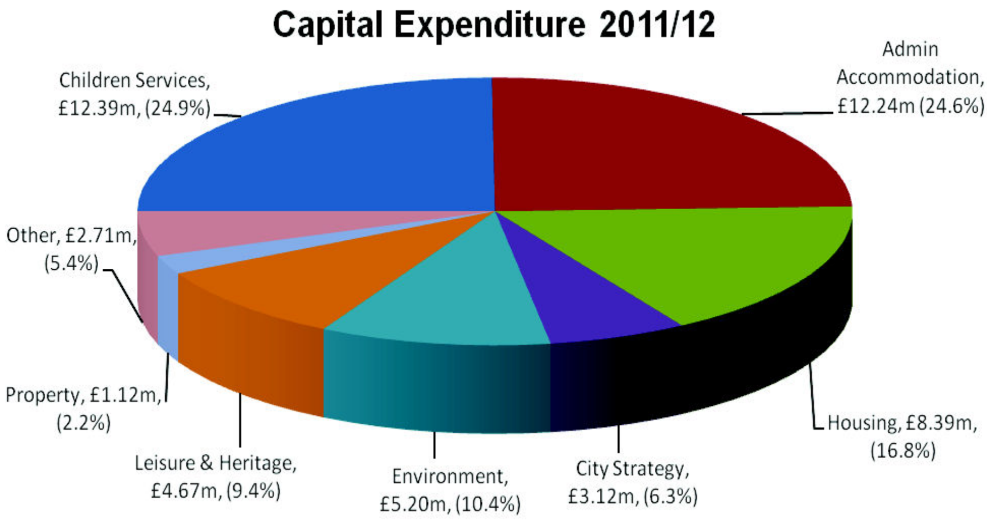
		£000's
(i)	Reduction in repairs and maintenance costs	336
(ii)	Reduced costs from departmental and support services, mainly due to staffing	509
(iii)	Reduced cost of providing temporary and sheltered accommodation	268
(iv)	Reduced revenue contribution due to slippage of capital schemes	218
(v)	Increase in rents and charges due to reduced voids	(48)
(vi)	Additonal interest recieved on HRA cash balances	70
(vii)	Other minor variations	138
		1,491

5. COLLECTION FUND

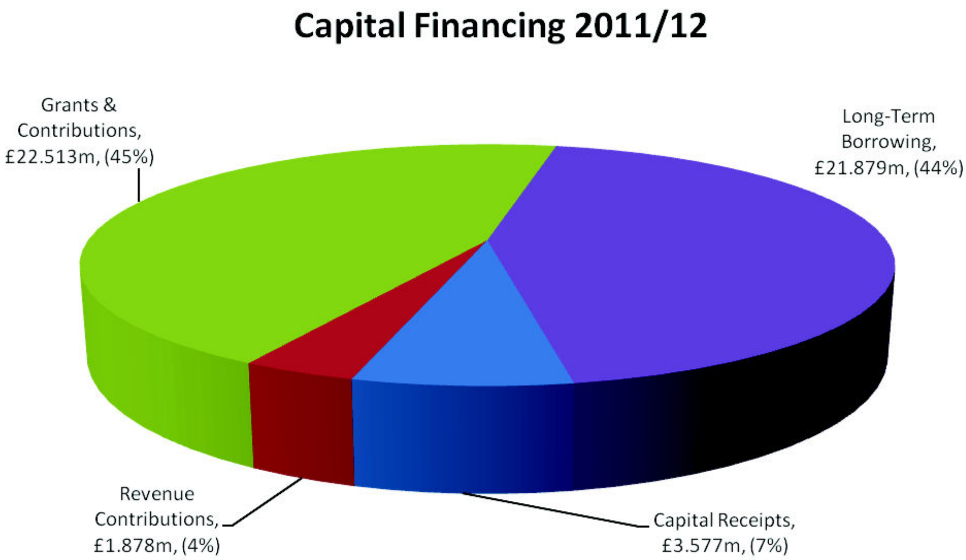
At 31 March 2012 the surplus on the Collection Fund is £0.209m although £0.040m of this is owed to the North Yorkshire Police Authority and the North Yorkshire Fire and Rescue Authority. The year-end surplus has arisen due to increased recovery action taken during the last three months of the year. 97.9% of the total sum collectable for 2011/12 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 98.1% of the 2011/12 bills.

6. CAPITAL EXPENDITURE

The original gross expenditure budget was £58.029m (2010/11 £73.299m), however, due to re-programming some of the work, the final budget was £57.031m (2010/11 £64.296m). Total expenditure on capital schemes in 2011/12 was £49.847m gross (2010/11 £53.932m). An analysis of where the money was spent in 2011/12 is shown diagrammatically below:



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



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

- The delivery of the Local Transport Plan £2.982m
- The modernisation and repairs to Council properties £6.814m
- Primary School Strategic Programme (Clifton with Rawcliffe and Our Lady Queen of Martyrs Primary Schools (£6.957m)
- Improvements to schools and devolved capital works on a variety of schools £3.991m
- Delivery of the new Administrative Accommodation building £12.242m
- The resurfacing and refurbishment of the Authority’s roads £3.845m

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 and sustainable 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 2011, Budget Council 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	222,000	347,000
Operational Boundary	192,000	327,000
Long Term Debt	133,065	261,615

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 2011/12 the Authority's long-term borrowing was as follows:

	2011/12 £000's	2010/11 £000's
Opening Borrowing at 1 April	133,848	116,650
Reversal of Interest Owed & Adj Carry Value 2010/11	(783)	(585)
Borrowing to fund capital schemes	133,550	24,000
Interest Owed on Long Term Debt at 31st March	1,902	1,841
Adjusted Carry Value of Loans due Debt Restructure	(1,025)	(1,058)
Loans maturing in the year	(5,000)	(7,000)
Closing Borrowing at 31 March	262,492	133,848
Authorised Limit for year	347,000	192,000
Operational Boundary for year	327,000	172,000

PWLB debt of £5.0m was repaid in line with the original maturity dates of the loans in May 2011 (£5m). The Authority drew down £133.550m of PWLB debt throughout 2011 at rates between 2.5% and 3.81%. The main driver of the increase in borrowing (£121.550m of the £133.550m) is due to the local authority housing finance system (the Housing Revenue Account Subsidy System) being devolved to Local Government and the subsequent Government requirement to purchase the associated liability previously held by centrally. The determination figure (associated liability figure) was £121.550. 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 2012 the Authority's adjusted debt was £262.492m (2010/11 £133.848m). Consequently, the Authority did not exceed either the authorised limit of £347m (10/11) or the operational boundary of £327m (10/11). The average rate of interest on all long-term loans at 1 April 2011 was 4.223% and at 31 March 2012 was 3.881%.

EXPLANATORY FOREWORD

8. CHANGES IN ACCOUNTING POLICIES

The Main change in accounting policies in 2011/12 is that the Code introduces a new classification of Heritage Assets. Specific criteria apply to this classification and where possible heritage assets are carried at valuation.

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

The significant increase in long-term loans outstanding is as a result of the £121.550m settlement payment made to the Secretary of State in preparation for the commencement of self-financing of the Housing Revenue Account (HRA) from 1 April 2012. This essentially ends the impact of the current housing subsidy system and will see the HRA as a stand alone business.

In 2010/11, there was a significant reduction in the Authority's share of the North Yorkshire Pension Fund's deficit. This was due to a change in the method of calculation from using the RPI inflation rate to CPI, this continues to be the case in 2011/12.

The fixed asset register has been restated from 2007/08 back to 2011/12. The overall value of the Council's assets did not alter, but the split of funding of the assets changed between the Revaluation Reserve and the Capital Adjustment Account.

Heritage Assets were introduced as a new category of asset in 2010/11 and have been retrospectively restated in 2010/11. Where values are available for heritage assets they have been included on the face of the balance. This has seen an increase in the value of the Council's assets of £38.8m.

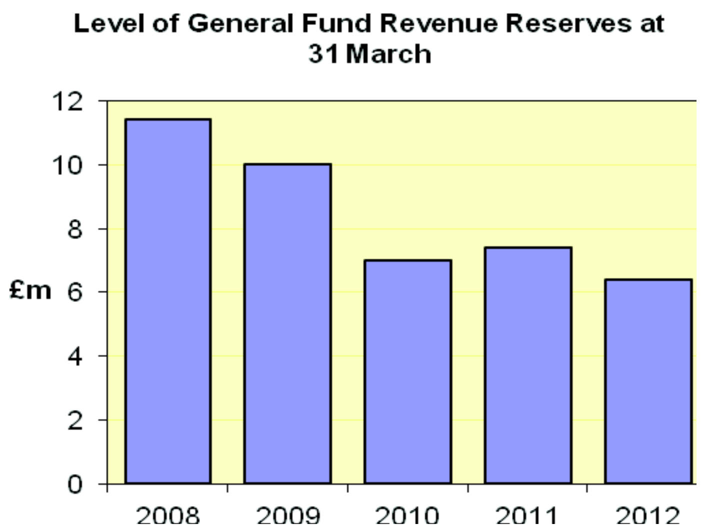
Depreciation in 2011/12 was £17.2m (10/11 £17.6m), upward revaluation of £55.9m (10/11 £10.7m) and capital expenditure contributing to the asset value by £49.8m (10/11 £43.8m).

10. REVIEW OF THE AUTHORITY'S FINANCIAL POSITION

At the end of the financial year 2011/12 the useable reserves stood at £53.9m, compared to £46.6m at the end of 2010/11. Useable reserves include the Council's General Fund Balance stated on the balance sheet at £13.4m, which is the General Fund reserve of £6.4m and the individual school balances (ISB) of £7.0m. The General Fund reserve reduced in 2011/12 by £0.9m to £6.4m. In compliance with the Education Reform Act 1988, individual school balances (ISB) will be carried forward into 2012/13.

The remaining Useable Reserves stand at £40.5m and include the Housing Revenue Account (HRA) reserve, major repairs reserve, capital receipts reserve, and capital grants unapplied and earmarked reserves. These reserves increased by over £8m with earmarked reserves increasing by around £5m to support future revenue expenditure, (this is primarily in relation to provision for debt repayments, pensions and waste PFI) and capital grants unapplied rising by £3m to fund committed capital schemes. This change in reserves is primarily an issue of the timing of when payments will be made. The HRA reserve also increased by £0.4m which is ring fenced to Local Authority housing.

The General Fund reserve is carefully monitored to ensure that it is maintained at a minimum prudent level to cover any unforeseen circumstances given the size of the 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.



As part of setting the annual budget, the Director of Customer and Business Support Services undertakes a risk assessment to calculate a minimum level for the General Fund reserve, and this was incorporated into the Authority's budget reports. For 2011/12, this was a recommended level of £6.2m.

As mentioned above, the actual level of reserves that can be taken into account for comparison to these levels amount to £6.4m at 31 March 2012. 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. The financial strategy assumes contributions over the next 3 years to increase reserves, to ensure that the Council is able to meet the significant financial challenges it faces in coming years.

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 and changes to Funding from Central Government

The Government stated its intention to significantly reduce public sector spending commitments via the 2010 Spending Review. The 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 were consolidated into the Local Government Resource Review, a wide ranging assessment of the financing of local authorities across the UK, the results of which were published in summer 2011. Resulting from this, the two main issues for Local Authorities to deal with from 2013/14 are the localisation of Business Rates and Council Tax support. The continued development of the Financial Strategy will ensure that the Council prepares effectively for these challenges.

Economic Downturn

This includes:

- pressures resulting from the impact on the performance of the 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

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

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

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

AUDITOR'S REPORT

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(3) of the Accounts and Audit Regulations 2011.

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 2012 and up to the date of approval of the Statement of Accounts for 2011/12.

3. **The Council's Governance Framework**

The requirement to have a robust governance framework and sound system of internal control covers all of the council's activities. The internal control environment within the council consists of a number of different key elements, which taken together contribute to the overall corporate governance framework. The key elements of the governance framework within the council consist of strategic planning processes, political and managerial structures and processes, management and decision making processes, policies and guidance, financial management, compliance arrangements, risk management, internal audit, counter fraud activities, performance management, consultation and communication methods and partnership working arrangements.

Strategic Planning Processes

The council has in place a strategic planning process, informed by community and member consultation, that reflects political and community objectives and acts as the basis for corporate prioritisation. The council's Council Plan expresses the council's priorities until 2015 and priorities and associated milestones are refreshed each year. The council has also developed a standard directorate and service planning process which integrates priority setting with resource allocation and performance management.

Political and Managerial Structures and Processes

The full Council is responsible for agreeing overall policies and setting the budget. The Cabinet, which meets monthly, is responsible for decision making within the policy and budget framework set by full Council. The Corporate Management Team (CMT), which meets weekly, has responsibility for implementing council policies and decisions, providing advice to members and for coordinating the use of resources and the work of the council's directorates. The Cabinet and CMT monitor and review council activity to ensure corporate compliance with governance, legal and financial requirements. The Chief Finance Officer (Director of CBSS) and the Monitoring Officer (Head of Legal and ICT) review reports before they are presented to the Cabinet to ensure that all legal, financial and other governance issues have been adequately considered.

The council implemented new scrutiny arrangements during 2009/10 and continues to seek to develop these arrangements.

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

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 is included as a priority theme, ensuring that the organisation is adequately equipped to deal with financial, organisational, employee and Customer priorities. Over the last year a Workforce Strategy has been approved which sets out the way the Council will develop the skills of our staff to effectively deliver our priorities.

Corporate management and leadership at officer level is lead by CMT, and is supported and developed through the Corporate Leadership Group.(CMT plus Assistant Directors). Decisions are operated in accordance with the Council's constitution.

Policies and Guidance

Specific policies and written guidance exist to support the corporate governance arrangements and include:

- The council's Constitution
- Codes of Conduct for Council Members and Council Officers
- Protocol on Officer/Member Relations
- Financial Regulations and Procurement Rules
- Member and Officer Schemes of delegation
- Registers of Council Members' interests, gifts and hospitality
- Registers of Council Officers' interests, gifts and hospitality
- Corporate policies, for example those relating to 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.

ANNUAL GOVERNANCE STATEMENT

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 2011. The service in 2011/12 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 2011/12. This includes establishing the Business Intelligence Hub, within the Office of the Chief Executive. It has a Performance Management Framework (PMF), which sets out the formal arrangements for effective performance management at a directorate and corporate level, including both service and financial based monitoring. During 2011/12 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.

Finance and Performance monitoring is reported regularly at CMT and Cabinet, and there is ongoing regular discussion of financial performance at CMT to ensure that the Council is able to manage the major savings programmes.

Consultation and Communication Methods

The council communicates the vision of its purpose and intended outcomes for all stakeholders to enable accountability and encourage open consultation. To enable this, analysis of the council's stakeholders is undertaken and relevant and effective channels of communication are developed. The Council has in place an Engagement Strategy. Examples of communication and consultation include:

- communication of community and corporate strategies
- publishing an annual Statement of Accounts and Performance Report to inform stakeholders and services users of the previous year's achievements and outcomes
- the annual report on the performance of the scrutiny function
- opportunities for the public to engage effectively with the council including attending meetings
- regular residents' surveys

The Council's Governance Framework cont'd

- publications such as Your Voice 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 ensures that the responsibilities are clearly defined to ensure that the relationship works effectively, for the benefit of service users. 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), 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
- the outcomes of service improvement reviews and performance management processes
- progress in dealing with control issues identified in the 2010/11 Annual Governance Statement.

5. **Significant Governance Issues**

The financial pressures facing the Council naturally represent a potential risk to the Council's overall Governance arrangements. Savings have had to be made in many areas that form a part of the Governance Framework, including reductions in finance, ICT, performance, ward committees, performance, and internal audit, and significant further savings across all areas will be required. Whilst crucial elements of the framework will be prioritised, there will be need to keep under review the overall impact of budget reductions to ensure that the overall Governance Framework remains effective.

In considering the significant internal control issues contained within the 2010/11 AGS, it is noted that the following enhancements have been achieved:

- Officer Code of Conduct awareness including a revision of current procedures such as the Whistleblowing Policy and Gifts and Hospitality
- Further development of effective processes for bank reconciliations. Progress has been made in this area to secure further control and assurance around the bank reconciliation process. It is recognised that although issues remain around the use of control accounts, this is not a matter relevant for inclusion as a significant governance issue within this statement.
- Improvements in procurement activity and contract control and management, including the introduction of a new electronic contract register

In addition to the above, a number of issues referred to in the 2010/11 AGS have been partially actioned in 2011/12 and will be further progressed during 2012/13 and beyond (through the named lead area). Whilst no new items have been identified through the effectiveness review at Section 4 above, there has been a refocus on a number of existing issues below to take into account new developments. The following items will be monitored by OGG during 2012/13 for evidence of improvement.

- Embedding of project and programme management. Embedding of the processes is necessary across all projects in terms of managing project risks particularly in light of the number of new projects due to take place across the council in the near future (Office of the Chief Executive)
- Partnership governance including shared use of resources. While the council has strong strategic partnership arrangements, further work is needed to embed corporate controls over operational partnerships to ensure risks are well managed and partnership arrangements represent good value for money (Councilwide)
- Further improvements to officer and member decision-making processes in light of the recent significant organisational changes (CBSS)
- Compliance with Financial Regulations and Contract Procedure Rules to ensure lawful, effective and efficient use of the council's resources in relation to procuring goods and services; in particular the raising of purchase orders for all relevant items of expenditure (CBSS)
- Information Governance including compliance with the requirements of the Information Governance Strategic Framework, including ensuring that information security requirements are adhered to (CBSS)
- A refocus on Business Continuity, in particular a focus on the Council move to the new offices (West Offices Project Plan)

ANNUAL GOVERNANCE STATEMENT

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 K. England Chief Executive	Dated
Signed Cllr J. Alexander Leader of the Council	Dated

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 2012 and its income and expenditure for the year ended 31 March 2012. These audited accounts replace the un-audited statement of accounts previously published on 30 June 2012.

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

CORE FINANCIAL STATEMENTS

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

	Note	2011/12 Gross Exp. £000's	2011/12 Income £000's	2011/12 Net Exp. £000's	2010/11 Gross Exp. £000's	2010/11 Income £000's	2010/11 Net Exp. £000's
Service Costs							
Central Services to the Public		**21,850**	**(16,252)**	**5,598**	15,314	(6,858)	8,456
Cultural Services		**16,277**	**(3,441)**	**12,836**	12,700	(3,727)	8,973
Environmental Services		**22,430**	**(6,042)**	**16,388**	18,935	(636)	18,299
Planning Services		**6,894**	**(2,736)**	**4,158**	6,971	(2,205)	4,766
Children's and Education Services		**195,175**	**(130,855)**	**64,320**	190,411	(154,058)	36,353
Highways, Roads and Transport Services		**20,801**	**(10,215)**	**10,586**	30,561	(13,264)	17,297
Local Authority Housing - revaluation losses: loss on dwellings		**-**	**-**	**-**	104,498	-	104,498
Local Authority Housing - settlement payment to Government for HRA self-financing		**121,550**	**-**	**121,550**	-	-	-
Local Authority Housing - Other		**19,960**	**(30,809)**	**(10,849)**	24,958	(25,594)	(636)
Housing Services (General Fund)		**54,117**	**(47,274)**	**6,843**	53,334	(45,882)	7,452
Adult Social Care		**79,897**	**(22,363)**	**57,534**	65,011	(20,280)	44,731
Corporate and Democratic Core		**3,592**	**(50)**	**3,542**	4,281	(25)	4,256
Non-Distributed Costs - change in inflation factor for retirement benefits		**1,470**	**(1,514)**	**(44)**	935	(28,142)	(27,207)
Non-Distributed Costs - Other		**68**	**(15)**	**53**	192	(15)	177
Exceptional Items		**8**	**(36)**	**(28)**	21	(753)	(732)
Cost of Services		**564,089**	**(271,602)**	**292,487**	528,122	(301,439)	226,683
Other Operating Expenditure	(9)	**4,254**	**(3,578)**	**676**	8,768	(7,469)	1,299
Financing and Investment Income and Expenditure	(10)	**14,462**	**(3,037)**	**11,425**	38,399	(26,938)	11,461
Taxation and Non-Specific Grant Income	(11)	**-**	**(157,512)**	**(157,512)**	-	(152,720)	(152,720)
(Surplus)/Deficit on Provision of Services		**582,805**	**(435,729)**	**147,076**	575,289	(488,566)	86,723
Surplus/loss arising on the revaluation of property, plant and equipment assets	(26)			**(47,626)**			2,808
Surplus/loss arising on the revaluation of available-for-sale financial assets				**-**			-
Actuarial (gains)/losses relating to pensions				**30,833**			(23,402)
Other Comprehensive Income and Expenditure				**(16,793)**			(20,594)
Total Comprehensive Income and Expenditure				**130,283**			66,129

