Notice of a public meeting of

Audit & Governance Committee

To:	Councillors Cunningham-Cross (Chair), Barnes, Brooks (Vice-Chair), Burton, Cuthbertson, Watson and Steward
Date:	Thursday, 27 September 2012
Time:	4.30 pm
Venue:	The Guildhall, York

AGENDA

1. Declarations of Interest

At this point Members are asked to declare any personal, prejudicial or disclosable pecuniary 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 25 July 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 Wednesday 26 September 2012.**

4. Forward Plan (Pages 9 - 14)

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

5. Final Statement of Accounts and Annual Governance Report

a) Final Annual Financial Report - Statement of Accounts 2011/12 (Pages 15 - 162)

The purpose of this report is to bring to Members a revised and final set of accounts for 2011/12 which reflect the changes that have been made since the draft pre-audit accounts were presented to the committee for review on 25 July 2012.

b) Annual Governance Report 2011/12 (Pages 163 - 200)

The purpose of this report is to bring to Members' attention the Audit Commission's Annual Governance Report, agree the Council's response and seek approval to changes to the 2011/12 Financial Statement.

6. Key Corporate Risk Monitor Quarter 2 (Pages 201 - 212)

This paper presents an update on the key corporate risks and highlights any emerging risk issues.

7. Internal Audit Follow Up Report (Pages 213 - 218)

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

8. Audit, Counter Fraud and Information Governance (Pages 219 - 238)

This report provides an update on progress made in delivering the internal audit workplan for 2012/13 and on current counter fraud and information governance activity.

9. Direct Payments Update Report (Pages 239 - 244)

This report provides an update on action taken by officers to address weaknesses identified in monitoring direct payments during a 2011/12 audit.

10. Urgent Business

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

<u>Democracy Officer:</u>

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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Agenda Item 2

City of York Council | Committee Minutes

MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	25 JULY 2012
PRESENT	COUNCILLORS CUNNINGHAM-CROSS (CHAIR), BARNES, BROOKS (VICE-CHAIR), BURTON, CUTHBERTSON, WATSON AND STEWARD

9. 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. Councillor Barnes declared a personal non-prejudicial interest in agenda item 5 (minute 13 refers) – Draft Statement of Accounts 2011/12, as a Trustee of York Museums Trust. Councillor Cunningham-Cross declared a personal non-prejudicial interest in agenda item 7 (minute 15 refers) – Key Corporate Risk Monitor, as a parent whose child would require a school place in the future.

10. MINUTES

RESOLVED: That the minutes of the meeting held on 28 June 2012 be approved and signed by the Chair as a correct record.

11. PUBLIC PARTICIPATION

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

12. 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 June 2013.

Members were asked to identify any further items they wished to add to the Forward Plan.

Members, referring to a decision made at a previous meeting, expressed concern that no progress had been made in appointing an independent person to serve on the committee. It was agreed that an item should be included on the agenda for the next meeting to enable the committee to nominate a representative, with a view to an appointment being made at the Full Council meeting on 11 October 2012.

RESOLVED: That, subject to the inclusion of the item detailed above, the Committee's work plan for the period to June 2013 be approved[1].

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.

Action Required

1. Update committee's work plan	EA

13. DRAFT STATEMENT OF ACCOUNTS 2011/12

Members received a report that set out the background for the requirement for Members to review the draft pre-audit Statement of Accounts. The Annual Financial Report, which included the draft pre-audit Statement of Accounts was included as Annex B to the report.

Officers gave a presentation on the accounts.

Officers drew attention to the main changes that had occurred to the accounts in 2011/12, as outlined in paragraph 7 of the report. Members asked about the introduction of Heritage Assets, including the process that would have to be followed in the event of any such asset being sold. Officers explained the process and confirmed that the new arrangements would make the disposal of a heritage asset more difficult and that they would have to be valued prior to disposal.

At the request of Members, officers gave details of the arrangements that were in place to ensure that the best possible borrowing rates were obtained. In the case of the HRA housing stock, specific provision had been made.

The District Auditor gave a verbal update on the arrangements for external audit provision that would come into place from 1 November 2012 when the contract with Mazars would take effect. The contract was initially for a five year period. At the request of Members, details were given of the arrangements that would be in place to ensure that the quality of the service was monitored and that audit processes met required standards.

RESOLVED: (i) That the draft pre-audit Statement of Accounts for the financial year ended 31 March 2012 be noted.

(ii) That the Annual Governance Statement be noted.

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.