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 2010		**(13,726)**	**(15,878)**	**(8,880)**	**(1,783)**	**(803)**	**(154)**	**(1,843)**	**(43,067)**	**(464,285)**	**(507,352)**
Changes for Heritage Assets										**(38,026)**	**(38,026)**
RESTATED Balance at 31		**(13,726)**	**(15,878)**	**(8,880)**	**(1,783)**	**(803)**	**(154)**	**(1,843)**	**(43,067)**	**(502,311)**	**(545,378)**
Movement in Reserves during 2010/11											
Surplus /(Deficit) on Provision of Services		(18,108)	-	104,831	-	-	-	-	86,723	-	86,723
Other Comprehensive Income and Expenditure movement		-	-	-	-	-	-	-	-	(20,594)	(20,594)
Total Comprehensive Expenditure and Income		(18,108)	-	104,831	-	-	-	-	86,723	(20,594)	66,129
Adjustments between accounting basis & funding basis under regulations	7	16,389	213	(106,686)	-	136	(836)	529	(90,255)	90,255	-
Net Increase/Decrease before Transfers to Earmarked Reserves		(1,719)	213	(1,855)	-	136	(836)	529	(3,532)	69,661	66,129
Transfers to/from Earmarked Reserves	8	734	(734)	337	(337)		-	-	-	-	-
Increase/Decrease in Year		(985)	(521)	(1,518)	(337)	136	(836)	529	(3,532)	69,661	66,129
Balance at 31 March 2011 carried forward		**(14,711)**	**(16,399)**	**(10,398)**	**(2,120)**	**(667)**	**(990)**	**(1,314)**	**(46,599)**	**(432,650)**	**(479,249)**
Balance at 31 March 2011		**(14,711)**	**(16,399)**	**(10,398)**	**(2,120)**	**(667)**	**(990)**	**(1,314)**	**(46,599)**	**(432,650)**	**(479,249)**
Movement in Reserves during 2011/12											
Surplus /(Deficit) on Provision of Services		35,601	-	111,475	-	-	-	-	147,076	-	147,076
Other Comprehensive Income and Expenditure movement		-	-	-	-	-	-	-	-	(16,793)	(16,793)
Total Comprehensive Expenditure and Income		35,601	-	111,475	-	-	-	-	147,076	(16,793)	130,283
Adjustments between accounting basis & funding basis under regulations	7	(38,995)	-	(112,246)	-	93	(2)	(3,282)	(154,432)	154,432	-
Net Increase/Decrease before Transfers to Earmarked Reserves		(3,394)	-	(771)	-	93	(2)	(3,282)	(7,356)	137,639	130,283
Transfers to/from Earmarked Reserves	8	4,664	(4,664)	358	(358)	-	-	-	-	-	-
Increase/Decrease in Year		1,270	(4,664)	(413)	(358)	93	(2)	(3,282)	(7,356)	137,639	130,283
Balance at 31 March 2012 carried forward		**(13,441)**	**(21,063)**	**(10,811)**	**(2,478)**	**(574)**	**(992)**	**(4,596)**	**(53,955)**	**(295,011)**	**(348,966)**

Amount of General Fund Balance held by governors under schemes to finance schools	£ 7,046k
Amount of General Fund Balance generally available for new expenditure	£ 6,395k
Total General Fund Balance	£13,441k

BALANCE SHEET

	Note	31 March 2012 £000's	31 March 2011 Restated £000's
Property, Plant and Equipment	(12)	**698,952**	658,686
Investment Property	(14)	**38,700**	43,026
Intangible Assets	(15)	**2,311**	2,162
Heritage Assets	(13)	**38,757**	38,758
Long - Term Investments	(39)	**1,215**	1,215
Long - Term Debtors		**4,468**	4,318
LONG - TERM ASSETS		**784,403**	748,165
Short-Term Investments	(16)	**10,000**	24,046
Assets Held for Sale	(22)	**1,335**	0
Inventories	(17)	**458**	494
Short-Term Debtors	(19)	**24,757**	21,009
Cash and Cash Equivalents	(21)	**21,459**	20,405
CURRENT ASSETS		**58,009**	65,954
Short-Term Borrowing	(16)	**(10,002)**	(11,942)
Provisions due to be settled within 12 months	(24)	**(5,821)**	(4,729)
Short-Term Creditors	(23)	**(33,992)**	(37,895)
CURRENT LIABILITIES		**(49,815)**	(54,566)
Long-Term Creditors		**(28)**	(28)
Provisions	(24)	**(2,768)**	(2,120)
Long-Term Borrowing		**(252,766)**	(122,181)
Other Long-Term Liabilities		**(6,135)**	(7,902)
Capital Grants Receipts in Advance		**0**	0
Liability related to Defined Benefit Pension Scheme		**(181,934)**	(148,073)
LONG-TERM LIABILITIES		**(443,631)**	(280,304)
NET ASSETS		**348,966**	479,249
RESERVES			
Usable Reserves	(25)		
Capital Receipts Reserve		**992**	990
General Fund Balance		**13,441**	14,711
Housing Revenue Account Reserve		**10,811**	10,398
Major Repairs Reserve		**574**	667
Capital Grants Unapplied		**4,596**	1,314
Earmarked Reserves		**23,541**	18,519
		53,955	46,599
Unusable Reserves	(26)		
Revaluation Reserve		**130,372**	83,517
Capital Adjustment Account		**353,785**	502,736
Available-for-sale Financial Instruments Reserve		**0**	0
Financial Instruments Adjustment Account		**(2,060)**	(2,173)
Pensions Reserve		**(181,934)**	(148,073)
Collection Fund Adjustment Account		**169**	1,085
Employee Benefit Adjustment Account		**(5,321)**	(4,442)
		295,011	432,650
TOTAL RESERVES		**348,966**	479,249

CASH FLOW STATEMENT

	Note	**2011/12**	2010/11 Restated
		£000's	£000's
Net (Surplus)/Deficit on the provision of Services		**147,076**	85,796
Adjustments to the Net (Surplus)/Deficit on the Provision of Services for non-cash movements	(27)	**(56,862)**	(123,777)
Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are investing and financing activities	(27)	**21,226**	25,527
Net Cash Flows from Operating Activities	(27)	**111,440**	(12,454)
Investing Activities	(28)	**28,816**	25,231
Financing Activities	(29)	**(141,310)**	(15,729)
Net (Increase)/Decrease in Cash and Cash Equivalents		**(1,054)**	(2,952)
Cash and Cash Equivalents at the beginning of the reporting period		**(20,405)**	(17,453)
Cash and Cash Equivalents at the end of the reporting period		**(21,459)**	(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 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting 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 highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the 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.

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 appropriate Service 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.

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.

XII. Heritage Assets

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

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

All categories of heritage assets increase the knowledge, understanding and appreciation of the Authority's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets, further detail is provided below.
The accounting policies in relation to intangible heritage assets are not included in this document as no intangible heritage assets have been identified. All heritage assets are tangible.

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

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

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

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

Art Collection - including paintings (both oil and watercolour) and sketches, is reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations were last updated over 10 years ago and are deemed adequate to be maintained at this level for current insurance valuation purposes, therefore been included on the balance sheet on this basis. The art collection is deemed to have indeterminate life and a high residual value, hence the Authority does not consider it appropriate to charge depreciation.

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

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

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

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

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

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

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

XIII. Intangible Assets

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

XIV. 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.

XV. 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.

XVI. 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.

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.

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 Service Reporting Code of Practice 2011/12. 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.

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.

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 2011/12 the **Invest to Save Fund** was merged with the Venture Fund as the common objective of both these funds was to meet efficiency and Strategic procurement programmes over the coming financial years,.

The Department for Communities and Local Government (DCLG) has changed the HRA subsidy arrangements. 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.

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. Carbon Reduction Commitment Allowances

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in accounting policy in relation to the treatment of IFRS 7 Financial Instruments: Disclosures (Transfers of Financial Assets) held by the Authority, which will need to be adopted fully by the Authority in the 2012/13 financial statements.

The 2011/12 Code and 2011/12 Code Update requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. In addition, it requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

The amendments to IFRS 7-Financial Instruments: Disclosures (transfers of financial assets) are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the authority's financial position. However, CIPFA/LASAAC is of the view that the transfers described by the standard do not occur frequently in local authorities. Relevant circumstances would arise where an authority retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risks and rewards of ownership.

It is not envisaged that that the treatment under IFRS 7 will be used in 2012/13 as to date circumstances have not arisen where it would apply,

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 2012 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	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.

	the useful lives assigned to assets.	
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 £8.3m

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. Material items have been disclosed on the face of the Comprehensive Income and Expenditure Statement which are the Local Authority revaluation loss on dwellings in 2010/11; The Local Authority revaluation settlement payments to the Government for HRA self-financing in 2011/12 and Non-Distributed Costs – change in inflation factor for retirement benefits in 10/11.

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 2012. 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 2012, 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 2012 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.

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. The movement in reserves statement includes the totals shown in this note.

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments between Accounting Basis and Funding Basis under Regulations – 2011/12

2011/12	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	(11,218)	-	(7,316)	-	-	-	**18,534**
Revaluation losses on Property Plant and Equipment	(37,056)	-	9,741	-	-	-	**27,315**
Movements in the market value of Investment Properties	(937)	-	-	-	-	-	**937**
Amortisation of intangible assets	(733)	-	-	-	-	-	**733**
Capital grants and contributions applied	16,833	-	402	-	-	-	**(17,235)**
Movement in the Donated Assets Account	-	-	-	-	-	-	**-**
Revenue expenditure funded from Capital under statute	(9,031)	-	-	-	-	-	**9,031**
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	(2,636)	-	(1,016)	-	-	-	**3,652**
Insertion of items not debited or credited to the Comprehensive income and Expenditure Statement:							
Statutory provision for the financing of capital investment	4,011	-	(121,550)	-	-	-	**117,539**
Capital expenditure charged against the General Fund and HRA balances	10	-	1,868	-	-	-	**(1,878)**
Adjustments primarily involving the Capital Grants Unapplied Account:							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	3,684	-	(402)	-	-	(3,282)	**-**
Appliation of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	-	**-**
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	2,625	-	1,366	-	(3,991)	-	**-**
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	-	3,577	-	**(3,577)**
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	-	-	(412)	-	412	-	-
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	-	-	5,185	(5,185)	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	5,278	-	-	**(5,278)**
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	113	-	-	-	-	-	**(113)**
Adjustment primarily involving the Pensions Reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	14,875	-	427	-	-	-	**(15,302)**
Employer's pensions contributions and direct payments to pensioners payable in the year	(17,774)	-	(506)	-	-	-	**18,280**
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	(916)		-	-	-	-	**916**
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	(845)	-	(33)	-	-	-	**878**
Total Adjustments:	**(38,995)**	**-**	**(112,246)**	**93**	**(2)**	**(3,282)**	**154,432**

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments between Accounting Basis and Funding Basis under Regulations – 2010/11

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	(10,628)	-	(7,553)	-	-	-	**18,181**
Revaluation losses on Property Plant and Equipment	(11,005)	-	(104,497)	-	-	-	**115,502**
Movements in the market value of Investment Properties	2,121	-	106	-	-	-	**(2,227)**
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:	**16,389**	**213**	**(106,686)**	**136**	**(836)**	**529**	**90,255**

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 2011/12.

	Transfers Out During Year £000's	**Transfers In During Year £000's**	**Balance at 31-Mar-12 £000's**	Balance at 31-Mar-11 £000's
General Fund				
Investment Reserves	**-**	**-**	**(1,208)**	(1,208)
Venture Fund	**-**	**(703)**	**(2,078)**	(1,375)
Developers Contributions Unapplied	**1,242**	**(1,068)**	**(4,490)**	(4,664)
Insurance Fund	**90**	**(162)**	**(1,217)**	(1,145)
Invest to Save	**566**	**-**	**-**	(566)
Miscellaneous	**2,797**	**(7,425)**	**(12,069)**	(7,441)
HRA				
53rd Week Rent	**101**	**-**	**377**	276
Voluntary Debt Repayment	**-**	**(459)**	**(2,855)**	(2,396)
	4,796	**(9,817)**	**(23,540)**	(18,519)

9. OTHER OPERATING EXPENDITURE

	2011/12	2010/11
	£'000's	£'000's
Parish council precepts	**602**	582
Levies	**-**	-
Payments to the Government Housing Capital Receipts Pool	**413**	704
Gains/losses on the disposal of non-current assets	**(339)**	13
Total	**676**	1,299

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2011/12 £'000's	2010/11 Revised £'000's
Interest payable and similar charges	**6,348**	6,463
Pensions interest cost and expected return on pensions assets	**5,395**	8,567
Interest receivable and similar income	**(765)**	(827)
Income and expenditure in relation to investment properties and changes in their fair value	**937**	(2,227)
Other investment income	**(490)**	(515)
Total	**11,425**	11,461

NOTES TO THE CORE FINANCIAL STATEMENTS

11. TAXATION AND NON SPECIFIC GRANT INCOMES

	2011/12 **£'000's**	2010/11 £'000's
Council tax income	**(73,818)**	(73,459)
Non domestic rates	**(38,017)**	(38,919)
Non-ringfenced government grants	**(28,847)**	(22,284)
Capital grants and contributions	**(16,830)**	(18,058)
Total	**(157,512)**	(152,720)

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	Surplus 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 2011	259,370	268,005	8,505	89,435	4,378	28,993	658,686	14,279
Category Adjustments	-	7,519	990	1,015	-	(10,493)	(969)	-
Revised 1 April 2011	**259,370**	**275,524**	**9,495**	**90,450**	**4,378**	**18,500**	**657,717**	**14,279**
Additions	8,391	4,694	1,048	6,421	-	20,286	40,840	13
Donations	-	-	-	-		-	-	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	8,289	46,883	-	-	712	-	55,884	1,116
Revaluation increases/ (decreases) recognised in the (Surplus)/Deficit on the Provision of services	-	(36,131)	-	-	(1,507)	-	(37,638)	(771)
Derecognition - disposals	(1,016)	-	-	-	-	-	(1,016)	-
derecognition - other	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(346)	-	-	-	-	-	(346)	-
Other movements in cost or valuation	-	-	-	-	-	-	-	-
Depreciation charge	(5,059)	(5,666)	(2,877)	(2,811)	(76)	-	(16,489)	(260)
Impairment losses/ (reversals) recognised on the Provision of Services	-	-	-	-		-	-	-
Net Book Value								
At 31 March 2012	**269,629**	**285,304**	**7,666**	**94,060**	**3,507**	**38,786**	**698,952**	**14,377**

NOTES TO THE CORE FINANCIAL STATEMENTS

Comparative Movements in **2010/11:**

RESTATED	Council dwellings £000's	Other land and buildings £000's	Vehicles, plant furniture & equipment £000's	Infra-structure Assets £000's	Surplus 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	270,760	7,097	80,486	4,082	20,320	756,822	14,513
Category Adjustments	-	4,888	1,803	3,538	368	(12,074)	(1,477)	-
Revised 1 April 2010	**374,077**	**275,648**	**8,900**	**84,024**	**4,450**	**8,246**	**755,345**	**14,513**
Additions	7,039	4,505	2,815	7,997	4	20,747	43,107	20
Donations	-	-	-	-		-	-	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(7,772)	5,542	-	-	-	0	(2,230)	-
Revaluation increases/ (decreases) recognised in the (Surplus)/Deficit on the Provision of services	(104,038)	(11,479)	-	-	-	-	(115,517)	-
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)	(4,711)	(3,210)	(2,586)	(76)	-	(17,932)	(254)
Impairment losses/ (reversals) recognised on the Provision of Services	-	-	-	-		-	-	-
Net Book Value								
At 31 March 2011	**259,370**	**268,005**	**8,505**	**89,435**	**4,378**	**28,993**	**658,686**	**14,279**

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 2012, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years budgeted to cost c£2.2m. Similar commitments as 31 March 2011 were 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.

The last full valuation of council dwellings was done in 2010/11 and the actual valuation figure is shown in the table below. Desktop reviews are done on the interim years, and the valuation from the 2011/12 desktop review for council dwellings was £259,970k.

The individual assets in the category other land and buildings / surplus assets are only re-valued once every five years. If any assets have been re-valued more frequently, then they may appear twice in the table below.

	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	-	-	7,692	94,060	-	-
Valued at Fair Value as at:						
31-Mar-12	-	230,658	-	-	4,720	235,378
31-Mar-11	260,276	62,706	-	-	168	323,150
31-Mar-10	-	41,149	-	-	17,330	58,479
31-Mar-09	-	32,419	-	-	3,296	35,715
31-Mar-08	-	3,618	-	-	5,173	8,791
Total Cost or Valuation	260,276	370,550	7,692	94,060	30,687	763,265

13. HERITAGE ASSETS

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	Heritage Properties	Art Collection	Civic Regalia	Mansion House Collection	Castle Museum Collections	TOTAL
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
1 April 2010 - Category Adj from PPE & IP	1,552	-	-	-	-	1,552
Existing assets revalued to Heritage Assets	(206)	-	-	-	-	(206)
Inclusion of new Heritage Assets	473	30,405	145	6,229	924	38,176
Restated 1 April 2010	1,819	30,405	145	6,229	924	39,522
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Revaluations	(64)	-	-	-	-	(64)
Impairment Losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-
Impairment Losses / (reversals) recognised in the Surplus or Deficit on the Provision of	(721)	-	-	-	-	(721)
Depreciation	20	-	-	-	-	20
31 March 2011	**1,054**	**30,405**	**145**	**6,229**	**924**	**38,757**
Cost or Valuation						
1 April 2011	1,054	30,405	145	6,229	924	38,757
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-
Impairment Losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-
Impairment Losses / (reversals) recognised in the Surplus or Deficit on the Provision of Services	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
31 March 2012	**1,054**	**30,405**	**145**	**6,229**	**924**	**38,757**

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

Heritage Asset Category	Valuation Date	Valuation Method	External Valuer	Significant Limitations
Heritage property	01/4/2011	Fair value market value or replacement cost (if no market value exists)	Internal – qualified property valuer	None
Art Collection	01/04/1999	Insurance valuation	Unknown	Date of valuation is still deemed current for insurance purposes due to unique specific nature
Civic Regalia and Mansion House Collection	05/02/2007	Antiques & Fine Art Valuer – Adam N Schoon	External	None
Castle Museum Collection	01/04/1999	Insurance Valuation	Unknown	Valuation is deemed as reliable for balance sheet purposes

Heritage Properties

There are a number of properties included in the fixed asset register which have been re-valued as heritage assets under the CIPFA Code introduced in 2011/12 and included in the accounts retrospectively.

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

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

(e) Medieval City Walls and Bars
(f) Yorkshire Museum and Gardens and Hospitium
(g) Abbey Walls – Marygate and Bootham
(h) Roman Multangular Tower and adjoining Walls

Art Collection
The Authority's collection of art is located at the City Art Gallery and is reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are updated periodically and the current valuation is deemed adequate for inclusion within the Accounts.

Mansion House Collection and Civic Regalia
An external Antiques & Fine Art valuer carried out a full valuation of the Mansion House and Civic Regalia in February 2007. This valuation remains current market value and is included at the Balance Sheet date. The valuation details all contents of the Mansion House and details all items individually including furniture, pictures, works of art, ceramics, glass, clocks / barometers, porcelain etc.

Specifically the Regalia includes the Bowes Sword, the Emperor Sigismund's Sword, the Great Mace, the Lady Mayoress' staff of Honour, the Lord mayor's gold chain of office

Museum Collections
Both Castle Museum and Yorkshire Museum are incorporated into museum's Trust which is a separate charitable organisation. The Museums collections have been considered as part of the Council's heritage assets as the ownership / responsibility for the collections is with the Council.
Castle Museum has a relatively low insurance valuation included on the Balance Sheet as the nature of the museum is that of a social history collection and therefore many items are of low value.

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

Additions/ Disposal of Heritage Assets
There were no additions or disposals of heritage Assets in 2011/12 or 2010/11.

14. INVESTMENT PROPERTY

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

	2011/12 £000's	2010/11 £000's
Commercial Rental income from investment property	**(3,279)**	(3,166)
Commercial Direct operating expenses arising from investment property	**523**	490
Net Gain/ (loss)	**(2,756)**	(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.

	2011/12 **£000's**	2010/11 Restated £000's
Balance at start of the year	**43,026**	44,247
Additions	**4**	24
Disposals	**(2,625)**	(3,396)
Net gain or loss on Fair Value	**(937)**	2,227
Transfers:		
to/ from Inventories	**-**	-
to/ from Property, Plant & Equipment	**232**	4
to/ from Heritage Assets	**-**	(80)
to/ from Assets Held for Sale	**(1,000)**	-
Other changes	**-**	-
Balance at end of year	**38,700**	43,026

The 2010/11 figures for Investment Properties have been restated following the adoption of FRS30 Heritage Assets, as required by the Code of Practice for Local Authority Accounting in the United Kingdom 2011/12.

15. 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 2011/12 was £733k (2010/11 was £1,115k).

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	2011/12 Internally Generated Assets £000	2011/12 Other Assets £000	2011/12 Total £000	2010/11 Internally Generated Assets £000	2010/11 Other Assets £000	2010/11 Total £000
Balance at start of year:						
- Gross carrying amounts	**-**	**8,502**	**8,502**	-	7,439	7,439
Category Adjustments	**-**	**737**	**737**	-	-	-
- Accumulated amortisation	-	**(6,340)**	**(6,340)**	-	(5,225)	(5,225)
Net carrying amount at the start of the year	**-**	**2,899**	**2,899**	-	2,214	2,214
Additions:						
- Internal development	**-**	**-**	**-**	-	-	-
- Purchases	**-**	**145**	**145**	-	1,063	1,063
- 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	**-**	**(733)**	**(733)**	-	(1,115)	(1,115)
Other changes	**-**	**-**	**-**	-	-	-
Net carrying amount at the end of year	**-**	**2,311**	**2,311**	-	2,162	2,162
Comprising:						
- Gross carrying amounts	**-**	**9,384**	**9,384**	-	8,502	8,502
- Accumulated amortisation	**-**	**(7,073)**	**(7,073)**	-	(6,340)	(6,340)
	-	**2,311**	**2,311**	-	2,162	2,162

There are 5 items of capitalised software that are individually material to the financial statements:

	Carrying Amount 2011/12 £000's	Carrying Amount 2010/11 £000's	Remaining Amortisation Period
Electronic Data Management & Workflow	**309**	387	5 years
Office Upgrade 2010-11	**239**	298	5 years
Mobile Working - Installation	**207**	259	5 years
Voice & Data - Licences & Hardware	**190**	238	5 years
Electronic Data Management Interface Software	**380**	-	5 years

16. 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	
		Restated		Restated
	31-Mar-12	31-Mar-11	**31-Mar-12**	31-Mar-11
	£000's	£000's	**£000's**	£000's
Investments				
Loans and receivables		-	**10,000**	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	**10,000**	24,046
Debtors				
Loans and receivables	**4,468**	4,318	**24,756**	21,009
Financial assets carried at contract amounts		-		-
Total Debtors	**4,468**	4,318	**24,756**	21,009
Borrowings				
Financial Liabilities at amortised cost	**(252,766)**	(122,181)	**(10,002)**	(11,942)
Financial Liabilities at fair value through profit and loss		-		-
Total Borrowings	**(252,766)**	(122,181)	**(10,002)**	(11,942)
Other Long Term Liabilities				
PFI liabilities	**(5,754)**	(5,917)		
finance lease liabilities	**(381)**	(947)	**(714)**	(1,039)
Total other long term liabilities	**(6,135)**	(6,864)	**(714)**	(1,039)
Creditors				
Financial liabilities at amortised cost		-		-
Financial liabilities carried at contract amount		-	**(33,992)**	(37,895)
Total Creditors	**-**	-	**(33,992)**	(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.

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-12		31-Mar-11	
	Carrying amount £000's	**Fair value £000's**	Carrying amount £000's	Fair Value £000's
PWLB debt	**(242,290)**	**(270,802)**	(108,617)	(114,493)
Non-PWLB debt	**(20,378)**	**(23,220)**	(25,405)	(26,988)
Total debt	**(262,668)**	**(294,022)**	(134,022)	(141,481)
Long term creditors	(28)	(28)	-	-
Total Financial liabilities	**(262,696)**	**(294,050)**	(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-12		31-Mar-11	
			Restated	Restated
	Carrying amount £000's	**Fair value £000's**	Carrying amount £000's	Fair Value £000's
Money market loans < 1yr	**26,319**	**26,319**	35,346	35,346
Money market loans > 1yr	**-**	**-**	-	-
Bonds	**-**	**-**	-	-
Long term trade debtors	**1,686**	**1,686**	1,085	1,085
Total Loans and receivables	**28,005**	**28,005**	36,431	36,431

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.

17. INVENTORIES

	Consumable Stores		Maintenance Materials		Client Services Work In Progress		Total	
	2011/12 '£000's	2010/11 '£000's	**2011/12 '£000's**	2010/11 '£000's	**2011/12 '£000's**	2010/11 '£000's	**2011/12 '£000's**	2010/11 '£000's
Balance Outstanding at 1 April	**490**	494	**-**	-	**5**	12	**495**	506
Purchases	**404**	369	**-**	-	**-**	-	**404**	369
Recognised as an Expense in theYear	**(387)**	(339)	**-**	-	**2**	(7)	**(385)**	(346)
Written Off Balances	**(56)**	(34)	**-**	-	**-**	-	**(56)**	(34)
Reversals of Write Offs in Previous Years	**-**	-	**-**	-	**-**	-	**-**	-
Balance Outstanding at 31 March	**451**	490	**-**	-	**7**	5	**458**	495

18. CONSTRUCTION CONTRACTS

At 31 March 2012 the authority has no construction contracts in progress that requires revenue to be recognised in the accounting period. Accordingly no contingent assets or liabilities are required to be recorded.

19. DEBTORS

	Balance at 31-Mar-12 £000's	Balance at 31-Mar-11 £000's
Central Government Bodies	**3,891**	6,023
Other Local Authorities	**356**	1,135
NHS Bodies	**802**	1,487
Public Corporations	**42**	356
Other Entities and Individuals	**24,542**	15,803
	29,633	24,804
Provision for Bad and Doubtful Debts	**(4,876)**	(3,795)
Total Debtors	**24,757**	21,009

NOTES TO THE CORE FINANCIAL STATEMENTS

20. LONG TERM DEBTORS

	Expenditure During Year £000's	Income During Year £000's	Balance at 31-Mar-12 £000's	Balance at 31-Mar-11 £000's
Employee Loans	-	(120)	229	349
Council House Mortgages	-	-	13	13
Housing Act Advances	-	-	13	13
Prepayment - PFI scheme	-	(81)	976	1,057
PFI - Residual Value Asset	79	-	360	281
PFI - Sculpting Prepayment	273	-	2,212	1,939
Other	40	(41)	665	666
	392	(242)	4,468	3,969

21. CASH AND CASH EQUIVALENTS

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

	Balance at 31-Mar-12 £000's	Balance at 31-Mar-11 £000's
Cash Held by the Authority	9,653	10,042
Short Term Deposits	16,319	11,300
Bank Current Accounts	(4,513)	(937)
Total Cash and Cash Equivalents	**21,459**	**20,405**

22. ASSETS HELD FOR SALE

NOTES TO THE CORE FINANCIAL STATEMENTS

	Current		Non Current	
	2011/12	2010/11	**2011/12**	2010/11
	£000's	£000's	**£000's**	£000's
Balance outstanding at start of year	**-**	-	**-**	-
Assets newly classified as held for sale:				
- Property, Plant and Equipment	**346**	-	**-**	-
- Investment Properties	**1,000**			
- Intangible Assets	**-**	-	**-**	-
- Other assets/ liabilities in disposal groups	**-**	-	**-**	-
Revaluation losses	**(11)**	-	**-**	-
Revaluation gains	**-**	-	**-**	-
Impairment losses	**-**	-	**-**	-
Assets declassified as held for sale:				
- Property, plant and Equipment	**-**	-	**-**	-
- Intangible Assets	**-**	-	**-**	-
- Other assets/ liabilities in disposal groups	**-**	-	**-**	-
Assets sold	**-**	-	**-**	-
Transfers from non-current to current	**-**	-	**-**	-
[Other movements]	**-**	-	**-**	-
Balance outstanding at year-end	**1,335**	-	**-**	-

23. CREDITORS

	Balance at 31-Mar-12 £000's	Balance at 31-Mar-11 £000's
Central Government Bodies	**(7,001)**	(8,076)
Other Local Authorities	**(525)**	(3,783)
NHS Bodies	**(265)**	(495)
Public Corporations	**(5)**	(1,616)
Other Entities and Individuals	**(25,448)**	(23,925)
Total Creditors	**(33,243)**	**(37,895)**

24. PROVISIONS

	Employee Absences £000's	Insurance Fund £000's	Equal Pay £000's	Other Provisions £000's	Total £000's
Balance at 1 April 2011	(4,442)	(1,527)	(828)	(51)	(6,848)
Additional provisions made in 2011/12	(5,321)	(364)	(574)	(224)	(6,483)
Amounts Used In 2011/12	-	243	57		300
Unused amounts reversed in 2011/12	4,442	-	-		4,442
Unwinding of discounting in 2011/12	-	-	-		-
Balance at 31 March 2012	**(5,321)**	**(1,648)**	**(1,345)**	**(275)**	**(8,589)**

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 2011	(4,442)	(284)	-	(2)	(4,728)
Additional provisions made in 2011/12	(5,321)	(233)	-	(224)	(5,778)
Amounts Used In 2011/12	-	243	-	-	243
Unused amounts reversed in 2011/12	4,442	-	-	-	4,442
Unwinding of discounting in 2011/12	-	-	-	-	-
Balance at 31 March 2012	**(5,321)**	**(274)**	**-**	**(226)**	**(5,821)**

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.

25. USABLE RESERVES

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

26. 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.

	2011/12		2010/11 Restated	
	£000's	**£000's**	£000's	£000's
Balance at 1 April		**(83,517)**		(50,174)
Adjustment for Heritage Asset Category change	**-**		(38,696)	
Revised Balance at 1 April		**(83,517)**		(88,870)
Upward revaluation of assets	**(60,016)**		(8,836)	
Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	**12,390**		11,643	
(Surplus)/deficit on revaluation of non-current assets not posted to the (Surplus)/Deficit on the Provision of Services		**(47,626)**		2,807
Difference between fair value depreciation and historical cost depreciation	**744**		1,031	
Accumulated gains on assets sold or scrapped	**-**		1,515	
Amount written off to the Capital Adjustment Account		**744**		2,546
Properties RR movement with CAA		**27**	-	
Balance at 31 March		**(130,372)**		(83,517)

The 2010/11 balance at 1 April 2010 has been restated as a result of the introduction of the fixed asset register category - Heritage Assets and also a restatement of the fixed asset register between land and buildings.

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

	2011/12	2010/11 Revised
	£000's	£000's
Balance at 1st April	**(502,736)**	**(619,719)**
Prior year adjustments (including Heritage Assets)	**-**	**9,174**
Revised Balance at 1 April	**(502,736)**	**(610,545)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non current assets	**18,456**	18,181
Revaluation losses on Property, Plant and Equipment	**27,315**	115,502
Amortisation of intangible assets	**733**	1,115
Revenue expenditure funded from capital under Statute	**9,031**	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	**3,652**	7,482
	59,187	152,354
Adjusting amounts written out of the Revaluation Reserve	**(744)**	(2,546)
Net written out amount of the cost of non-current assets consumed in the year	**58,443**	**149,808**
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	**(3,577)**	(5,929)
Use of the Major Repairs Reserve to finance new capital expenditure	**(5,278)**	(5,379)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	**(17,235)**	(21,523)
Application of grants to capital financing from the Capital Grants Unapplied Account	**-**	(529)
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	**(4,011)**	(6,013)
Statutory provision for the financing of the HRA subsidy	**121,550**	-
Capital expenditure charged against the General Fund and HRA balances	**(1,878)**	(399)
	89,571	(39,772)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**937**	(2,227)
Balance at 31 March	**(353,785)**	**(502,736)**

Financial Instruments Adjustment Account

NOTES TO THE CORE FINANCIAL STATEMENTS

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. [The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the liability balance on the Account at 31 March 2012 will be £2.054m charged to the General Fund over the next 13 years.

	2011/12		2010/11	
	£000's	**£000's**	£000's	£000's
Balance at 1st April		**(2,173)**		(2,198)
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	**182**		183	
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	**(69)**		(158)	
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		**113**		25
Balance at 31st March		**(2,060)**		(2,173)

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-Mar-12	31-Mar-11
	£000's	£000's
Balance at 1 April	**148,073**	189,978
Acturial gains or losses on pensions assets and liabilities	**30,883**	(23,402)
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	**18,280**	(2,716)
Employer's pensions contributions and direct payments to pensioners payable in the year.	**(15,302)**	(15,787)
Balance at 31 March	**181,934**	**148,073**

Collection Fund Adjustment Account

NOTES TO THE CORE FINANCIAL STATEMENTS

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-Mar-12	31-Mar-11
	£000's	£000's
Balance at 1 April	**(1,085)**	(975)
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	**916**	(110)
Balance at 31 March	**(169)**	**(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.

	2011/12		2010/11	
	£000's	**£000's**	£000's	£000's
Balance at 1 April		**4,442**		5,903
Steelement or cancellation of accrual made at the end of the preceding year	**(4,442)**		(5,903)	
Amounts accrued at the end of the current year	**5,321**		4,442	
		879		(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		**0**		-
Balance at 31 March		**5,321**		**4,442**

27. CASHFLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	Balance at 31-Mar-12 £000's	Balance at 31-Mar-11 £000's
Interest received	**(787)**	(802)
Interest paid	**5,753**	6,325
Dividends received	**(226)**	(515)

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	31-Mar-12 £000's	31-Mar-11 Restated £000's
Depreciation, Impairment and Amortisation of fixed assets	**(57,059)**	(131,645)
Increase in Impairment for bad debt provision	**-**	-
Increase/(decrease) in stocks and works in progress	**(37)**	(11)
Increase/(decrease) in debtors	**3,921**	(5,980)
(Increase)/decrease in creditors	**3,840**	1,284
Pension Liability		
Net Charge to the CIES	**15,302**	2,716
Employers contributions to pension funds and direct payments to pensioners	**(18,280)**	15,787
Contribution from the Capital Reciepts Reserve to finance Payments to the Government Receipt Pool	**(412)**	
Carrying amount of non-current assets sold	**(3,652)**	(7,482)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services		
Provisions	**(1,740)**	1,554
Movements in the value of investment properties	**1,255**	-
Amounts posted from the Donated Assets Account	**-**	-
Adjustment to the Net Surplus or Deficit on Provision of Services for non-cash movements	**(56,862)**	(123,777)

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:

	31-Mar-12 £000's	31-Mar-11 Restated £000's
Purchase of short-term and long-term investments	**-**	-
Proceeds from short-term and long-term investments	**-**	-
Grants applied to the financing of capital expenditure	**17,235**	
Proceeds from sale of property, plant and equipment, investment property and intangible assets	**3,991**	7,469
Adjustments for items included in the net surplus or deficit on the Provision of Services that are investing and financing activities	**21,226**	7,469

28. CASHFLOW STATEMENT – INVESTING ACTIVITIES

	Balance at 31-Mar-12 £000's	Balance at 31-Mar-11 £000's
Purchase of property, pland and equipment, investment property and intangible assets	**50,797**	43,858
Purchase of short-term and long-term investments	**-**	6,901
Other payments for investing activities	**-**	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(3,991)**	(7,469)
Proceeds from short-term and long-term investments	**-**	-
Other receipts from investing activities	**(17,990)**	(18,058)
Net cash flows from investing activities	**28,816**	25,231

29. CASHFLOW STATEMENT – FINANCING ACTIVITIES

	Balance at 31-Mar-12 £000's	Balance at 31-Mar-11 £000's
Cash receipts of short-term and long-term borrowing	**(133,550)**	(24,165)
Other receipts from financing activities	**(14,051)**	-
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**1,291**	1,435
Repayments of short-term and long-term borrowing	**5,000**	7,000
Other payments for financing activities	**-**	-
Net cash flows from financing activities	**(141,310)**	(15,729)

30. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

However, decisions about resource allocation are taken by the 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:

NOTES TO THE CORE FINANCIAL STATEMENTS

2011/12	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	42,105	9,602	33,448	13,661	1,924	1,618	102,358
Supplies & Services	78,607	8,071	16,987	11,122	427	6,386	121,600
Recharges	9,032	2,553	5,113	1,814	278	-	18,790
Other Expenses	133,338	15,144	30,798	55,401	14	49,523	284,218
Total Expenditure	**263,082**	**35,370**	**86,346**	**81,998**	**2,643**	**57,527**	**526,966**
Fees, Charges & Other Income	(49,120)	(25,966)	(43,973)	(3,405)	(1,584)	(67,742)	(191,790)
Government Grants	(129,014)	(2,451)	(4,430)	(54,399)	-	(2,542)	(192,836)
Support Services	-	-	-	(18,415)	(374)	-	(18,789)
Total Income	**(178,134)**	**(28,417)**	**(48,403)**	**(76,219)**	**(1,958)**	**(70,284)**	**(403,415)**
Net Expenditure	**84,948**	**6,953**	**37,943**	**5,779**	**685**	**(12,757)**	**123,551**

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**

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

	2011/12 £000	2010/11 £000
Net Expenditure in Directorate Analysis	**123,551**	116,968
Net expenditure of services and support services not included in the Analysis	**(143,539)**	(140,224)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	**55,218**	118,669
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	**111,846**	(9,615)
Cost of Services in Comprehensive Income and Expenditure Statement	**147,076**	**85,798**

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

2011/12

	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	102,358	2,978			878		**106,214**
Other Service Expenses	398,948	9,947					**408,895**
Support Service Recharges	18,790	17,931		(18,790)			**17,931**
Depreciation, Amortisation & Impairment		42,331					**42,331**
Interest Payments	6,458	(113)					**6,345**
Precepts & Levies						602	**602**
Payments to Housing Capital Receipts Pool	412						**412**
Gain Or Loss On Disposal Of Fixed Assets		75					**75**
Total Expenditure	**526,966**	**73,149**	**-**	**(18,790)**	**878**	**602**	**582,805**
Fees, Charges & Other Service Income	(209,839)	(17,931)	111,846	18,790			**(97,134)**
Surplus Or Deficit On Associates & Joint Ventures							**-**
Interest & Investment Income	(740)						**(740)**
Income From Council Tax						(74,734)	**(74,734)**
Government Grants & Contributions	(192,836)				(20,517)	(49,768)	**(263,121)**
Total Income	**(403,415)**	**(17,931)**	**111,846**	**18,790**	**(20,517)**	**(124,502)**	**(435,729)**
Surplus Or Deficit On The Provision Of Services	**123,551**	**55,218**	**111,846**	**-**	**(19,639)**	**(123,900)**	**147,076**

NOTES TO THE CORE FINANCIAL STATEMENTS

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	(18,503)			(1,461)		**90,588**
Other Service Expenses	378,113	9,964					**388,077**
Support Service Recharges	18,862	(40,598)		(18,862)			**(40,598)**
Depreciation, Amortisation & Impairment		126,517					**126,517**
Interest Payments	6,497	(25)					**6,472**
Precepts & Levies						582	**582**
Payments to Housing Capital Receipts Pool	704						**704**
Gain Or Loss On Disposal Of Fixed Assets		716					**716**
Total Expenditure	**514,728**	**78,071**	**-**	**(18,862)**	**(1,461)**	**582**	**573,058**
Fees, Charges & Other Service Income	(190,187)	40,598	(9,615)	18,862			**(140,342)**
Surplus Or Deficit On Associates & Joint Ventures							**-**
Interest & Investment Income	(802)						**(802)**
Income From Council Tax						(73,349)	**(73,349)**
Government Grants & Contributions	(206,771)				(21,425)	(44,571)	**(272,767)**
Total Income	**(397,760)**	**40,598**	**(9,615)**	**18,862**	**(21,425)**	**(117,920)**	**(487,260)**
Surplus Or Deficit On The Provision Of Services	**116,968**	**118,669**	**(9,615)**	**-**	**(22,886)**	**(117,338)**	**85,798**

31. ACQUIRED AND DISCONTINUED OPERATIONS

All Authority operations are categorised as continuing operations.

NOTES TO THE CORE FINANCIAL STATEMENTS

32. TRADING OPERATIONS

The Authority had no external trading operations in 2011/12 or 2010/11. The authority has established 15 internal trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Authority or other organisations.

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 Net Cost of Services.

33. AGENCY SERVICES

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.

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 £36k (2010/11 £38k) against expenditure of £22k (2010/11 £24k).

	2011/12 £000's	2010/11 £000's
Expenditure incured providing Payroll Services	**22**	24
Fee income earned	**(36)**	(38)
Net Position	**(14)**	(14)

34. ROAD CHARGING SCHEMES

There were no schemes under the Transport Act 2000 in 2011/12, but these will continue to be considered by the Authority in future years.

35. POOLED BUDGETS

There were no pooled budgets in 2011/12, but these will continue to be considered by the Authority in future years.

36. MEMBERS' ALLOWANCES

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

	2011/12 £000's	2010/11 £000's
Allowances	**547**	543
Expenses	**10**	9
Total	**557**	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 2011/12 will be released to the press during the summer and will identify that the Authority spent £557k (2010/11 £552k) 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 £40k (2010/11 £21k) for members pensions contributions.