14. SCRUTINY OF THE TREASURY MANAGEMENT ANNUAL REPORT 2011/12

Members received a report that asked them to scrutinise the "Treasury Management Annual Report and 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").

RESOLVED: That the Treasury Management Annual Report 2011/12 and Review of Prudential Indicators be noted.

REASON: So that those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

15. KEY CORPORATE RISK MONITOR QUARTER 1

Members received a report that presented an update on the key corporate risks, and highlighted in more detail any emerging risk issues with a view to Members considering any further information they would wish to receive.

The report focused on the risks associated with the changes to Council Tax Support. Members questioned officers about the impact that the changes were likely to have on collection rates. Officers confirmed that it was anticipated that collection rates would not be as high as previously, although it was difficult to accurately predict by how much.

Consideration was given to the Directorate Risks in respect of the Office of the Chief Executive and the Adults, Children and Education Directorate. These were detailed in Annexes A and B of the report. Officers were in attendance to answer Members' questions.

Some concerns were expressed that the risks that had been identified were very broad and that more specific and detailed information should be provided. Officers confirmed that more detailed plans were in place in respect of the risks that had been identified, for example each strand of the Council Plan had its own a delivery plan. The format that had been presented was, however, helpful in identifying whether sufficient mitigating measures were in place.

Members questioned officers on the following issues:

- The arrangements that were in place to monitor progress, including a red, amber, green rating system.
- The development of more common approaches to data collection and performance monitoring, including the work of the Intelligence team.
- The situation in respect of the government policy on academies and the impact that this could have on the council's budget.
- The demands of an ageing population in terms of care requirements. It was noted that consideration was being given to new forms of collaboration and more preventative support. The implications of "Fair Price for Care" were also noted. Members commented that it was important that the increasing social care support costs were designated as a key corporate risk.

- The need to ensure that corporate parenting arrangements were appropriately monitored, including the role of Members.
- The implications of the "Care and Support" White Paper.
- The pressures on school places in some parts of the city and the need to ensure that a robust School Organisation Plan was in place and that some of the accommodation that had previously not been required as classrooms was brought back into use for this purpose.

It was noted that Members had not received the information on High and Critical Key Corporate Risks (KCRs) referred to paragraph 2 of the report. It was agreed that this would be circulated to Members by email following the meeting.

Members noted that the council had been offered the opportunity to work in partnership with Zurich Municipal to take a fresh approach to the identification and analysis of the critical risks and opportunities currently facing the authority. This had been undertaken in many other local authorities and would be free of charge.

RESOLVED: (i) That the risks regarding the changes to council tax support, as detailed in paragraphs 6 to 14 of the report, be noted.

(ii) That the committee noted the proposed opportunity to work with Zurich to refresh the key risks facing the authority.

(iii) That the directorate risk reporting agenda, as set out in paragraph 20 of the report be approved.

REASONS: (i) To provide assurance that the authority is effectively understanding and managing its key risks.

(ii) To provide assurance that risks to the council are continuously reviewed and updated.

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

Councillor Cunningham-Cross, Chair
[The meeting started at 5.00 pm and finished at 6.15 pm].

Agenda Item 4

CITY OF YORK COUNCIL

Audit and Governance Committee 27 September 2012

Report of the Director of CBSS

Audit & Governance Committee Forward Plan to July 2013

Summary

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to July 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 July. 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. Four amendments have been made to the forward plan since the previous version was presented to this Committee in July 2012. Firstly The Annual Report of the Audit & Governance Committee has been postponed until the April meeting due to the recent change in the chair of the Committee.

4. Additionally the report on the mechanism for the Audit & Governance Committee to work with the Standards Committee to improve the oversight of Corporate Governance has been delayed until December to allow further research to be undertaken.

5. The Audit & Governance Committee effectiveness working group will not have completed its work to enable it to report back to the September meeting therefore this has been delayed until the December meeting.

6. Finally the update on the independent member of the Committee will be reported as part of the effectiveness working group report in

December as this issue is being considered under the remit of their work.

Consultation

7. 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

8. Not relevant for the purpose of the report.

Analysis

9. Not relevant for the purpose of the report.

Council Plan

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

Implications

11.