37. 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 2011/12 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 2011/12 £000's	Pension contrib-utions £000's	Total Remuner-ation including Pension contrib-utions 2011/12 £000's
Chief Executive		133	-	-	133	25	158
Director of City Strategy		102	-	-	102	20	122
Director of Adults, Children & Education	1	102	-	-	102	20	122
Director of Communities & Neighbourhoods	2	102	-	-	102	20	122
Director of Customer & Business Support Services	3	102	-	-	102	20	122
Assistant Director Legal Governance & IT	4	73	-	-	73	14	87
		614	-	-	614	119	733

Note 1: Director of Learning, Culture & Children's Services (2010/11) now called Director of Adults, Children & Education (2011/12)
Note 2: Director of Neighbourhood Services (2010/11) now called Director of Communities & Neighbourhoods (2011/12)
Note 3: Director of Resources (2010/11) now called Director of Customer & Business Support Services (2011/12)
Note 4: Head of Civic Democratic & Legal services (2010/11) now called AD Legal Governance & IT (2011/12)
Note 5: The salary figures include a deduction made for the one day's unpaid leave

NOTES TO THE CORE FINANCIAL STATEMENTS

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 2010/11 £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

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

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

	2011/12 Number of employees				2010/11 Number of employees			
Remuneration Band	**Officers Current**	**Officers Left during year**	**Teachers Current**	**Total**	**Officers Current**	**Officers Left during year**	**Teachers Current**	**Total**
£50,000 - £54,999	**28**	**1**	**27**	**56**	29	1	30	60
£55,000 - £59,999	**6**	**-**	**23**	**29**	6	-	20	26
£60,000 - £64,999	**1**	**-**	**10**	**11**	2	-	16	18
£65,000 - £69,999	**10**	**-**	**7**	**17**	11	-	5	16
£70,000 - £74,999	**4**	**-**	**3**	**7**	2	-	4	6
£75,000 - £79,999	**-**	**-**	**5**	**5**	-	-	4	4
£80,000 - £84,999	**-**	**-**	**1**	**1**	-	-	2	2
£85,000 - £89,999	**-**	**-**	**2**	**2**	-	-	1	1
£90,000 - £94,999	**-**	**-**	**1**	**1**	-	-	1	1

The numbers of exit packages and total cost of redundancies is collated in bands of £20k as set out in the table below:

Exit package cost band (including special payments	Number of redundancies		Total cost of exit packages in each band	
	2011/12	2010/11	**2011/12 £000's**	2010/11 £000's
£0- £20,000	**240**	56	**1,380**	459
£20,001 - £40,000	**25**	13	**695**	378
£40,001 - £60,000	**3**	2	**145**	99
£60,001 - £80,000	**1**	4	**62**	288
Total	**269**	75	**2,282**	1,224

38. 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:

	2011/12 £000's	2010/11 £000's
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	**206**	225
Fees payable to the Audit Commission in respect of statutory inspection	**-**	-
Fees payable to the Audit Commission for the certification of grant claims and returns	**52**	46
Fees payable in respect of other services provided by the appointed auditor	**7**	-
	265	271

39. 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 2011/12 the sum received is £98.523m (2010/11 £92.651m) 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 2011/12 are as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

	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	(11,956)	(94,686)	-	(106,642)
Adjustment to finalised grant allocation	576	7,412	-	7,988
DSG receivable for the year	(11,380)	(87,274)	-	(98,654)
Actual expenditure for the year	10,708	87,559	-	98,267
Over/(under) spend for the year	(672)	285	-	(387)
Over/(under) spend from prior year	-	-	-	-
Underspend carried forward to 2012/13	(672)	285	-	(387)

40. GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

	2011/12 £000's	2010/11 £000's
Credited to Taxation and Non Specific Grant Income		
Demand on Collection Fund	**(73,818)**	(73,459)
Non-Domestic Rates Redistribution	**(38,017)**	(38,919)
Revenue Support Grant	**(11,751)**	(5,651)
Area Based Grant	**-**	(14,567)
Other general grants	**(15,825)**	(2,066)
Capital Grants	**(16,830)**	(18,058)
Contributions	**(1,269)**	
Housing and Planning Act Grant	**-**	-
TOTAL	**(157,511)**	(152,720)
Credited to Services		
Supporting People	**-**	(1,039)
Homelessness	**-**	(463)
Dedicated Schools Grant Base	**(98,523)**	(92,425)
Other Standard Fund Grants	**(431)**	-
School Development Grant	**-**	(4,829)
School Standards	**-**	(4,767)
Sure Start, Early Years & Childcare	**-**	(4,184)
Dft	**(497)**	(1,527)
DEFRA	**(120)**	-
Early Years - Free Entitlement for 3-4 yr olds	**-**	(1,191)
Learning and Skills council	**-**	(1,115)
DAAT main grant	**(1,555)**	(970)
Yorkshire Forward	**(155)**	(233)
Targeted Support for Primary & Secondary Strategy	**-**	(853)
Social Care Reform Grant	**(55)**	(928)
Access to Work	**(186)**	-
Campus Grant	**(33)**	-
Young Peoples Substance Misuse	**(75)**	-
One to One Tuition	**-**	(722)
Cycle England	**-**	(615)
Think Family Grant	**-**	(579)
Extended Schools - Sustainability	**-**	(557)
YPLA	**(6,931)**	-
SFA/EFA	**(1,392)**	-
Leeds City Region	**(79)**	-
Other Grants	**(4,990)**	(5,903)
Contributions	**-**	(8,389)
DWP Council Tax, Housing Benefit & Admin Grant	**(54,118)**	-
Donations	**-**	(88)
TOTAL	**(169,140)**	(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.

NOTES TO THE CORE FINANCIAL STATEMENTS

41. 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 significant influence 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 30 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in Note 40.

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in Note 36.

During 2011/12, works and services to the value of £342k were commissioned from companies in which a total 5 members had an interest in. Contracts were entered into in full compliance with the council's standing orders

Company name	No of Members that holds an interest	Value of works commissioned by the Council £000's	Value outstanding as at 31 March 2012 £000's
York Wheels	1	123	0
North Yorkshire Credit Union	3	109	0
Yorkshire Energy Partnership Board	1	110	0

The Authority have not paid any significant grants to voluntary organisations which members had positions on the governing body that were outside of their responsibilities of carrying out the Authorities business

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

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

Officers

During 2011/12 no works and services of a significant value were commissioned from companies in which officers had an interest in outside of their Council responsibilities. All contracts were entered into in full compliance with the council's standing orders

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

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

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.

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

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

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 a representative on the Board of Representatives that manages the Company.

LONG TERM INVESTMENTS

The Authority holds a number of investments for the medium/long-term. They comprise mainly share investments in three companies: Yorwaste (£1.008m), York Science Park (£0.200m) 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.

Yorwaste
The Council has, as a result of the local government reorganisation in the area at 1 April 1996, a 22.27% share-holding in Yorwaste Limited. The majority shareholder is North Yorkshire County Council who hold the remaining 77.73%. The Company's profit and loss account is not included as part of the Comprehensive Income & Expenditure Account, however dividend income of £0k (£245k 2010/11) is included as part of the Council's income for Cultural, Environmental and Planning Services. Similarly, the Company's assets and liabilities are not in the Consolidated Balance Sheet.

The Council has a contract with Yorwaste Limited for waste disposal services. Contract prices are negotiated on an arms length commercial basis. The total value of services received in the year was £5.335m (£5.281m 2010/11) including Landfill Tax, and at 31 March 2012 there was a creditor balance of £0.487m excluding vat (£0.758m excluding vat 2010/11).

In addition the Council provides services to Yorwaste Limited that totalled £0.356m (£0.417m during 2010/11. There was a debtor outstanding at 31 March 2012 of £nil (£4k 2010/11).

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 Authority holding 50% of the shares.

The Council has a contract with Veritau Limited for the provision of internal audit, counter-fraud and information governance services. Contract prices are negotiated on an arms length commercial basis. The total value of services received in year was £657k (£671k in 10/11) and Veritau Limited paid the Authority £12k (£23k in 2010/11). As at 31 March 2012 there was a creditor balance of £30k (£0 2010/11) and a debtor balance of £2k (£3k 2010/11).

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

42. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the 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.

	2011/12	2010/11 Restated
	£000's	£000's
Opening Capital Financing Requirement	**160,397**	145,228
Capital Investment		
Property, Plant and Equipment	**40,816**	42,771
Investment Properties	**0**	24
Intangible Assets	**0**	1,063
Revenue Expenditure Funded from Capital under Statute	**9,031**	10,074
Leases / PFI	**271**	1,009
HRA Self Financing payment	**121,550**	-
Sources of Finance		
Capital Receipts	**(3,577)**	(5,929)
Government grants and other contributions	**(22,513)**	(27,431)
Direct revenue contributions	**(1,878)**	(399)
MRP (Minimum Revenue Repayment)	**(4,011)**	(6,013)
Movement in Year	**139,689**	15,169
Closing Capital Financing Requirement	**300,086**	160,397
Explanations of movement in year		
Increase in underlying need to borrow (supported by government financial assistance)	**6,961**	6,102
Increase in underlying need to borrow (unsupported by government financial assistance)	**14,918**	14,327
Assets acquired under finance leases	**271**	753
Assets acquired under PFI/ PPP contracts		-
HRA Self Financing payment	**121,550**	
MRP/ loans fund principal	**(4,011)**	(6,013)
Increase/ (decrease) in Capital Financing Requirement	**139,689**	15,169

The Capital Financing Requirement increased substantially in 2011/12 due to the increased borrowing of £121.550m to support the expenditure payment to the Secretary of State for the change in the HRA subsidy system to the HRA self financing system

43. 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:

	2011/12 £000's	2010/11 £000's
Other Land and Buildings	-	-
Vehicles, Plant, Furniture and Equipment	679	1,578
	679	1,578

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:

	2011/12 £000's	2010/11 £000's
Finance lease liabilities (net present value of minimum lease payments)		
- Current	714	1,039
- Non-current	381	947
Finance costs payable in future years	85	131
Minimum lease payments	1,180	2,117

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

	Minimum lease payments		Finance lease liabilities	
	2011/12 £000's	2010/11 £000's	2011/12 £000's	2010/11 £000's
Not later than one year	770	1,125	714	1,039
Later than one year and not later than five years	410	992	381	947
Later than five years	-	-	-	-
	1,180	2,117	1,095	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 2011/12 (2010/11 £0).

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

Operating Leases

The Authority has acquired the right to use 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:

	31-Mar-12	31-Mar-11 Restated
	£000's	£000's
Not later than one year	**1,584**	1,999
Later than one year and not later than five years	**2,150**	3,253
Later than five years	**2,996**	3,374
	6,730	8,626

The 31st March 2011 figure has been restated to reflect the re-categorisation of specific service contracts that involve the use of an asset.

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:

	2011/12	2010/11 Restated
	£000's	£000's
Minimum lease payments	**2,168**	2,753
Contingent rents	**81**	81
	2,249	2,834

The 31st March 2011 figure has been restated to reflect the re-categorisation of specific service contracts that involve the use of an asset.

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 4 and 26 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:

	2011/12	2010/11
	£000's	£000's
Finance lease debtor (net present value of minimum lease payments)		
- Current	**10**	9
- Non-current	**408**	418
Unearned finance income	**450**	481
Unguaranteed residual value of property	**-**	-
Gross Investment in the lease	**868**	908

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

	Gross Investment in the Lease		Minimum Lease payments	
	2011/12	2010/11	**2011/12**	2010/11 Restated
	£000's	£000's	**£000's**	£000's
Not later than one year	**41**	41	**10**	9
Later than one year and not later than five years	**157**	160	**41**	41
Later than five years	**670**	708	**367**	377
	868	909	**418**	427

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 2011/12 contingent rents of £124k were receivable by the Authority (2010/11 £124k).

Operating Leases

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

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

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

	2011/12	2010/11
	£000's	£000's
Not later than one year	**1,475**	1,907
Later than one year and not later than five years	**4,103**	4,974
Later than five years	**10,590**	11,521
	16,168	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 2011/12 contingent rents of £768k were receivable by the Authority (2010/11 £906k).

44. PFI AND SIMILAR CONTRACTS

The Authority has one PFI scheme for the provision of 3 primary schools with Sewell Education (York) Ltd and 2011/12 was the seventh 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 2012 (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	534	426	233	1,193
Between 2 Yrs and 5 Yrs	2,253	1,556	891	4,700
Between 6 Yrs and 10 Yrs	3,148	1,611	1,063	5,822
Between 11 Yrs and 15 Yrs	3,700	1,258	933	5,891
Between 16 Yrs and 20 Yrs	3,900	1,081	1,137	6,118
Between 21 Yrs and 25 Yrs	2,766	913	1,497	5,176
	16,301	6,845	5,754	28,900

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.

45. IMPAIRMENT LOSSES

Impairment losses are where a physical loss to the asset occurs. In comparison a revaluation loss is a reduction in market value of the asset. There was no impairment losses charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement during the year.

46. CAPITALISATION OF BORROWING COSTS

No borrowing costs were capitalised during 2011/12 as is consistent with previous years.

47. TERMINATION BENEFITS

The Authority terminated the contracts of a number of employees in 2011/12, incurring liabilities of £2,282k (£1,224k in 2010/11 restated) – See Note 37 for the number of exit packages and total cost per band. This sum is payable to officers across all of the Authority's directorates.

48. 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 2011/12 the Authority paid £9.421m (2010/11 £7.092m) to CTP in respect of teachers' retirement benefits, which represents 14.1% (2010/11 14.0%) 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 £692k (2010/11 £665k) and are fully accrued in the pensions liability described in the figures that follow in Note 49.

49. DEFINED BENEFIT PENSION SCHEMES

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

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:

NOTES TO THE CORE FINANCIAL STATEMENTS

Local Government Pension Scheme

	2011/12		2010/11	
	£000's	**£000's**	£000's	£000's
Comprehensive Income and Expenditure Statement				
Cost of Services				
Current service cost	**12,929**		15,171	
Past service cost	**-**		(27,247)	
Settlements and Curtailments	**(44)**		793	
		12,885		(11,283)
Financing and Investment Income and Expenditure				
Interest cost	**23,471**		24,414	
Expected return on assets in the scheme	**(18,076)**		(15,847)	
		5,395		8,567
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services		**18,280**		(2,716)
Other Post Employment Benefit Charged to Comprehensive I&E statement				
Actuarial gains and losses		**30,883**		(23,402)
Movement in Reserves statement				
Reversal of net charges made to the Surplus or Defecit for the Provision of Services for post employment benefits in accordance with the Code		**(18,280)**		2,716
Actual amount charged against the General Fund Balance for pensions in the year:				
Empoyers' contributions payable to scheme		**15,302**		15,787

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 loss of £30.883m (2010/11 gain of £23.402m) 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 £122.801m.

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:

NOTES TO THE CORE FINANCIAL STATEMENTS

	As at 31-Mar-12		As at 31-Mar-11	
	Local Government Pension Scheme £000's	Unfunded Teachers Scheme £000's	Local Government Pension Scheme £000's	Unfunded Teachers Scheme £000's
Balance at 1 April	**414,656**	**11,113**	420,933	10,663
Current service cost	**12,929**	**-**	15,171	-
Interest cost	**22,890**	**581**	23,846	568
Contributions by scheme participants	**4,824**	**-**	5,304	-
Actuarial (gains)/losses	**16,649**	**380**	(14,022)	1,140
Benefits/transfers paid	**(12,880)**	**(692)**	(10,715)	(665)
Past service costs	**-**	**-**	(26,599)	(648)
Curtailments	**1,165**	**302**	738	55
Settlements	**(1,602)**	**-**	-	-
Balance at 31 March	**458,631**	**11,684**	414,656	11,113

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

	As at 31-Mar-12		As at 31-Mar-11	
	Local Government Pension Scheme £000's	Unfunded Teachers Scheme £000's	Local Government Pension Scheme £000's	Unfunded Teachers Scheme £000's
Balance at 1 April	**(277,696)**	**-**	(241,618)	-
Expected rate of return	**(18,076)**	**-**	(15,847)	-
Actuarial (gains)/losses	**13,854**	**-**	(10,520)	-
Employer contributions	**(14,610)**	**(692)**	(15,122)	(665)
Contributions by scheme participants	**(4,824)**	**-**	(5,304)	-
Benefits/transfers paid	**12,880**	**692**	10,715	665
Settlements	**91**			
Balance at 31 March	**(288,381)**	**-**	(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.

The actual return on scheme assets in the year was a gain of £4.222m (2010/11 gain of £19.520m).

Scheme History

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	2007/08 Restated £000's	2008/09 £000's	2009/10 £000's	2010/11 £000's	2011/12 £000's
Present Value of Liabilities					
Local Government Pension Scheme	338,000	287,911	420,933	414,656	458,631
Unfunded Teachers Pensions	10,146	8,880	10,663	11,113	11,684
Fair Value of Assets					
Local Government Pension Scheme	(212,575)	(145,849)	(241,618)	(277,696)	(288,381)
(Surplus)/Deficit in the Scheme					
Local Government Pension Scheme	125,425	142,062	179,315	136,960	170,250
Unfunded Teachers Pensions	10,146	8,880	10,663	11,113	11,684
Total Scheme (Surplus)/Deficit	135,571	150,942	189,978	148,073	181,934

The liabilities show the underlying commitments that the Authority has to pay, namely retirement benefits in the long-term. The total liability of £181.934m (2010/11 £148.073m) 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 2013 is £15.5m.

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 2011.

The principal assumptions used by the actuary have been:

	As at 31-Mar-12	As at 31-Mar-11
Post Retirement Mortality Assumptions		
Non-retired members (retiring in the future in normal health)	SPA02 CMI 2009 1% Tables	PA92mc YoB Tables + 1 year
Current pensioners (retired in normal health)	SPA02 CMI 2009 1% Tables	PA92mc YoB Tables + 1 year
Life expectancy		
Of a male future pensioner aged 65 in 20 years time	23.6 yrs	22.2 yrs
Of a female future pensioner aged 65 in 20 years time	26.4 yrs	25.0 yrs
Of a male current pensioner aged 65	22.2 yrs	21.2 yrs
Of a female current pensioner aged 65	24.8 yrs	24.1 yrs
Commutation of pension for lump sum at retirement		
Take maximum cash	**50%**	50%
Take 3/80ths cash	**50%**	50%

The following shows the inflation factors used:

	As at 31-Mar-12 % pa LGPS	**As at 31-Mar-12 % pa UTS**	As at 31-Mar-11 Revised % pa LGPS	As at 31-Mar-11 Revised % pa UTS
Rate of Inflation	**2.50**	**2.30**	3.40	3.30
Rate of increase in salaries	**4.25**	**N/A**	4.65	N/A
Rate of increase in pensions	**2.50**	**2.30**	2.90	2.80
Discount rate	**4.90**	**4.60**	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-Mar-12 %	As at 31-Mar-11 %
Equities	**70.80**	74.7
Government Bonds	**20.20**	8.9
Other Bonds	**8.20**	15.9
Property	**-**	-
Cash/liquidity	**0.80**	0.5
Other	**-**	-
	100.0	100.0

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

	As at 31-Mar-12 % pa	As at 31-Mar-11 % pa
Equities	**7.00**	7.50
Government Bonds	**3.10**	4.40
Other Bonds	**4.10**	5.10
Property	**N/A**	N/A
Cash/liquidity	**0.50**	0.50
Other	**N/A**	N/A
Expenses deduction (p.a.)	***0.37***	-

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				
	2007/08 Restated %	2008/09 %	2009/10 %	2010/11 %	2011/12 %
Differences between expected and actual return on assets	(13.0)	(63.1)	31.3	3.8	(4.8)
Experience gains and losses on liabilities	2.2	-	-	2.9	-

	Unfunded Teachers Pensions				
	2007/08 Restated	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
Differences between expected and actual return on assets	-	-	-	-	-
Experience gains and losses on liabilities	(0.2)	-	-	(8.9)	-

50. CONTINGENT LIABILITIES

North Yorkshire County Council entered 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 entered a Joint Waste Management Agreement with North Yorkshire County Council.

The contract includes provision whereby the Contractor could have achieved satisfactory planning permission but the Council decides not to proceed to financial close; under these circumstances North Yorkshire County Council will be liable to pay compensation of up to £5m to the contractor AmeyCespa.

The City of York Council will be liable to pay North Yorkshire County Council 21% of any compensation payable under the Joint Waste Management Agreement.

The Council recognises The risk of potential liability is recognised and the Council accepts that should it not proceed to financial close as described above City of York Council will need to identify funds to cover any compensation due. It is, however, anticipated that this situation is very unlikely.

51. CONTINGENT ASSETS

No contingent assets have been identified.

52. 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 Budget Council in February 2011 and is available on the Council website. The key issues within the strategy were:

- The revised Authorised Limit for the 2011/12 was set at £222m and subsequently revised to £347m to take into account the devolution of the Housing Revenue Account Subsidy System. This figure is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was set at £192m and subsequently revised to £327m to take into account the devolution of the Housing Revenue Account Subsidy System. 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 110% and –10% based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt are contained within this note.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

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 2011/12 was approved by Budget Council in February 2011 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £26.3m 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 2012 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-Mar-12 £000's	Historical Experience of Default %	Historical Experience Adjusted for Market Conditions at 31-Mar-12 %	Estimated Maximum Exposure to Default and Uncollectability at 31-Mar-12 £000's	Estimated Maximum Exposure at 31-Mar-11 £000's
Deposit with banks and financial institutic	26,319	0.00	0.00	0	0
Bonds	0	0.00	0.00	0	0
Customers	24,541	3.36	3.36	825	541
	50,860			**825**	**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 £3.698m the £24.541m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31-Mar-12 £000's	31-Mar-11 £000's
Less than three months	**886**	676
three to six months	**462**	506
Six months to one year	**665**	565
More than one year	**1,686**	1,085
Total	**3,698**	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-Mar-12 £000's	31-Mar-11 £000's
Less than 1 year	**26,319**	35,346
Between 1 and 2 years	**-**	-
Between 2 and 3 years	**-**	-
More than 3 years	**-**	-
Total	**26,319**	35,346

All trade and other payables (£26.319m) 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-Mar-12 £000's**	Authority Actual at 31-Mar-11 £000's
Less than 1 year	0%	20%	**(3,000)**	(5,000)
Between 1 and 2 years	0%	20%	**-**	(3,000)
Between 2 and 5 years	0%	25%	**(13,676)**	(6,674)
Between 5 and 10 years	0%	40%	**(38,000)**	(28,000)
More than 10 years	30%	90%	**(207,115)**	(90,565)
Total			**(261,791)**	(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-Mar-12 £000's	31-Mar-11 £000's
Increase in interest payable on variable rate borrowings	**-**	-
Increase in interest receivable on variable rate investments	**192**	113
Impact on Surplus or Deficit on the Provision of Services		
Increase in government grant receivable for financing costs	**-**	-
Impact on Income and Expenditure Account	**192**	113
Share of overall impact credited to the HRA	**29**	18
Decrease in fair value of fixed rate borrowing liabilities (no impact on surplus or deficit on the provision of services or other CIES)	**12,462**	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.

NOTES TO THE CORE FINANCIAL STATEMENTS

53. TRUST FUNDS:

The Council administers various trust/third party funds. These funds do not represent assets of the Council and are therefore not included in the Council's Balance Sheet. The balances of these funds are invested with the Council. There are over 20 funds; the table shows the movements in the year, with details on the main trusts following.

	Expenditure During Year £000's	**Income During Year £000's**	**Balance at 31-Mar-12 £000's**	Balance at 31-Mar-11 £000's
Strensall & Towthorpe Village Trust	**27**	**(1)**	**(35)**	(61)
Haughton/Gardiner Trust	**2**	**(9)**	**(54)**	(47)
Staff Lottery	**-**	**(11)**	**(39)**	(28)
Edward Lamb Automoton Clock Legacy	**-**	**-**	**(23)**	(23)
Edmund Wilson Trust	**-**	**-**	**(21)**	(21)
Other Funds	**6**	**(13)**	**(121)**	(114)
	35	**(34)**	**(293)**	(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.

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.

54. HERITAGE ASSETS: FIVE YEAR SUMMARY OF TRANSACTIONS

A five year summary of transactions detailing the
(a) cost of acquiring assets,
(b) value of heritage assets acquired by donation,
(c) impairment recognised,
(d) carrying amount of heritage assets disposed of and the proceeds received
has been reviewed for the heritage assets included on the face of the balance sheet. For 3 categories: art, museum, mansion house and civic regalia collections - no transactions of this nature have occurred.

For heritage properties, these movements can be seen in note 13, included in the balance brought forward for 2010/11. No information has been provided for any accounting period beginning before 1 April 2010 as it is not practicable to do so.

NOTES TO THE CORE FINANCIAL STATEMENTS

For those heritage assets not recognised in the balance sheet, it is not possible to produce the five year summary of transactions required as it is deemed that the cost to the Authority of obtaining the information is greater than the benefit obtained.

55. HERITAGE ASSETS: CHANGE IN ACCOUNTING POLICY REQUIRED BY THE CODE OF PRACTICE FOR LOCAL AUTHORITY ACCOUNTING IN THE UK

The *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* introduced a change for the treatment in accounting of heritage assets held by the Authority. As set out in our summary of Accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at Valuation.

Heritage Assets
For 2011/12 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were recognised in the property, plant and equipment or investment property classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain information on the assets. The Authority's accounting policies for recognition and measurement of heritage assets are set out in the Authority's summary of significant accounting policies (see Note XII on page 22).

In applying the new accounting policy, the Authority has identified that the assets that were previously held as property, plant and equipment or investment properties at £1.496m should now be recognised as heritage assets and measured at £581k with a corresponding increase in the Revaluation Reserve. These assets relate to property assets previously recognised in the classification of property, plant and equipment and investment properties. The Authority will also recognise an additional £38.176m million for heritage assets that were not previously recognised in the Balance Sheet. Again, this increase is also recognised in the Revaluation Reserve. The 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1 April 2010 the carrying amount of the Heritage Assets is presented at its valuation at £39.522m. The element that was previously recognised in property, plant and equipment / investment properties has been reclassified and written down by £1.496m. The revaluation reserve has increased by £38.696m.
- The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

Effect on Opening Balance Sheet 1 April 2010

	Opening Balances as at 1 April 2010 £000	Restatement £000	Restatement required to opening balances as at 1 April 2010 £000
Property, Plant and Equipment	756,823	(1,416)	755,407
Investment Properties	44,247	(80)	44,167
Heritage Assets	-	39,522	39,522
Other Long Term Assets	7,452	-	7,452
Current Assets & Liabilities	8,420	-	8,420
Long Term Liabilities	(309,590)	-	(309,590)
Total Net Assets	507,352	38,026	545,378
Usable Reserves	43,067	-	43,067
Unusable Reserves	464,285	38,026	502,311
Net Worth / Total Reserve	507,352	38,026	545,378

NOTES TO THE CORE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement
During 2010/11, a revaluation loss of £712k was recognised on the heritage asset properties. This was mainly due to the write out of capital expenditure which had previously been classed as an asset under construction when the assets were recognised as property Plant & Equipment. There has thus been a restatement on Comprehensive Income and Expenditure Statement in Net Cost of Services.

Movement in Reserves Statement – Total Reserves 2010/11
The restatement of the relevant lines of the Movement in Reserves Statement, as of 31 March 2011, as a result of the application of this new accounting policy is presented in the table below.

	Total Authority Reserves as previously stated 31 March 2011 £000	Restatement 2011 £000	Total Authority Reserves Restated 31 March 2011 £000
Balance as at the end of the previous reporting period - 31 March 2010	(507,352)	(38,026)	(545,378)
Surplus or Deficit on the Provision of Services	85,797	927	86,724
Other Comprehensive Income and Expenditure	(20,433)	(161)	(20,594)
Adjustments between the accouting basis and the funding basis under regulations	-	-	-
			-
Increase / (decrease) in the year	65,364	(37,260)	66,130
Balance at the end of the current reporting period - 31 March 2011	(441,988)	(75,286)	(479,248)

The resulting restated Balance Sheet for 31 March 2011 is provided on page 36 as one of the core statements. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

Effect on Balance Sheet 31 March 2011

NOTES TO THE CORE FINANCIAL STATEMENTS

	As Previously Stated 31 March 2011 £000	Restatement 2011 £000	As Restated 31 March 2011 £000
Property, Plant and Equipment	660,090	(1,416)	658,674
Investment Properties	43,117	(80)	43,037
Heritage Assets	-	38,757	38,757
Other Long Term Assets	7,695	-	7,695
Current Assets & Liabilities	11,390	-	11,390
Long Term Liabilities	(280,304)	-	(280,304)
Total Net Assets	441,988	37,261	479,249
Usable Reserves	46,599		46,599
Unusable Reserves	395,389	37,261	432,650
Net Worth / Total Reserve	441,988	37,261	479,249

The effect of the change in accounting policy in 2010/11 has been that heritage assets are recognised at £38.757m on the Balance Sheet resulting in an increase to the Revaluation Reserve of £38.652m and property, plant and equipment being restated by the amount of heritage assets previously recognised in the classification of property, plant and equipment of £1.496m. The table shows the overall position of all assets and the movement from the previously stated balance sheet at 31 March 2011.

HOUSING REVENUE ACCOUNT

MOVEMENT IN THE HOUSING REVENUE ACCOUNT RESERVE

	Note	2011/12 £000's	2010/11 £000's
Income			
Dwellings Rents	(3)	**(27,571)**	(25,994)
Non-dwelling rents		**(602)**	(598)
Charges for Services and Facilities		**(901)**	(829)
Contributions Towards Expenditure		**(401)**	(505)
HRA Subsidy receivable		**-**	
Transfer from General Fund		**-**	-
Total Income		**(29,475)**	(27,926)
Expenditure			
Repairs and maintenance		**6,137**	6,237
Supervision and management		**6,979**	7,007
Rents, Rates, Taxes and Other Charges		**165**	205
Negative Housing Revenue Account subsidy payable	(5)	**7,697**	6,175
Depreciation and Impairment of non-current assets	(7)	**(2,425)**	7,553
Debt Management Costs		**5**	9
Movement in the allowance for bad debts	(4)	**68**	105
Sums directed by the Secretary of State that are expenditure in accordance with the Code		**-**	-
Exceptional Items	(14)	**121,550**	104,497
Total Expenditure		**140,176**	131,788
Net Cost of Services included in the Comprehensive Income and Expenditure Statement		**110,701**	**103,862**
<u>Share of Corporate Costs</u>			
HRA share of Corporate and Democratic Core		**127**	218
HRA share of other amounts included in the Council Net Cost of Services but not allocated to specific services		**(10)**	(732)
Net Cost of HRA Services		**110,818**	**103,348**
HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Statement			
Payments to the Government Housing Capital Receipts pool		**412**	704
Gain or (loss) on sale of HRA non-current assets		**(350)**	756
Interest payable and similar charges		**803**	865
Interest and investment income		**(221)**	(183)
Income and expenditure in relation to investment properties and changes in their fair value		**-**	2,226
Pensions interest cost and expected return on pensions assets	(6)	**140**	227
Capital grants and contributions receivable			(562)
Capital grants and contributions receivable		**-**	
(Surplus)/Deficit on Provision of Services		**111,602**	**107,381**

MOVEMENT IN THE HOUSING REVENUE ACCOUNT RESERVE

	2011/12	£000's	2010/11	£000's
Balance on the HRA at the end of the previous year		**(10,398)**		**(8,880)**
Surplus/(Deficit) for the year on the HRA Income and Expenditure Statement	**111,602**		107,381	
Adjustments between accounting basis & funding basis under regulations				
HRA share of Corporate Democratic Core	**(127)**	**-**	(218)	
Depreciation and impairment charges	**(7,316)**		(7,553)	
Revaluation charges	**9,741**		(104,497)	
Market valuation investment properties	**-**		(2,226)	
Capital grants applied in year	**402**	**-**	562	
Non-current assets written off	**(1,016)**	**-**	(2,587)	
Capital Expenditure funded by the HRA	**1,868**	**-**	399	
Income from non-current asset sales	**1,366**	**-**	1,831	
Transfer from Capital Receipts Reserve	**(412)**		(704)	
Depreciation costs met by MRR	**5,185**		5,243	
Retirement benefits	**427**		76	
Pension payments	**(506)**		406	
Applied grants transferred to CAA	**(402)**		-	
Transfer from Capital Adjustment Account	**(121,550)**		-	
Accumulated absences	**(33)**	**-**	32	
Net Increase/Decrease before Transfers to or from reserves	**(771)**	**-**	**(1,855)**	
Transfers to/(from) reserves	**358**		337	
Increase/Decrease in Year on the HRA		**(413)**		**(1,518)**
Balance on the HRA at the end of the current year		**(10,811)**		**(10,398)**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. SIGNIFICANCE OF THE STATUTORY HOUSING REVENUE ACCOUNT

Although there is a deficit of £127.146m (2010/11 deficit of £115.753m) on the Housing Revenue Account Income and Expenditure Account this becomes a surplus of £413k (2010/11 £1.518m) 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, thereby preventing rents being subsidised from the general income of the Council and vice versa.

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 £215k (2009/10 £58k) which represents 0.77% (2009/10 0.22%) of the gross rent income including charges for services. Average rents in March 2011 were £62.92(2010 61.79) a week. In April an increase of 6.4% (2010 1.83%) was applied increasing the average rent at that time by £4.05 (2010/11 £1.14).

Assistance with rents is available under the Housing Benefits Scheme for those on low incomes. The cost of rebates granted is met by the Council's General Fund not by the HRA.

	2011/12 £000's	2010/11 £000's
Rents due from Tenants	**(10,572)**	(10,110)
Rents remitted by Rent Rebates through the Housing Benefit System	**(16,999)**	(15,884)
Total Rent Income	**(27,571)**	(25,994)

The Council was responsible for managing 7,902 (2010/11 7,926) dwellings at 31 March. In addition to this total are 260 (2010/11 223) properties that the Council manages on behalf of two Housing Associations and 49 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	835	764	1,606
Houses and Bungalows	16	2,130	1,532	675	4,353
	21	2,679	3,027	2,175	7,902

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

	2011/12			2010/11		
	Houses/ Bungalows	**Flats**	**Total**	Houses/ Bungalows	Flats	Total
Operational Stock						
Balance at 1 April	**4,375**	**3,551**	**7,926**	4,399	3,556	7,955
Sales	**(4)**	**(2)**	**(6)**	(5)	(5)	(10)
Awaiting Demolitions	**(18)**	**-**	**(18)**	(19)	-	(19)
Dwellings declared surplus	**-**	**-**	**-**	-	-	-
Dwellings reprovided with Housing Association	**-**	**-**	**-**	-	-	-
Re-categorisation						
To General Fund	**-**	**-**	**-**	-	-	-
To HRA non-housing stock	**-**	**-**	**-**	-	-	-
Balance at 31 March	**4,353**	**3,549**	**7,902**	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 2011/12 rent arrears as a proportion of gross rent income have decreased from 3.67% of the amount due, was 3.04%. The rent arrears figures are as follows:

		2011/12 £000's	2010/11 £000's
Arrears at 31 March	- Current tenants	**497**	444
	- Former tenants	**401**	571
Amounts Written Off during the Year		**218**	419
Increased/(Reduced) Provision during the Year		**63**	47
Provision for Bad and Doubtful Debts		**679**	834

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

	2011/12 %	2010/11 %
Dwelling rent arrears as a % of gross rent debit		
- Current tenants	**1.68**	1.60
- Former tenants	**1.36**	2.07
	3.04	3.67

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

	2011/12 £000's	2010/11 £000's
Arrears at 31 March	**26**	45
Amounts Written Off during the Year	**16**	31
Increased/(Reduced) Provision during the Year	**5**	8
Provision for Bad and Doubtful Debts	**16**	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:

	2011/12 £000's	2010/11 £000's
Expenditure		
Management and Maintenance	**12,853**	12,791
Capital Financing Charges	**1,074**	1,078
Other Items	**-**	-
MRA	**5,185**	5,243
	19,112	19,112
Income		
Rent Income	**(26,837)**	(25,286)
Interest	**(1)**	(1)
	(26,838)	(25,287)
Prior Year Adjustment	**29**	
Negative HRA subsidy payable	**(7,697)**	(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:

NOTES TO THE HOUSING REVENUE ACCOUNT

	2011/12		2010/11	
	£000's	£000's	£000's	£000's
Income and Expenditure Account Entries				
Net Cost of HRA Services				
Current service cost	**376**		429	
Past service cost	**-**		(753)	
Curtailment Cost	**(10)**		21	
		366		(303)
Financing and Investment Income and Expenditure				
Interest cost	**666**		675	
Expected return on assets in the scheme	**(526)**		(448)	
		140		227
Net Charge to the Income and Expenditure Account		**506**		(76)
Statement of Movement on the Housing Revenue Account Balance Entries				
Reversal of net charges made for retirement benefits Contribution to/(from) Pensions Reserve		**427**		76
Actual amount charged to the Housing Revenue Account for Pensions in the year		**(506)**		406

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.

	2011/12	2010/11
	£000's	£000's
Depreciation on other HRA assets	**(407)**	(204)
Depreciation on dwellings higher than MRA	**245**	(2,106)
Total Transfer from MRR	**(162)**	(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:

	2011/12	2010/11
	£000's	£000's
Balance at 1 April	**(667)**	(803)
Depreciation on HRA dwellings	**(6,909)**	(7,349)
Depreciation on other HRA assets	**(407)**	(204)
Transfer to HRA during the financial year	**2,131**	2,310
Capital expenditure on houses within the HRA charged to the reserve	**5,278**	5,379
Balance at 31 March	**(574)**	(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

NOTES TO THE HOUSING REVENUE ACCOUNT

2011/12

	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 2011	259,370	6,791	-	15	-	266,176	-
Category Adjustments	-	3,882	-	-	-	3,882	-
Restated 1 April 2011	259,370	10,673	-	15	-	270,058	-
Additions	8,391	-	-	-	-	8,391	-
Donations	-	-	-	-	-	-	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	8,289	(809)	-	-	-	7,480	-
Revaluation increases/ (decreases) recognised in the (Surplus)/Deficit on the Provision of services	-	(492)	-	-	-	(492)	-
Derecognition - disposals	(1,016)	-	-	-	-	(1,016)	-
derecognition - other	-	-	-	-		-	-
Assets reclassified (to)/from Held for Sale	(346)	-	-	-	-	(346)	-
Other movements in cost or valuation	-	-	-	-	-	-	-
Depreciation charge	(5,059)	(288)	-	-	-	(5,347)	-
Impairment losses/ (reversals) recognised on the Provision of Services	-		-	-	-	-	-
Net Book Value							
At 31 March 2012	**269,629**	**9,084**	**-**	**15**	**-**	**278,728**	**-**

NOTES TO THE HOUSING REVENUE ACCOUNT

2010/11

REVISED	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	8,017	-	16	-	382,110	-
Category Adjustments	-	-	-	-	-	-	-
Restated 1 April 2010	374,077	8,017	-	16	-	382,110	-
Additions	7,039	4	-	-	-	7,043	-
Donations	-	-	-	-	-	-	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(7,772)	(32)	-	-	-	(7,804)	-
Revaluation increases/ (decreases) recognised in the (Surplus)/Deficit on the Provision of services	(104,038)	(994)	-	-	-	(105,032)	-
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)	(204)	-	(1)	-	(7,554)	-
Impairment losses/ (reversals) recognised on the Provision of Services	-	-	-	-	-	-	-
Net Book Value							
At 31 March 2011	**259,370**	**6,791**	**-**	**15**	**-**	**266,176**	**-**

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 from 2010/11 are included at 31% of the open market valuation. This revaluation loss of £104.311m in 2010/11 is on the face of the HRA Income & Expenditure statement, no loss occurred in 2011/12. The Council recognises council dwellings at a value of £269.629m (2010/11 £259.370m) on the balance sheet. At vacant possession the same dwellings would have a value of £813.339m (2010/11 £814.325m), therefore recognising an economic cost to the government of providing council housing at less than open market rents of £543.710m (2010/11 £554.956m).

NOTES TO THE HOUSING REVENUE ACCOUNT

11. SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

The capital expenditure to be financed in 2011/12 is £8,391m (2010/11 £7.039m). The analysis of the expenditure and the sources of financing used are set out in the following table:

	2011/12				2010/11			
	Dwellings £000's	Infra-structure £000's	Equipment £000's	Total £000's	Dwellings £000's	Infra-structure £000's	Equipment £000's	Total £000's
Total capital expenditure	**8,391**	**-**	**-**	**8,391**	6,879	-	160	7,039
Financing								
Borrowing	**-**	**-**	**-**	**-**	(848)	-	(152)	(1,000)
Capital Receipts	**(843)**	**-**	**-**	**(843)**	(101)	-	-	(101)
Major Repairs Reserve	**(5,278)**	**-**	**-**	**(5,278)**	(5,379)	-	-	(5,379)
Grants	**(402)**	**-**	**-**	**(402)**	(160)	-	-	(160)
Revenue Contributions	**(1,868)**	**-**	**-**	**(1,868)**	(391)	-	(8)	(399)
	(8,391)	**-**	**-**	**(8,391)**	(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:

	2011/12			2010/11		
	Council Dwellings £000's	Land £000's	Total £000's	Council Dwellings £000's	Land £000's	Total £000's
Sales proceeds	**(542)**	**(814)**	**(1,356)**	(1,028)	(793)	(1,821)
less: administrative costs	**2**	**-**	**2**	2	-	2
Net proceeds	**(541)**	**(814)**	**(1,355)**	(1,026)	(793)	(1,819)
Right to buy discount repaid	**(5)**	**-**	**(5)**	-	-	-
Mortgage principal repaid	**(6)**	**-**	**(6)**	(12)	-	(12)
	(552)	**(814)**	**(1,366)**	(1,038)	(793)	(1,831)
of which:						
Usable			**(954)**			(1,127)
Payable to Housing Pooled Capital Receipts			**(412)**			(704)
			(1,366)			(1,831)

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

NOTES TO THE HOUSING REVENUE 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:

	2011/12 **£000's**	2010/11 £000's
Balance 1 April	**3,392**	3,306
Additions	**-**	-
Disposals	**-**	-
Net gain or loss on Fair Value	**-**	106
Transfers:		
to/ from Inventories	**-**	-
to/ from Property, Plant & Equipment	**-**	-
to/ from Investment Properties	**-**	(20)
Other changes	**-**	-
Balance 31 March	3,392	3,392

14. EXCEPTIONAL ITEM – SELF-FINANCING LOAN

A HRA self financing valuation was issued to Local authority's by DCLG. This was determined by applying a discounted cash flow model to the income and expenditure for the authority over a 30 years period from 1st of April 2012. The HRA self financing model has been used to arrive at a debt cap for the authority. The debt cap represents the total debt which the government considers the authority can support over the 30 years period.