(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

12. 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

13.
(a) The Committee's Forward Plan for the period up to July 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** 11/09/2012

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 July 2013

Annex

Audit & Governance Committee Draft Forward Plan to July 2013

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

- **<u>Committee 12th December 2012</u>**

  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)

- **Committee 17 April 2013**

  Approval of Internal Audit Plan

  Annual Report of the Audit & Governance Committee

  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)

- **Committee June 2013 (Date TBC)**

  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)

- **Committee July 2013 (Date TBC)**

  Draft Statement of Accounts 2012/13

  Scrutiny of the Treasury Management Annual Repot 2012/13 and review of prudential indicators

  Key Corporate Risk Monitor Quarter 1 (Including directorate risks)

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

CITY OF YORK COUNCIL

Audit and Governance Committee 27 September 2012

Report of the Director of Customer & Business Support Services

Final Annual Financial Report - Statement of Accounts 2011/12

Summary

1. The purpose of this report is to bring to Members a revised and final set of Accounts for 2011/12, which reflect the changes that have been made since the draft pre-audit accounts were presented to Audit and Governance Committee for review, in line with CIPFA best practice, on 25th July 2012.

2. The Audit Commission commenced their audit of the Annual Financial Report - Statement of Accounts 2011/12 at the beginning of August and the following item on the agenda:
   Annual Governance Report – Audit Commission
   will present to Members the findings of their audit.

3. This report is for Members to Note the Annual Financial Report - Statement of Accounts 2011/12. Members will then approve the Annual Financial Report – Statement of accounts 2011/12 following consideration of the Annual Governance Report – Audit Commission, which follows on this agenda.

Background

4. The draft pre-audit Annual Financial Report - Statement of Accounts for 2011/12 were signed by the Chief Finance Officer – Director of Customer & Business Support Services – on 29 June 2012. This is in accordance with the revised Accounts and Audit Regulations 2012, which require authorisation by 30 June each year.

5. The Annual Financial Report - Statement of Accounts 2011/12 has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK, in line with International Financial Reporting Standards (IFRS).

6. The 2011/12 Annual Financial Report - Statement of Accounts attached at Annex A have been revised since the Audit & Governance Committee review in July 2012. The 4 core statements (Comprehensive Income & Expenditure Accounts, Movement in Reserves Statement, Balance Sheet and Cash flow Statement) have been adjusted which has resulted in the notes to the accounts also being amended.

7. It should be noted that these changes have no affect on the budget outturn net expenditure position of the council which has remained at £124.2m. The changes to the Statement of Accountants are accounting adjustments to ensure they present a true & fair view.

8. The 2011/12 audit is now substantially complete. The audit commission summarise their review of the Annual Financial Report - Statement of Accounts 2011/12 in their Annual Governance Report (AGR), which is included in this agenda. The AGR encapsulates the following points:
   (a) opinion on the financial statements
   (b) errors adjusted by management
   (c) significant risks and findings
   (d) weaknesses in Internal Control
   (e) Other matters
   (f) Whole of Government Accounts
   Further information is detailed in the Audit Commission's AGR.

9. The annual production of the Annual Financial Report - Statement of Accounts 2011/12 is the subject of continuous review and as usual, lessons will be gleaned from the issues identified this year. It was pleasing to note that Accountants and Accounting Technicians across CYC worked well as a team in 2011/12 to ensure that statutory deadlines were adhered too.

10. The issues identified in 2011/12 form the basis of a structured improvement programme in the build up to the production of next years Financial Report - Statement of Accounts 2012/13 which will focus on:
    (i) enhanced project planning to ensure tighter more efficient deadlines are achieved
    (ii) increased frequency of meetings with the new external auditors – Mazars
    (iii) further specific training sessions / communication with accountants / accounting technicians

Consultation

11. All services areas of the Authority have contributed to the final Annual Financial Report - Statement of Accounts and working papers.

Options

12. Not relevant for the purpose of the report. It is a statutory requirement to produce an Annual Financial Report – Statement of Accounts every year by 30 September.

Analysis

13. Not relevant for the purpose of the report.

Corporate Priorities

14. The Annual Financial Report - Statement of Accounts provides a technical financial summary of the activities of the council and assists in providing the Council with a viable financial position in which to base it future budget projections. It is a statutory requirement that the Audit & Governance Committee approves the Statement of Accounts after the audit by 30 September 2012.

Implications

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

Risk Management

16. Areas of risk identified throughout the Annual Financial Reporting Statement of Accounts process are monitored and managed on an ongoing basis to ensure the statutory deadline is met. The risks identified in 2011/12 are listed in the Audit Commission Annual Governance Report at item xx on this agenda and include:
    - The inclusion of Heritage Assets for the first time under the CIPFA Code of Practice for Local Authorities
    - The valuation of property and the complexity of the regulations
    - Preparation of the accounts ensuring a consistent approach as all Accountants across the authority are involved

17. The Audit Commission with the overall production of the Annual Financial Report – Statement of Accounts and plan to issue an

audit report including an unqualified opinion on the financial statements.

Recommendations

18. Members are asked to Note the Final Annual Financial Report - Statement of Accounts for 2011/12 in order that they can receive the Annual Governance Report of the Audit Commission also included on this agenda.
(The Annual Financial Report – Statement of Accounts 2011/12 will be approved by members following the Annual Governance Report - Audit Commission.)

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

Contact Details

Author:	**Chief Officer Responsible for the report:**
Louise Branford-White Technical Finance Manager Telephone: 01904 551187	Ian Floyd Director of Customer & Business Support Services Telephone: 01904 551100
	Report Approved √ **Date** 27/09/12

Specialist Implications Officers
Not applicable

Wards Affected: **All** √

For further information please contact the author of the report

Background Papers:
Audit and Governance Committee 27h July 2012 – Pre-Audit Statement of Accounts 2011/12

Annex
Annex A – Final Statement of Accounts 2011/12

Annex A

CITY OF YORK COUNCIL

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.

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 Comprehensive Income & Expenditure Statement (CIES) position showed a deficit of £147.1m for 2011/12, and this when combined with the required statutory adjustments included in the Movement in Reserves Statement resulted in £13.4m being transferred to reserves – General fund reserve £6.4m and Schools reserve £7.0m. The overall movement on reserves was £348.9m.

The CIES is the position included in the Statement of Accounts every year and this can be reconciled back to the Authority's General Fund Budget which is reported quarterly during the financial year. The reconciliation between the CIES £147.1m and the General Fund Budget £123.9m can be seen in Note 30 to the Statement of Accounts.

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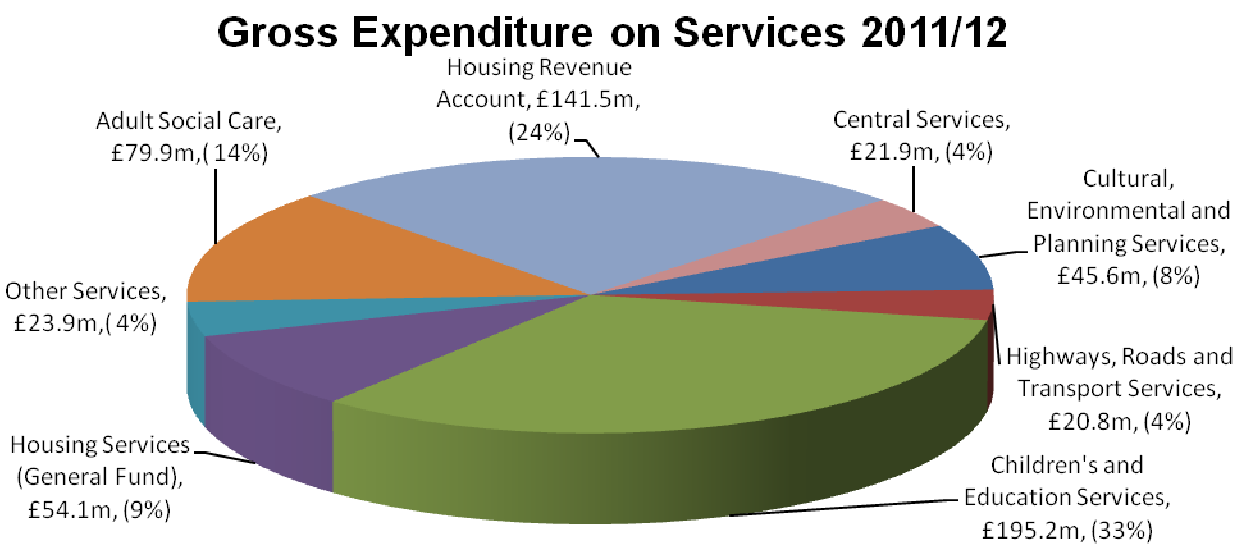
The Authority's General Fund budget for its own net expenditure was set at £123.9m. To this sum the parish precepts added a further £0.6m.