The Authority was issued with a debt cap of £145.970m, this includes £1.476m of Homes and Communities Agency (HCA) support for the new build scheme. The £121.550m represents the difference between the debt cap less the HCA support and the Authority's previous HRA notional debt cap (Subsidy Capital Financing Requirement) which was supported by the subsidy system ((22.944m).The Authority's HRA now has a total debt of £140.344m, this includes £18.794m of actual debt before self financing.

COLLECTION FUND

COLLECTION FUND

INCOME AND EXPENDITURE ACCOUNT

	Note	2011/12 £(000)	2011/12 £(000)	2010/11 £(000)	2010/11 £(000)
Income					
Council Tax Income	(2)		**(81,483)**		(80,831)
Transfer from General Fund:					
Council Tax Benefit			**(10,230)**		(10,397)
Income from business ratepayers	(3)		**(90,383)**		(80,875)
Total Income			**(182,096)**		(172,103)
Expenditure					
Precepts and Demands					
North Yorkshire Police Authority		**13,713**		13,591	
North Yorkshire Fire and Rescue Authority		**4,163**		4,126	
City of York Council		**73,735**		73,061	
			91,611		90,778
Business Rates					
Payment to National Pool		**90,089**		80,579	
Costs of Collection		**294**		296	
			90,383		80,875
Council Tax Provision for uncollectable accounts and outstanding appeals			**(1)**		(44)
Contribution from previous years' Collection Fund surpluses					
North Yorkshire Police Authority			**56**		53
North Yorkshire Fire and Rescue Authority			**186**		16
City of York Council			**1,000**		288
Total Expenditure			**183,235**		171,966
(Surplus)/Deficit for the year			**1,139**		(137)

COLLECTION FUND BALANCE

	Note	2011/12 £(000)	2010/11 £(000)
(Surplus)/Deficit for the Year on the Income and Expenditure Account		**1,139**	(137)
Collection Fund surplus brought forward		**(1,348)**	(1,211)
Collection Fund surplus carried forward	(4)	**(209)**	(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 2011/12 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	7.12	7.13	£759.16
A	up to		£40,000	6/9	5,756.45	5,763.41	£910.99
B	£40,000	to	£52,000	7/9	15,896.45	15,915.66	£1,062.82
C	£52,000	to	£68,000	8/9	19,521.02	19,544.61	£1,214.65
D	£68,000	to	£88,000	9/9	11,075.53	11,088.91	£1,366.48
E	£88,000	to	£120,000	11/9	7,839.64	7,849.11	£1,670.14
F	£120,000	to	£160,000	13/9	4,200.07	4,205.15	£1,973.80
G	£160,000	to	£320,000	15/9	2,304.66	2,307.45	£2,277.47
H	over		£320,000	18/9	115.79	115.93	£2,732.96
TOTAL					66,716.73	66,797.35	

In addition, the government makes a contribution for properties classed as "Crown" properties in lieu of paying Council Tax. These contributed £436k (2010/11 £444k) 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 £222k (2010/11 £282k) 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 decreased by £1k (2010/11 £46k).

NOTES TO THE COLLECTION FUND

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

		2011/12	2010/11
		£(000)	£(000)
Crown Contribution		**(436)**	(444)
Charge	(66,797.35 x £1,366.48)	**(91,277)**	(90,784)
		(91,713)	(91,228)
where the charge total comprises:			
Income due from Chargepayers, including Crown properties		**(81,483)**	(80,831)
Council Tax Benefit		**(10,230)**	(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 2012 was 243,514,429 (2010/11 242,622,439) and the rate for 2011/12 was 43.3p (2010/11 41.4p), with a reduction to 42.6p (2010/11 40.7p) 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:

	2011/12		2010/11	
	£(000)	**£(000)**	£(000)	£(000)
Rates payable for year (243,514,429 x 43.3 p)		**(105,442)**		(100,446)
Less: Transitional Relief and part occupancy	**3,878**		6,975	
Charitable Relief	**7,967**		6,749	
Adjustments re previous years rates	**(197)**		3,295	
Other adjustments including making provision for bad debts, interest payments made and small business relief	**3,411**		2,552	
		15,059		19,571
		(90,383)		(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).

	2011/12	2010/11
	£000's	£000's
City of York Council	**(169)**	(1,085)
North Yorkshire Police Authority	**(31)**	(202)
North Yorkshire Fire and Rescue Authority	**(9)**	(61)
	(209)	(1,348)

GLOSSARY

Accounting Concepts

The fundamental accounting principles that are applied to ensure that the Statement of Accounts 'present fairly' the financial performance and position of the Council.

Accounting Period

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the balance sheet date, 31 March.

Accounting Policies

Accounting Policies and estimation techniques are the principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are to be reflected in its financial statements. An accounting policy will, for example, specify the estimation basis for accruals where there is uncertainty over the amount.

Accruals

Sums included in the final accounts to cover income or expenditure, whether revenue or capital in nature, attributable to the accounting period but for which payment has not been made/received at the balance sheet date.

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.

GLOSSARY

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).

GLOSSARY

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.

GLOSSARY

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).

GLOSSARY

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.

GLOSSARY

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.

GLOSSARY

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.

GLOSSARY

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.

GLOSSARY

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.

GLOSSARY

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)

GLOSSARY

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

CITY OF YORK COUNCIL

Audit & Governance **25 July 2012**

Report of the Cabinet Member for Corporate Resources

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

Summary

1. The purpose of this report is for Members of A&G to scrutinise the "Treasury Management Annual report & Review of Prudential Indicators 2011/12" 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").

2. The revised Code, which highlighted the importance of scrutiny, was published in November 2009 and adopted by the council on 26 February 2010. From 1 April 2010, Audit & Governance Committee have been responsible for ensuring effective scrutiny of the treasury management strategy and policies.

3. Attached at Appendix A is the Treasury Management Annual Report & Review of Prudential Indicators 2011/12, which goes to Cabinet and also Council. It is presented at Audit & Governance Committee to comply with the scrutiny requirement.

Background

4. This covering report aims to assist Audit & Governance members in their scrutiny of the Treasury Management Annual Report & Prudential Indicators 2011/12 at Appendix A.

5. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

6. For reporting, scrutiny and training arrangements during 2011/12 the Council has met the minimum reporting requirements and received the following reports:
   - an annual treasury strategy in advance of the year - 24 February 2011
   - a mid year (minimum) treasury update report – 1 November 2011
   - an annual report following the year describing the activity compared to the strategy (this report – 17 July 2012)

7. In addition a quarterly treasury management update report has been produced and published on 14 February 2012. The Council has also complied with member training requirements on treasury management issues, which was undertaken on 13 February 2012 in order to support Members' scrutiny role.

8. The regulatory environment since 2010/1 has placed a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and the prudential indicators and highlights compliance with the Council's policies previously approved by Members.

9. Key points addressed at Appendix A – the Treasury Management Annual Report & Review of Prudential Indicators 2011/12 Report that is presented at Cabinet – include:
   a. In the current economic climate, interest rates for borrowing and investing have remained at historically low levels during 2011/12.
   b. The HRA reform resulted in £121.550m being paid to the Government and the equivalent borrowing taken at an average 3.2%
   c. The borrowing strategy cut the target interest rate for borrowing from 5% to 4.3% during the year and adopted the approach of reducing investment balances.
   d. Borrowing rate on the overall portfolio reduced from 4.2% to 3.8%. Without the HRA borrowing, the portfolio rate remained at 4.2%.
   e. Borrowing from external sources was limited during the year to £7m and instead surplus funds, a reduction in investment balances, were used to fund the remaining capital investment requirement of £14.9m.
   f. Investment rate of return was 1.45%, compared to the base rate of 0.5% and the 3 month LIBOR rate of 0.82%
   g. Reduction in investment balances and reduced borrowing during 2011/12 protected the treasury management budget as borrowing costs remained higher than investment interest earned.

Consultation

10. Not applicable.

Options

11. It is a statutory requirement under Local Government Act 2003 for the council to operate in accordance with the CIPFA prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice “the Code”. The revised “code” was approved at full Council on 26 February 2010. The Council approved the current Treasury Management Strategy Statement and Prudential Indicators 2011/12 to 2015/16 on 24 February 20122 which included at paragraph 9 the requirement for a body to scrutinise treasury management. Previously, this Council approved the delegated body as the Audit & Governance Committee on 25 February 2010. No alternative options are available.

Council Plan

12. Treasury management is an integral part of the council’s finances providing for cash flow management and financing of capital schemes. It aims to ensure that the council maximises its return on investments, (whilst the priority is for security of capital and liquidity of funds) and minimises the cost of its debts. This allows more resources to be freed up to invest in the Council’s five priorities as set out in the Council Plan. It therefore underpins all of the council’s objectives.

Implications

13. The implications are
    - Financial – the security of the Councils capital funds is a priority, maximising returns on investments and minimising finance costs of debt is key.
    - Human Resources - there are no human resource implications to this report.
    - Equalities - there are no equality 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 - there are no information technology implications to this report.
    - Property –there are no property implications to this report.
    - Other - the revised code may have implications for the requirements placed on officers and members for the scrutiny and management of the treasury function.

Risk Management

14. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice 2009 (the code) are all adhered to as required.

Recommendations

15. That Audit & Governance Committee note the Treasury Management Annual Report 2009/10 & Review of Prudential Indicators at Appendix A.

Reason: 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.

Contact Details

Author:	**Chief Officer responsible for the report:**			
Louise Branford-White Technical Finance Manager 01904 551187	Ian Floyd Director of Customer & Business Support Services			
	Report approved	√	Date	25/7/12

Specialist Implications Officer(s) None

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

For further information please contact the author of this report

Background Working Papers

- Local Government Act 2003 and amendments
- CIPFA Prudential Code
- CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance ("the Code")
- Treasury Management Annual Report & Review of Prudential Indicators 2011/12

CITY OF YORK COUNCIL	**APPENDIX A**
Cabinet	**17 July 2012**
Report of the Cabinet Member for Corporate Services	

Treasury Management Annual Report & Review of Prudential Indicators 2011/12

Summary

1. This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2011/12. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2. During 2011/12 the minimum reporting requirements were that the full Council receive the following reports:
   a) an annual treasury strategy in advance of the year (February 2011)
   b) a mid year (minimum) treasury update report (December 2011)
   c) an annual review following the end of the year describing the activity compared to the strategy (this report)

3. Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members. Prudential Indicators are attached at Annex A.

4. The Council has complied with the requirement under the Code to give scrutiny to all of the above treasury management reports by the Audit & Governance Committee and member training on

treasury management issues was undertaken during the year on 13 February 2012 in order to support Members' scrutiny role.

5. The treasury management annual activities detailed in the report ensure the Council's treasury management activities are affordable sustainable and prudent as approved by Council on 24 February 2011 and the Council's debt and investment position ensures adequate liquidity for revenue and capital activities, security for investments and manages risks within all treasury management areas.

6. The Council's treasury position for 2011/12 is in the table below, compared to 2010/11. It shows that the Council's Capital Financing Requirement, borrowing and investment position. In 2011/12, £121.5m of debt was taken in accordance with the new HRA self financing reform. Further detail is included later in the report.

	31-Mar-12 £m	Rate %	31-Mar-11 £m	Rate %
GF Total Debt	**121.3**	**4.2%**	**114.3**	**4.2%**
HRA Debt	18.8	4.2%	18.8	4.2%
HRA Self Financing	121.5	3.2%		
HRA Total Debt	**140.3**	**3.4%**	**18.8**	**4.2%**
Total debt	**261.6**	**3.8%**	**133.1**	**4.2%**
Capital Financing Requirement	**293.2**		**152.5**	
Over/ (under) borrowing	**(31.6)**		**(19.4)**	
Investments:	**26.2**	**1.45%**	**35.2**	**1.15%**

Table 1 – Position of the treasury management portfolio

Background

Economic Background

7. The performance of the council's treasury management function is an outcome of the long-term borrowing and short-term investment decisions affected by the economic conditions during the 2011/12 financial year.

8. The financial year continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2011-12 was that Bank Rate would start gently rising from quarter 4 2011. However, GDP growth in the UK was disappointing during the year under the weight of the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the EU.

9. The EU sovereign debt crisis grew in intensity during the year until February 2012, when a second bailout package was eventually agreed for Greece. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October 2011 and another £50bn in February 2012. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September 2011 at 5.2% but then fell to 3.4% in February 2012, with further falls expected to below 2% over the next two years.

10. Gilt yields which affect the rate at which the Council can borrow, fell for much of the year, until February 2012, as concerns continued to build over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of quantitative easing during the year, combined to depress borrowing rates which continued at historically low levels.

11. Investment rates, the rate at which the Council can lend, remained low throughout 2011/12. This was due to widespread and multiple downgrades of many banks credit ratings and country sovereign ratings, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions.

12. Figure 1 shows the base rate movements since 1 January 2011 with predictions from economists and the Council's treasury management advisors – Sector - to March 2015. The graph shows how predictions have changed. The circle line shows Sectors prediction of the base rate in January 2011compared to their latest prediction in triangles. All forecasts show the base rate to remain flat at 0.5% until December 2013.

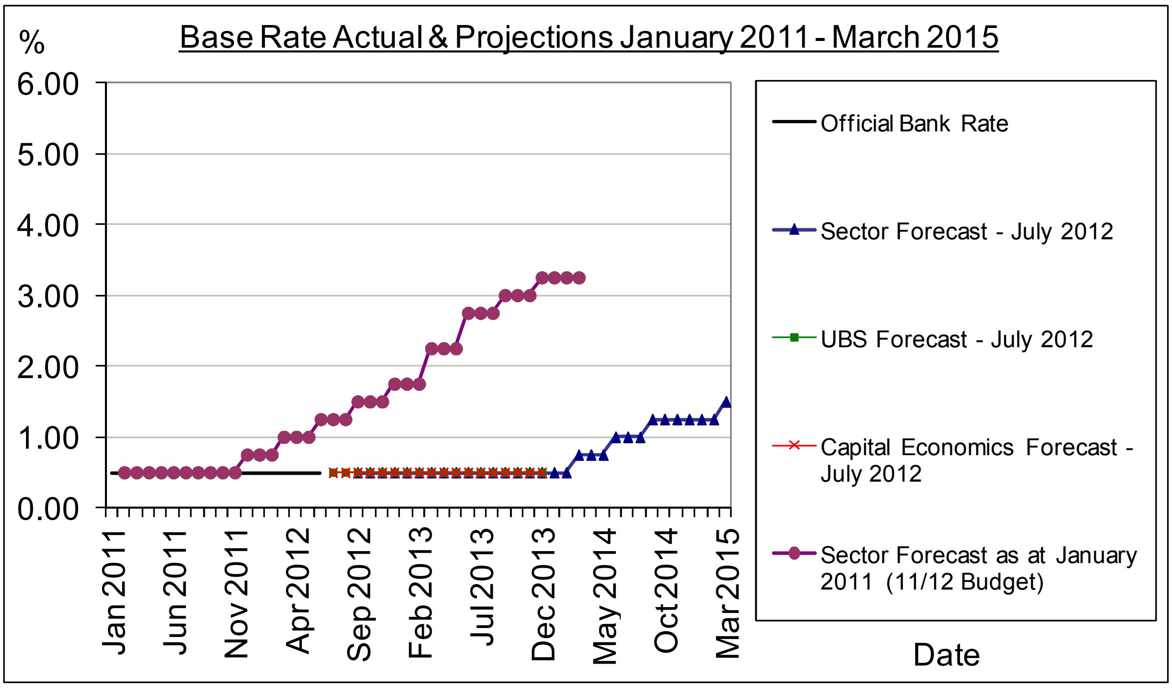


Figure 1 – Forecast Base Rates 2011- 2015

Treasury Management Strategy

13. The Council's borrowing strategy set for 2011/12 at full Council on 24 February 2011 followed advice from the council's treasury management advisors –Sector - to have a balanced approach and lock into some long term borrowing in 2011/12 where interest rates were expected to be lower than in the coming years, whilst also considering reducing the Councils surplus funds due to investment rates yielding relatively low returns compared to borrowing rates.

14. External borrowing would be taken throughout the financial year when interest rates seemed most favourable at a target interest rate of 5%. The target rate was revised at the midyear review report to Cabinet on 1 November 2012 to 4.3%. The maturity profile of the debt portfolio was taken into account, so the Council was not exposed to the concentration of debt being in any one year.

15. Also running down the investment portfolio and using the Council's surplus cash rather than taking further external borrowing was also deemed a favorable approach. Due to continued uncertainty in the aftermath of the 2008 financial crisis consideration was given to postponing borrowing to avoid the

cost of holding higher levels of investments and to reduce counterparty risk.

16. The actual movement in gilt yields meant borrowing rates fell sharply during the year and continued at historically very low levels.

17. Figure 2 shows the PWLB interest rates from 1 October 2010 to 31 March 2012 and includes the loans borrowed by the council. It illustrates that the Council took loans during the year as rates continued to fall. At the end of March, the triangle at the far right is the average loan rate for the 21 HRA self financing loans at 3.2%.

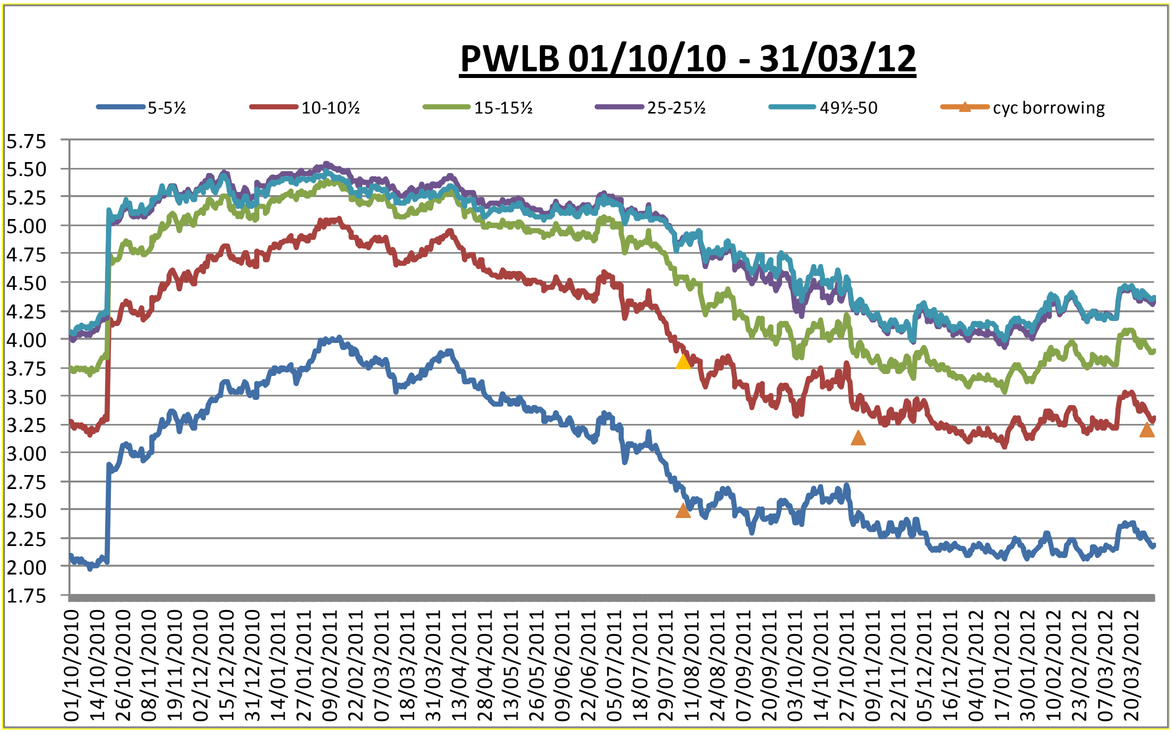


Figure 2 - PWLB rates and CYC borrowing levels

18. Figure 2, illustrates that over 2011/12, that PWLB rates have fallen significantly and have almost returned to the level that they were at prior to the government increasing all PWLB rates by 0.85 basis points on 20 October 2012.

Borrowing Outturn 2011/12

19. The Council undertakes capital expenditure on long-term assets as part of the Capital programme. The way that the capital

programme is financed affects the treasury management activity of the Council, and ultimately borrowing. The prudential indicators which control the borrowing activity of the Council are contained in Annex A.

20. The purpose of the Council's underlying need to borrow is to finance capital expenditure and this is termed the Capital Financing Requirement (CFR). In 2011/12 the Council's CFR significantly increased compared to previous years. This was due to the implementation of the housing finance reform at the end of the financial year, which abolished the housing subsidy system financed by central government. Consequently, all housing debt had to be reallocated nationally between housing authorities. The result of this reallocation is that this Council made a capital payment to the Department of Communities and Local Government of £121.550m. This resulted in an increase in the CFR.

21. The total CFR for the council at the end of 2011/12 was £293.2m and this was split between the General Fund at £152.9m and the HRA at £140.3m. In accordance with the borrowing strategy, some external borrowing was taken to finance this requirement but also surplus funds were used and the investment portfolio was reduced.

22. Total borrowing at the start of 2011/12 was £133.1m (General Fund £114.3m / HRA £18.8m) and at the end of 2011/12 excluding the HRA self financing settlement £140.1m (General Fund £121.3m / HRA £18.8m). Total borrowing at the end of 2011/12 including the HRA self financing settlement of £121.55m, was £261.6m. This is split between the General Fund £121.5m and the HRA £140.3m. In accordance with the HRA Self Financing regulations, there will be two borrowing portfolios from 2011/12 which will be monitored separately in future.

23. It should be noted that there was no impact on HRA revenue budget in 2011/12 to finance the £121.550m payment made as compensating adjustments were made in the HRA subsidy determination. The HRA subsidy determination continued to 31/3/2012, from 1/4/2012 the new self financing system commences.

24. Table 2 and Table 3 show the movement in borrowing during the year split between the General Fund and HRA. Details on the interest rates obtained on new borrowing, the average rate of the portfolio and the year of maturity are also shown.

General Fund					
Loan Type	Date Raised	Date Matured	Amount	Interest Rate	Duration
Matured	28/05/2010	27/05/2011	5,000,000	0.700%	1.00
			5,000,000		
Raised	11/08/2011	10/08/2021	2,000,000	3.810%	10.00
Raised	11/08/2011	10/08/2016	5,000,000	2.500%	5.00
Raised	07/11/2011	07/11/2020	5,000,000	3.140%	9.00
			12,000,000		
Loans net position 2011/12			**7,000,000**		
Opening loan balance 2011/12			**114,271,110**		
Closing loan balance 2011/12			**121,271,110**		

Table 2 - Movement in General Fund Borrowing 2011/12

HRA					
Loan Type	Date Raised	Date Matured	Amount	Interest	Duration
Raised	28/03/2012	31/03/2027	5,000,000	3.050%	15.01
Raised	28/03/2012	31/03/2032	3,750,000	3.320%	20.01
Raised	28/03/2012	31/03/2026	4,500,000	2.970%	14.01
Raised	28/03/2012	31/03/2031	6,000,000	3.328%	19.01
Raised	28/03/2012	31/03/2026	5,000,000	2.970%	14.01
Raised	28/03/2012	31/03/2024	1,900,000	2.760%	12.01
Raised	28/03/2012	31/03/2042	8,100,000	3.510%	30.01
Raised	28/03/2012	31/03/2025	4,000,000	2.870%	13.01
Raised	28/03/2012	31/03/2028	7,000,000	3.120%	16.01
Raised	28/03/2012	31/03/2029	7,900,000	3.180%	17.01
Raised	28/03/2012	31/03/2028	6,500,000	3.120%	16.01
Raised	28/03/2012	31/03/2030	5,600,000	3.230%	18.01
Raised	28/03/2012	31/03/2027	5,600,000	3.050%	15.01
Raised	28/03/2012	31/03/2025	4,400,000	2.870%	13.01
Raised	28/03/2012	31/03/2042	8,100,000	3.510%	30.01
Raised	28/03/2012	31/03/2030	6,000,000	3.230%	18.01
Raised	28/03/2012	31/03/2029	7,000,000	3.180%	17.01
Raised	28/03/2012	31/03/2031	6,100,000	3.280%	19.01
Raised	28/03/2012	31/03/2030	5,000,000	3.230%	18.01
Raised	28/03/2012	31/03/2042	8,100,000	3.510%	30.01
Raised	28/03/2012	31/03/2031	6,000,000	3.280%	19.01

	Loans net position 2011/12		121,550,000		
Opening loan balance 2011/12			18,793,846		
Closing loan balance 2011/12			140,343,846		

Table 3 - Movement in HRA Borrowing 2011/12

25. The General Fund new borrowing decisions were taken in light of the maturity structure of the Council's current long term borrowing and the advantageous interest rates available. The new HRA self financing borrowing was taken in accordance with the HRA self financing model, to ensure the most optimum position could be obtained for the HRA in this historical low interest rate environment.

26. The Council did not restructure any of its borrowing portfolio during the year as no opportunities were favourable due to the disparity in PWLB rates since November 2007 and the governments increase in PWLB rates in the comprehensive spending review October 2010 by 0.85 basis points. The graph at figure 2 does highlight however, that interest rates have substantially fallen during 2011/12 and that rates are almost as low as they were prior to the governments overnight interest rate increase. Therefore, in 2012/13 there could be potential rescheduling opportunities.

27. The overall position of the borrowing activity resulted in a fall in the average interest rate by 0.4% from 4.2% to 3.8%. If the HRA self financing debt is excluded to give a fairer comparison between 2010/11 and 2011/12 then the average interest rate remained the same at 4.2%.

28. Figure 3 shows the average rate of CYC borrowing in 2010/11 continues to be lower than other unitary authorities and the national average. No figures as yet are available for 2011/12.

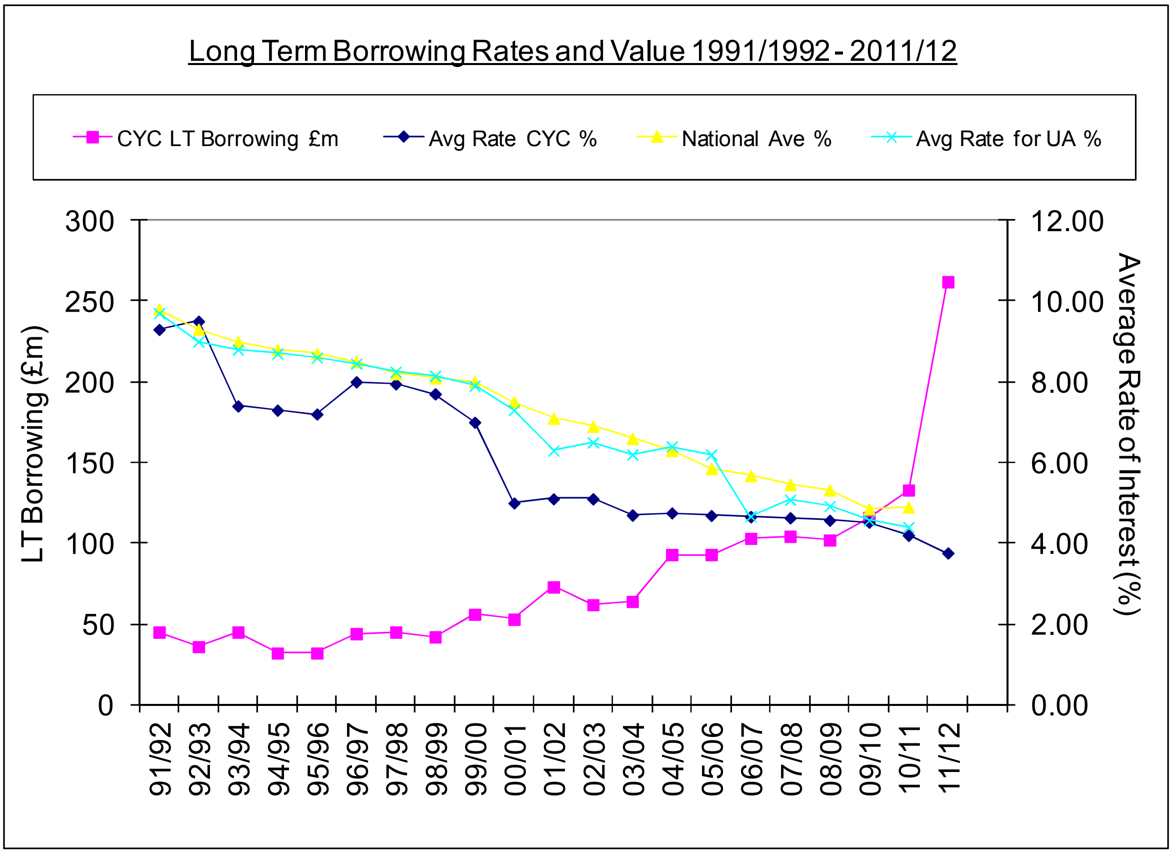


Figure 3 - CYC borrowing vs National Average vs Unitary Authority

Investment Outturn 2011/12

29. The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. Bank Rate remained at its historic low of 0.5% throughout the year while market expectations of the imminence of monetary tightening and potential increase in interest rates, were gradually pushed further and further back during the year to the second half of 2013 at the earliest. Overlaying the relatively poor investment returns were the continued counterparty concerns generated by the Eurozone sovereign debt crisis.

30. The Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 24 February 2011. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies (Fitch, Standard & Poors, Moody's) supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

31. The continued credit rating concerns of counterparty's resulted in very few counterparties being available in which the Council could invest its surplus funds. Those counterparties which were available were also utilised by other investors as better credit rated institutions hold lower risk. Therefore interest rates remained low at all level.

32. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

33. The Council maintained an average investment balance of £63.8m compared to £43.1m in 2010/11. The surplus funds earned an average rate of return in 2011/12 of 1.45% compared to 1.15% in 2010/11. This is due to cash flow movements giving rise to an increased average investment balance during 2011/12. The comparable performance indicator is the average 7-day LIBID rate, which was 0.48% in 2011/12 and the three month LIBID rate of 0.82%. All investments occurred in line with the investment strategy that the security of capital is of prime importance.

34. Figure 4 illustrates the investment interest rates available for 2011/12 including the rate of return on investments achieved. The Council's rate of return is continually higher than all yields except 1 year. The Council could not invest further in 1 year deposits due to the security of the Councils surplus fund being of prime importance.

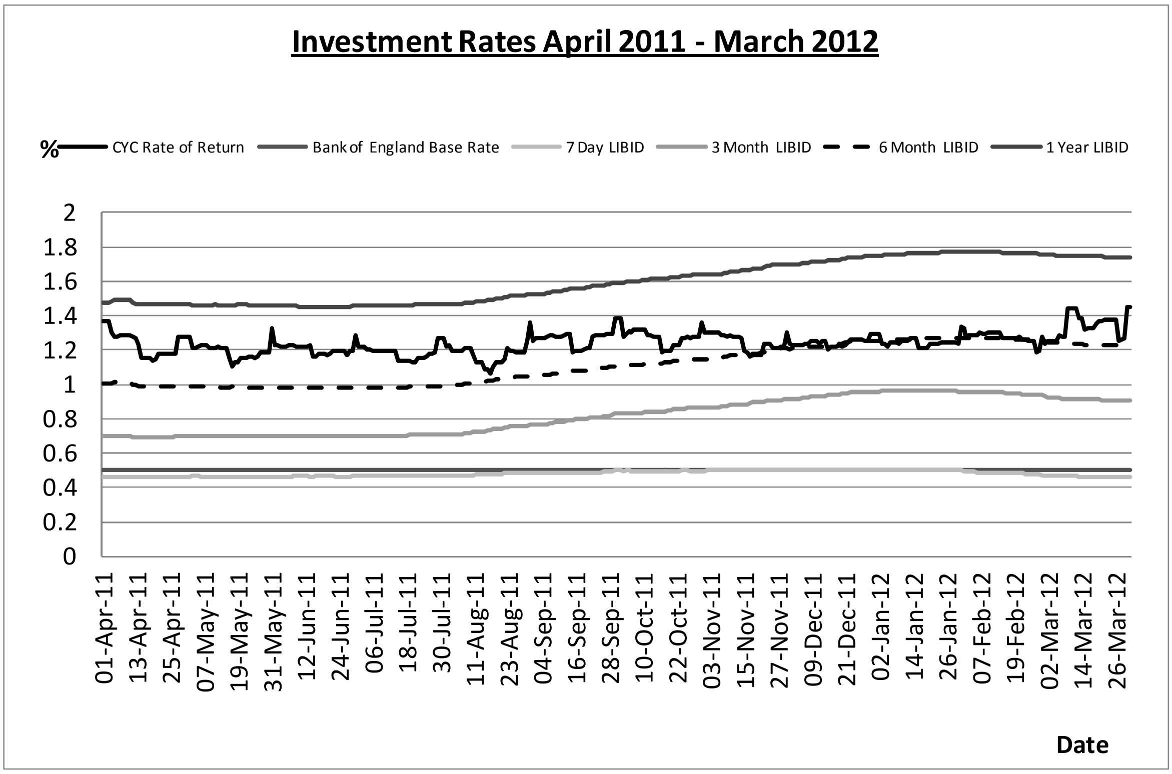


Figure 4 – Investment Rates vs. Rate of Return on CYC Investments

Consultation

35. This report is for information purposes and reports on the performance of the treasury management function. Members through the budget process set the level of budget and expected performance of the Councils treasury management function.

Options

36. In accordance with the Local Government Act 2003, it is a requirement under the CIPFA Prudential code and the CIPFA Treasury Management in Local Authorities that the Cabinet receives an annual treasury management review report of the previous year –2011/12- by 30 September 2012. It is also a requirement that the Council delegates the role of scrutiny of treasury management strategy and policies to a specified named body which in this Council is the Audit & Governance Committee. This annual treasury management report is scheduled at Audit & Governance Committee on 25th July 2012.

Corporate Priorities

37. Treasury Management is aimed at ensuring the Council maximises its return on investments and minimises the cost of its debts. This will allow more resources to be freed up to invest in the Council's priorities, values and imperatives, as set out in the Council's plan. Effective treasury management is concerned with the management of the council's cash flows, it's banking, money market and capital transactions, the management of debt, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

Implications

38.

(a) **Financial** These are detailed in the body of the report

(b) **Human Resources (HR)** There are no HR implications as a result of this report

(c) **Equalities** There are no equalities implications as a result of this report

(d) **Legal** Treasury Management activities have to conform to the Local Government Act 2003, which specifies that the Council is required to adopt the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice

(e) **Crime and Disorder** There are no crime and disorder implications as a result of this report

(f) **Information Technology (IT)** There are no IT implications as a result of this report

(g) **Property** There are no property implications as a result of this report

Risk Management

39. The treasury function is a high-risk area because of the level of large money transactions that take place. As a result of this there are strict procedures set out as part of the Treasury Management Practices statement. The scrutiny of this and other

monitoring reports is carried out by Audit & Governance Committee as part of the council's system of internal control.

Recommendations

40. The Cabinet, in accordance with the Local Government Act 2003 is advised to:
    - **(a)** **Note** the 2011/12 performance of the Treasury Management activity,
    - **(b)** **Note** the change in the funding of the HRA from the subsidy system to the HRA Self Financing system
    - **(c)** **Note** the movements in the Prudential Indicators in Annex A

Reason – to ensure the continued performance of the Council's Treasury Management function and the affects of the HRA reform on treasury management activities can be monitored.

Contact Details

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<tr><td colspan="5">Specialist Implications Officer(s</td></tr>
<tr><td colspan="3">Wards Affected: All wards</td><td>All</td><td>Y</td></tr>
<tr><td colspan="5">For further information please contact the author of the report</td></tr>
</table>

Background Papers:

Cash-flow Model 2011/12 Investment Register 2011/12, PWLB Debt Register, Capital Financing Requirement 2011/12 outturn, Prudential Indicators 2011/12, CIPFA Statistics 2010/11

Annexes

Annex A: Prudential Indicators 2011/12

Prudential Indicators 2011/12 Outturn **Annex A**

	PRUDENTIAL INDICATORS		**2011/12 Estimate** Monitor 3	**2011/12 actual**	**2010/11 actual**
1)	**Capital Expenditure**		**£M**	**£M**	**£M**
	To allow the authority to plan for capital financing as a result of the capital programme. To enable the monitoring of capital budgets to ensure they remain within budget.	Non - HRA	48.2	41.5	46.9
		HRA	131.8	129.9	7.0
		TOTAL	180.0	171.4	53.9
2)	**Ratio of financing costs to net revenue stream**				
	This indicator estimates the cost of borrowing in relation to the net cost of Council services to be met from government grant and council taxpayers. In the case of the HRA the net revenue stream is the income from Rents and Subsidy.	Non - HRA	7.7%	6.5%	8.5%
		HRA	2.4%	2.0%	2.6%
3a)	**Incremental impact of capital investment decisions - Council Tax**		**£ p**	**£ p**	**£ p**
	Shows the actual impact of capital investment decisions on council tax. The impact on council tax is a fundamental indicator of affordability for the Council to consider when setting forward plans. The figure relates to how much of the increase in council tax is used in financing the capital programme and any related revenue implications that flow from it.	Increase in Council Tax (band D) per annum	19.81	19.62	20.13
3b)	**Incremental impact of capital investment decisions - Hsg Rents**		**£ p**	**£ p**	**£ p**

	Shows the actual impact of capital investment decisions on HRA rent. For CYC, the HRA 2008/09 planned capital spend is based on the government's approved borrowing limit so there is no impact on HRA rents.	Increase in average housing rent per week	0.00	0.00	0.00
4)	**Net Borrowing not exceed the CFR**		**£M**	**£M**	**£M**
	To ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose and so not exceed the CFR.		255.5	235.4	97.9
5)	**Capital Financing Requirement as at 31 March**		**£M**	**£M**	**£M**
	Indicates the Council's underlying need to borrow money for capital purposes. The majority of the capital programme is funded through government support, government grant or the use of capital receipts. The use of borrowing increases the CFR.	Non - HRA	150.8	152.9	134.5
		HRA	140.4	140.3	18.8
		TOTAL	291.1	293.2	153.3
6a)	**Authorised Limit for external debt -**		**£M**	**£M**	**£M**
	The authorised limit is a level set above the operational boundary in acceptance that the operational boundary may well be breached because of cash flows. It represents an absolute maximum level of debt that could be sustained for only a short period of time. The council sets an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long-term liabilities for 3 financial years.	borrowing	337.0	337.0	192.0
		other long term liabilities	10.0	10.0	10.0
		TOTAL	347.0	347.0	202.0

6b)	**Operational Boundary for external debt -** The operational boundary is a measure of the most likely, prudent, level of debt. It takes account of risk management and analysis to arrive at the maximum level of debt projected as part of this prudent assessment. It is a means by which the authority manages its external debt to ensure that it remains within the self-imposed authority limit. It is a direct link between the Council's plans for capital expenditure; our estimates of the capital financing requirement; and estimated operational cash flow for the year.		**£M**	**£M**	**£M**
		borrowing	317.0	317.0	172.0
		other long term liabilities	10.0	10.0	10.0
		TOTAL	327.0	327.0	182.0
7)	**Adoption of the CIPFA Code of Practice for Treasury Management in Public Services** Ensuring Treasury Management (TM) Practices remain in line with the Code of Practice.	TM Policy Statement	✓	✓	✓
		12 TM Practices	✓	✓	✓
		Policy Placed Before Council	✓	✓	✓
		Annual Review Undertaken	✓	✓	✓
		A&G named as specified Scrutiny body	✓	✓	✓
8a)	**Upper limit for fixed interest rate exposure** The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.	Net interest re fixed rate borrowing / investments	104%	107%	110%
		Actual Net interest re fixed rate borrowing / investments			

8b)	**Upper limit for variable rate exposure** The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.	Net interest re variable rate borrowing / investments Actual Net interest re variable rate borrowing / investments	-4%	-7%	-10%
			£M	**£M**	**£M**
9)	**Upper limit for total principal sums invested for over 364 days**		10.0	10.0	10.0
	To minimise the impact of debt maturity on the cash flow of the Council. Over exposure to debt maturity in any one year could mean that the Council has insufficient liquidity to meet its repayment liabilities, and as a result could be exposed to risk of interest rate fluctuations in the future where loans are maturing. The Council therefore sets limits whereby long-term loans mature in different periods thus spreading the risk.	Investments over 364 days	£0	£0	£0
10)	**Maturity structure of new fixed rate borrowing**		**Upper Limit**	**Actual** £M 261.6	**Actual** £M 133.1
	The Council sets an upper limit for each forward financial year period for the level of investments that mature in over 364 days. These limits reduce the liquidity and interest rate risk associated with investing for more than one year. The limits are set as a percentage of the average balances of the investment portfolio.	under 12 months	0%	1%	4%
		12 months & within 24 months	2%	0%	2%
		24 months & within 5 years	5%	5%	5%
		5 years & within 10 years	27%	15%	21%

		10 years & and above	66%	79%	68%

Glossary Of Abbreviations

HRA
Housing Revenue Account

CFR
Capital Financing Requirement

CYC
City of York Council

1. In accordance with the Prudential Code, the Prudential Indicators set by full Council on 24 February 2011 for the financial year 2011/12 must be monitored and reported at Outturn. The Prudential Indicators are detailed above and the key points are explained below:

2. **Indicator 1 - Capital Expenditure:** The capital programme expenditure at monitor 3 was estimated to be £180.0m, which includes £121.5m for HRA Self financing reform; outturn was £171.4mm. The Capital Programme Outturn 2011/12 report has further detail with regards to this movement. The reduced outturn compared to monitor 3 is due to a number of schemes being slipped to be completed during 2012/13.

2. **Indicator 2 – Ratio of Finance Costs to Net revenue Stream**: This indicator represents how much borrowing (where the finance costs are not supported by government grant), for the capital programme, will cost as a percentage of the net revenue stream of the Council. The General Fund indicator is 6.52% compared to a budgeted level of 7.7%, with the marginal decrease due to reduced finance costs, as a result of reduced MRP. Further details are contained in paragraph 9... The Housing Revenue Account (HRA) version of the indictor is 2.0% compared to the budgeted level of 2.4%, the difference is mainly due to a higher HRA balance which earned investment income than was originally estimated.

3. **Indicator 3 (a) & (b) - Incremental Impact of Capital Investment Decisions on the Level of Council Tax (3a) and Housing Rents (3b):** This indicator shows the impact of capital investment decision on the bottom line level of Council Tax. The Council can fund its discretionary capital programme from two main sources, from borrowing or using capital receipts from the sale of surplus assets. The Council's policy is to use capital receipts to fund the Capital programme, where possible. However in the current economic environment with reduced capital receipts there is the requirement to use borrowing to support the capital programme, which has an impact on Council Tax through the

revenue cost of financing the borrowing. The borrowing is not taken unless it is affordable, sustainable and prudent and can be supported by an existing budget.

4. **Indicator 4 – Net Borrowing not exceed the CFR:** In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/12 plus the expected changes to the CFR over 2012/13 and 2013/14. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12. The table highlights the Council's net borrowing position against the CFR, it confirms that no borrowing occurred in advance of need and the net borrowing position was below the CFR.

5. **Indicator 5 - Capital Financing Requirement (CFR)**: The CFR at outturn was £293.2m, which is the Council's underlying need to borrow for all capital investment over time. At year-end when the Capital programme is financed, the CFR can change when decisions are made with regards to the use of external funding, capital receipts etc to support the Capital investment of the Council

6. The CFR represents the capital expenditure (which has not yet been paid for by revenue or other resources) which is required to be funded by borrowing. Under Statute, the council is permitted to borrow to fund capital expenditure. When borrowing is undertaken it is not taken for a specific capital scheme but rather to fund the council's capital financing requirement as a whole. The Council is allowed to borrow in advance of need; it can borrow the CFR in the current year and also 2 years in advance. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR).

7. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This cash requirement may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or through utilising temporary cash resources within the Council.

8. The Council's underlying borrowing need (Capital Financing Requirement) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

9. The Council's 2011/12 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2011/12 on 24 February 2011. The calculations underpinning the MRP calculation have been reviewed against current financial reporting requirements and the requirements of the prudential code. This is to ensure that the MRP calculation is consistent with the current years MRP policy statement and also consistent in the Statement of Accounts. It should be noted that this is a review of the calculation and not a change in policy, there is therefore no approval required. The Statement of Accounts in the explanatory forward references an increase in earmarked reserves in relation to provision for debt repayments, which accounts for the reduced MRP charged in 2011/12, but with provision for debt repayments held in reserve for future repayments.

10. **Indicator 6(a) - Authorised Limit**: The authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level, which is approved at Full Council every year. The Authorised Limit was revised during 2011/12 due to the HRA Self Financing reforming being approved in the government white paper during the year. This resulted in the Council borrowing an additional £121.5m which had not been included the initial Authorised Limit calculation. The revised prudential indicators were approved at Council on 8 December 2012. The table confirms that during 2011/12 the Council has maintained gross borrowing within its authorised limit of £347.0m. The Council's highest level of borrowing during the year was when the £121.5m borrowing was taken for the HRA Self financing reform on 28 March 2012 at £261.6m. The headroom available within this limit allows the Council the ability to borrow in advance of need in accordance with its 3 year forecast Capital programme. Debt levels have remained within the limits set.

11. **Indicator 6(b) – Operational Boundary:** This is approximately the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. In 2011/12, the actual borrowing level was below the operational boundary due to the Council not borrowing the total amount is was permitted to do so during the year and not taking any borrowing in advance of need. This was in accordance with the strategy to hold off borrowing due to borrowing rates being much higher than investment rates.

12. **Indicator 7 - Adoption of the CIPFA Code of Practice in Treasury Management:** In accordance with the Prudential Code, the Council has adopted the CIPFA Treasury Management in the Public Services Code of Practice "the Code" prior to the beginning of the financial year. The table shows the code has been adhered to.

13. **Indicator 8(a) & (b) - Upper Limit for Fixed and Variable Interest rate Exposure:** Interest rate exposure on debt is positive due to it being in relation to interest paid and on investments is negative as it is interest being received. When the variable and fixed interest rates are totalled, it will always be 100%. The majority of the interest received for the Council relates to variable rated investments, where as the interest paid on debt is fixed. The limits set in the budget were not breached and the outturn stands at 107% for fixed interest rate exposure and –7% for variable interest rate exposure.

14. **Indicator 9 - Upper Limit for total principal sums invested for over 364 days:** This has been set at £10m and is approximately 25% of the average portfolio throughout the year. In the year no investments for longer than 364 days have been taken due to the credit ratings assigned to counterparties. In the current environment it is viewed as high risk to have long term exposure. The banks which are nationalised have the backing of government and therefore investment up to 1 year is considered.

15. **Indicator 10 - Maturity Structure of Fixed rate Borrowing:** The borrowing portfolio is spread across different time periods to ensure that the Council is not exposed to the requirement to take new borrowing in any one year and be exposed to interest rates in any one year. In 2011/12 the borrowing portfolio maturity profile was within the limits set.

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Agenda Item 7

Audit & Governance Committee **25 July 2012**

Report of the Assistant Director CBSS (Finance, Asset Management & Procurement)

Key Corporate Risk Monitor One 2012/13

Summary

1. The purpose of this paper is to present to Audit & Governance Committee (A&G) an update on the key corporate risks, and to highlight in more detail any emerging risk issues with a view to members considering any further information they would wish to receive.

Background

2. High and Critical Key Corporate Risks (KCRs) were previously 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 and formed the key focus of the risk monitor papers. This information is now distributed to members along with this report to ensure that they continue to have this valuable information. However, this risk monitor will in future provide members with an overview of progress on some of the key risks, noting any changes, and where relevant we will cover one or more risk areas in some further detail. This will seek to provide assurance that the authority understands and is effectively managing its key risks. The KCRs along with directorate level risks continue to be regularly reviewed at Directorate Management Teams (DMTs).

Monitor One

3. The two critical KCR's have not changed since Monitor 4 2011/12 and the up to date risk owner's comments are set out below:

KCR0019 Safeguarding

Safeguarding (Eoin Rush)

"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, review of social care structure in light of Munro, Social Work Reform Board recommendations and the development of a City wide Integrated Family Service., The service will also be responding to the findings of the Ofsted safeguarding and looked after children inspection conducted in March 2012"

KCR 0022 Financial Pressures

Reduction in Revenue Budgets (Ian Floyd)

"The requirement to respond to the public sector spending reductions/deal with demographic cost pressures, presents a financial challenge the scale of which the Council has never experienced. Reductions of some £40m from 2011-14 are required, and further savings will be needed in the future. Whilst long term financial planning provides a key control, critical to the organisation being able to manage this risk effectively lies in identifying and achieving the savings identified in service reviews and through making difficult choices in the way services are delivered. Achievement of the savings will also require both a full commitment across the organisation and a robust approach to the ongoing monitoring of the savings programme."

4. The number of high KCR's has not changed since the last monitor and therefore remains at 13. Full information in relation to the high and critical risks can be found in the KCR report that was distributed for information purposes separately to this monitor.

Risk Focus

5. Changes to Council Tax Support, one of the largest welfare changes to affect local authorities in 30 years, and the risks that this presents for the council is the key focus of this paper

Council Tax Support

6. The Government released a formal consultation document in August 2011 and then followed this up with a statement of intent in May 2012 on their plans for abolishing Council Tax Benefit and replacing it with a new local system of Council Tax Support.

7. The subsidy provided to local authorities, including York, will be reduced by 10% relative to current expenditure on council tax benefit. However, the Government has retained the right to prescribe the scheme for pensioners, which means they will continue to be supported at the current levels from the new grant. The impact of this protection to pensioners is that the full savings will need to be passed to working age customers, which will equate to approximately a 30% cut in their council tax support.

8. This cut in support could also detrimentally affect the normal in year council tax collection rate of 97.9%, which could potentially lead to a shortfall in the collection fund income for 2013/14. The combined effect of these issues is an overall potential shortfall of some £1.7m in 2013/14.

9. In addition, unlike the council tax subsidy, which covered 100% of the costs, should there be an increased uptake of Council Tax Support the grant is not increased to reflect this, so the financial implications for the authority and customers in the forthcoming years cannot at this stage be accurately predicted.

10. Work is currently being undertaken to develop a local council tax support scheme for York. To ensure that the approach taken is reasonable, it has been carried out in consultation with other local authorities at both a local and national level and account has also been taken of information that has

been disseminated from other key bodies such as the IRRV (Institute of Revenues, Rating and Valuation).

11. The methodology that is being used is to cap the amount of council tax discount awarded in each council tax band so that the difference between the award level and the true cost (the element that will need to be paid by the customer) equates to the saving required, ie the reduction in grant. This ensures that the budgetary impact on the council of the reduction in grant is managed effectively

12. The authority is aware that the reduction in support for working age customers that are on full income related benefit, or working and on a low income, will be of significant concern to these customers. As such, public consultations are to be undertaken to present the information to customers in advance of the changes and offer them an opportunity to feedback and comment on the proposals. It is also a key element of the consultation that it is made very clear that these changes have been brought about by Government and the authority has to respond to them. This will help to manage the reputational impact that these changes will have on the authority.

13. Members were briefed on the changes at an early stage to ensure that they had all the relevant information at that time. Since then more work has been undertaken and as a result a limited number of options have been presented to cabinet with regards to the shortfall in funding and how much should be passed to customers and how much might be found from other sources.

14. All decisions on the scheme will need to be made by November 2012 to ensure there is sufficient time for the work required to produce the annual council tax bills. The scheme must be published by 31st January 2013 to abide by the statutory deadline and the changes will actually be seen by customers from 1st April 2013.

New Developments

15. Given the transformation programmes taking place within the authority driven by the funding cuts announced in the 2010

spending review there are significant challenges arising both strategically and operationally, the effective management of risk and opportunity has never been more crucial.

16. The KCRs are in need of a review as they are now several years old and may not reflect the key risks the council currently faces. There is a raft of emerging and developing issues affecting the council some of which to a greater or lesser extent may or may not be covered in the current list of KCRs

17. In terms of reviewing and updating our current key risks an opportunity has arisen to work in partnership with Zurich Municipal who are experts in the field of local authority risk management to take a fresh approach to the identification and analysis of the critical risks and opportunities currently facing the authority. This has been undertaken in many other local authorities and is free of charge. It will be delivered through focused, facilitated, one to one discussions with senior management and appropriate risk owners. At the conclusion of the exercise, the feedback and findings will be presented to the council.

18. It is hoped that the work will be concluded and any actions required to update the councils risk register or methods of reporting risk will have been completed in time to provide information to A&G in risk monitor 4 2012/13.

Directorate Risks

19. The risks in respect of OCE are attached to this paper at Annex A and the risk report in respect of ACE due at the A&G meeting in April is attached at Annex B. Officers from both directorates are in attendance to answer any queries you have in respect of the risks contained within these annexes.

20. The timetable for risk reports from the other council directorates is set out below:

A&G Committee Date	Directorate
27 September 2012	Customer & Business Support Services
12 December 2012	Community & Neighbourhoods/City & Environmental Services
13 February 2013	Adults, Children and Education

Options

21. Not applicable.

Council Plan 2011 - 2015

22. The effective consideration and management of risk within all of the council's business processes helps support achieving 'a confident collaborative organisation' and aid the successful delivery of the five priorities.

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

23. 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

24. A&G are asked to:

(a) Consider the risk regarding the changes to council tax support at paragraphs 6 to 14.

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

(b) Consider, comment and agree on the proposed opportunity to work with Zurich to refresh the key risks facing the authority.

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

(c) Approve the directorate risk reporting agenda set out at paragraph 20.

Reason
To ensure that directorates bring forward updated risk reports providing assurance that risk is being properly managed through 2012/13.

Contact Details

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	Report Approved ✓ **Date** 12/07/12

Specialist Implications Officer(s) Not applicable

Wards Affected Not applicable **All**

For further information please contact the author of the report

Background Papers

Key Corporate Risk Monitor One 2012/13.

Annexes

A OCE directorate risk report
B ACE directorate risk report

Annex A

Office of the Chief Executives Risk Overview
July 2012

Communications:-

Risk: Poor response to issues - We respond inadequately or inaccurately to high-profile local issues.
Impact: (a) Reputational damage (b) Relationships with citizens, communities and businesses could be affected, making it harder to deliver some of the council priorities.
Mitigation: (a) The OCE restructure strengthens the management of the communications team (b) The communications team has a 24hr cover arrangement (c) Projects with a significant impact on the city have communications plans and support from the communications team.

Performance Management:-

Risk: Failing to deliver the Council Plan - We do not complete the actions for delivering the Council Plan.
Impact: We will not achieve our ambitions for the city.
Mitigation: (a) We have an agreed Policy and Performance Framework which sets out a performance-based approach to service planning and delivery (b) Service planning procedures and practices across the organisation are being harmonised based upon best practice (c) Service Plans are linked to the Council Plan to connect service activity with Council Plan priorities (d) There is a common governance and monitoring framework covering all the priority areas.

Risk: Resources: Lack of resources or skills within the business units or central services (e.g. Procurement, HR, ICT, Legal etc) to manage or support transformation and change
Impact: (a) Projects over-run so we miss in-year savings targets (b) Reduced benefits from projects because of poor implementation or additional costs (c) Reduced savings because of the need to buy-in more staff or staff with the necessary skills.
Mitigation: (a) The Lean Programme will spread skills in managing projects and change to business units (b) OCE will provide a centre of expertise to advise business units which are making changes or going through transformation (c) New Service Planning guidance includes the need for services to forecast their demand for support from central services (d) The holistic framework for monitoring provides an overall view of resource demands enabling gaps to be identified and addressed quickly.

Risk: Appropriate use of data - We fail to use the data in the hub to inform and direct policy and planning.
Impact: Council priorities will not meet the true needs of the city and its citizens.
Mitigation: (a) The principles of the new performance framework have been widely publicised to senior management (b) The Intelligence team are working more closely with the CANs/CES and ACE Performance teams to develop common approaches to data collection and performance monitoring to bring all performance data into the Hub (c) The Intelligence team and Corporate Finance team work together on the quarterly and annual reports to present a comprehensive picture of the state of the council (d) The new structure for OCE brings monitoring of economic data into the central Intelligence team (e) The OCE restructure also strengthens the Intelligence team.

Risk: Comparator data – Need to establish effective benchmarking data and procedures to replace the previous old Audit Commission regime of comparative quartiles.
Impact: (a) Without comparisons it is difficult to put performance into context and to make good value for money assessments (b) Could make it difficult to respond adequately to challenges to services and assess proposals for alternative delivery of services.
Mitigation: (a) The Intelligence team work closely with finance managers to establish effective driver and cost data (b) We subscribe to CIPFA and APSE toolkits which provide comparison data for some service areas (c) We are investigating other sources of comparator data from the LGA and commercial suppliers.

Annex B

Item 2.3

<u>Adult, Children & Education - Risk Overview</u>

Strategic Risks:

1. **<u>Fragmentation of the Education Community of York through growth of academies due either to their own choice or because they fall into an Ofsted category of concern</u>**

<u>Risk</u>: New Government policy enables good schools to become academies.
A more rigorous Ofsted framework places more schools in a category, and therefore the DfE expectation is that they will become an academy.
Reduced collaboration between schools to drive improvement.

<u>Impact</u>: Impact on Council budget should schools become academies, and on ACE capacity to deliver high quality core services to remaining schools.

<u>Mitigations</u>: Continuous dialogue with schools.
Sector-led school to school support through the Teaching School Alliance and York Education Partnership.
Strong understanding of the national picture to inform local decision making.
Strategic plan through York Education Partnership.
Improved buy-back service.
Strong understanding of the national picture to inform local decision making.

2. **<u>Inability to understand and respond to the demands of an Ageing Population</u>**

<u>Risk</u>: The Ageing Population Review has been completed and actions are being embedded in Directorates. If Directorates or Corporately we fail to give these actions the necessary priority and do not continue to respond to the changing needs of older people this will become a risk.

<u>Impact</u>: We must continue to build on our understanding of our response required to meet the demands of an ageing population. If we do not, this could lead to reputational damage and older people becoming disengaged with the council and broader social issues.

<u>Mitigations</u>: Support Directorate leads in embedding actions via an Ageing Well Programme of mentoring.

Partnership working around Dementia Without Walls maintaining momentum.

3. **Insufficient Capacity to provide High Quality Childcare Places across the City as required for Vulnerable 2 Year Olds Programme**

Risk: Lack of high quality places.

Impact: Lack of support for parents for career and learning.
Lack of childcare to enable parents to return into work, training or employment.
Impact on local job markets and employment figures.

Mitigations: Sufficient high quality places to meet the demands of the vulnerable two year old programme.
Strategic plan being written.
Implementation gradual.
QA and improvement scheme in place for all settings, including child minders.

4. **OFSTED/CQC/judge the council's Safeguarding Arrangements to be Inadequate**

Risk: OFSTED or CQC judge the council's safeguarding arrangements to be inadequate.

Impact: This could affect the council reputationally and undermine people's confidence in the services and prevent them from making referrals, resulting in vulnerable people not being identified as such.

Mitigations: Pre-inspection pack (Self-evaluation Framework).
Revised referral and assessment arrangements.
Standing Inspection Reference Group – chaired.
by the Director.
Commissioned LGID Peer Review – January 2011.
Positive Safeguarding and Looked After Children Inspection outcome – May 2012.

5. **Further Growth in the Looked After Population**

Risk: The care population is growing nationally and York has seen significant growth over the past 3 years.

Impact: Children should ideally be cared for within their own or extended family. Increases in care population brings concerns about quality of family functioning, this carries both individual risks for children and young people and financial risks to ensure children who are in care remain locally placed.

Mitigations: Targeted Preventative Services.
New front door arrangements on partnership basis.
Good permanency planning.

Enhanced legal scrutiny.
Integrated Family Support Services including Troubleshooter programme.

5. **Inability to meet the Demand for School Places**

Risk: Failure to predict demand accurately: children moving schools in year.

Impact: Children failing to secure preferences.

Children not being able to attend their local school and having to travel greater distances.

Reputational damage due to media coverage.

Mitigations: Analysis - population projections.
School Organisation Plan under development for York Education Partnership.
Collaborative commitment from York Education Partnership.

Financial Risks:

6. **Increasing Social Care Support Costs**

Risk: If we do not involve older people in the design and delivery of services such as health, social care, housing and other services and deliver the changes required to manage demand and create efficiencies/savings.

Impact: The rising demographic for social care support projections show that the costs could increase by £12m by 2020. This would happen if the council does not respond and change the way it delivers its services. We will lose the opportunity to have an inclusive design that supports older people's quality of life in the city.

Mitigations: Additional central government funding in 2011-12 to come via PCT.
Decision to procure a double capacity re-ablement service.
Review of EPH's.
White Paper produced July 2012.
Whole System approach at Health and Wellbeing Board.
Strong engagement with Clinical Commissioning Group.
North Yorkshire and York Review supporting whole system funding realignment toward community based support.

7. **Agreeing a Fair Price for Care**

Risk: Financial risk arising from challenges from the independent sector to the level of fees paid by the LA for home care and residential and nursing care.

Impact: National experience of judicial review resulting in findings against LAs incurring significant costs.
Financial implications also associated with achieving.

Mitigations: Negotiations underway.
National independent modelling available.

8. **Inability to deliver the Financial Strategy and make Savings within ACE**

Risk: The scale of the delivery challenge is unparalleled and will stretch leadership, project management and support service capacity. Another factor affecting this risk is how it is subject to secondary political decision-making due to targets having been agreed in advance of identifying the final and full delivery methods.

Impact: Lack of delivery has significant implications for the balancing of the corporate budget.
A key concern to address, in delivering the transformation programme, is doing so without experiencing any destabilisation within existing high risk services such as Safeguarding.

Mitigations: Monthly and quarterly monitoring reports.
Enhanced governance arrangements for delivery of savings programme.
DMT member leadership of each key project.
Project board arrangements established.
Programme built on previous work.
Strong consultation with staff and unions in place.

Operational Risks

9. **Information Security Incident**

Risk: Failure to have corporate information governance policies and procedures in place.

Impact: Legal challenge.

Mitigations: Improvement plan in place.
Record keeping.
Confidentiality policy.
Staff training.

10. **Failure to deliver essential services in an emergency**

Risk: Lack of Business Continuity Plans.

Impact: Within ACE this is particularly important because of the statutory responsibilities to protect vulnerable people..

The Council has a duty to ensure the continuity of its services to residents and customers. Business Continuity Plans should act as mitigating controls capable of reducing the impact of specific risks such as fire, flood or loss of staff. The lack of these plans reduces the Council's ability to respond and increases the level of exposure to associated reputational damage.

Mitigations: BIA's completed in all key sites.
Flu plan developed and tested.
BCP for each service division.

11. **Serious injury or death occurs where there is or should have been some safeguarding involvement**

Risk: Evidence that multi agency procedures were not properly implemented.

Impact: Serious case review which would put into the public domain the short comings of any services that were involved.

Mitigations: Monitoring of referral arrangements.
Safeguarding Children Board Professional Practice Monitoring Group established.
Implementation of comprehensive safeguarding children training programme.
Routine Case File Auditing.
Inspection feedback

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