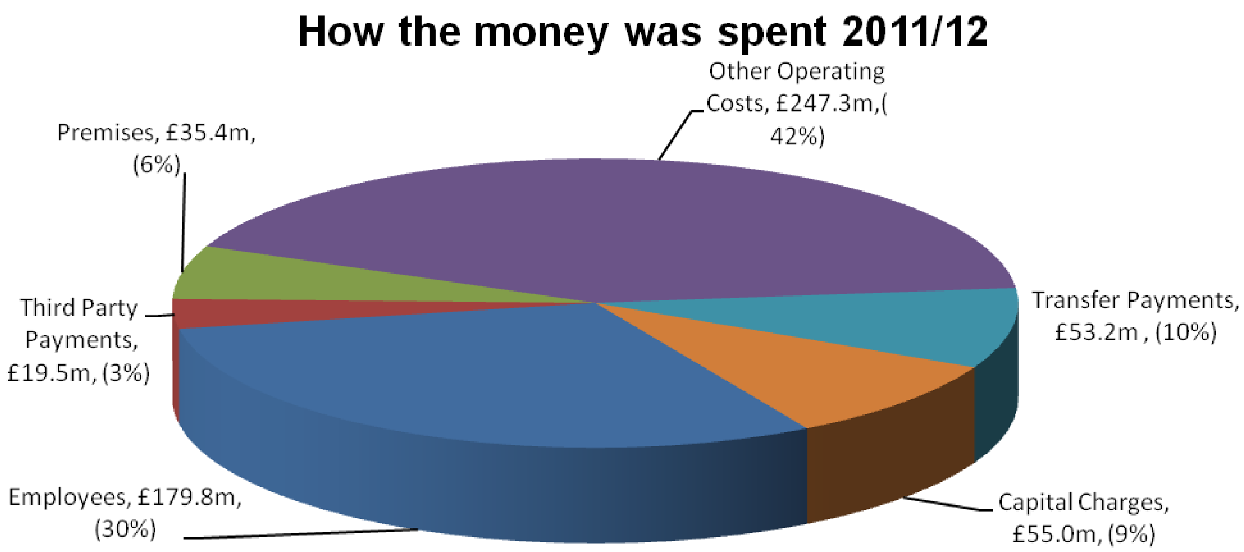
The out-turn position is a net expenditure, including parish precepts, of £124.2m, representing an underspend of £0.3m. Included within the net underspend are several service areas where there have been significant budgetary pressures, for example additional costs have arisen due to increased client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

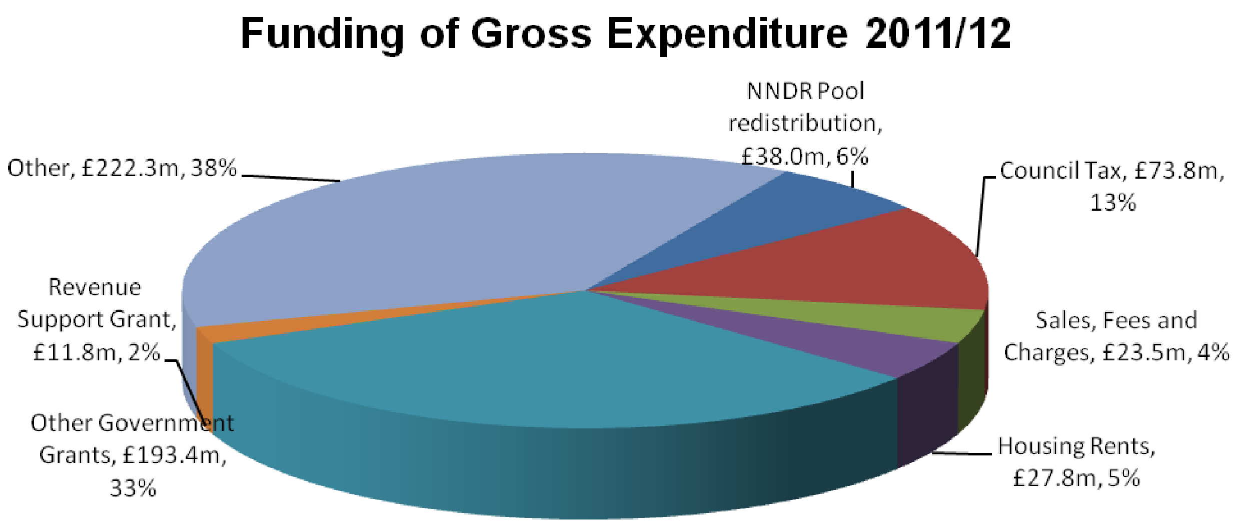


Included within other services is expenditure on court services, corporate and democratic core, non-distributed costs and exceptional items.



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 £7.697m.

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:

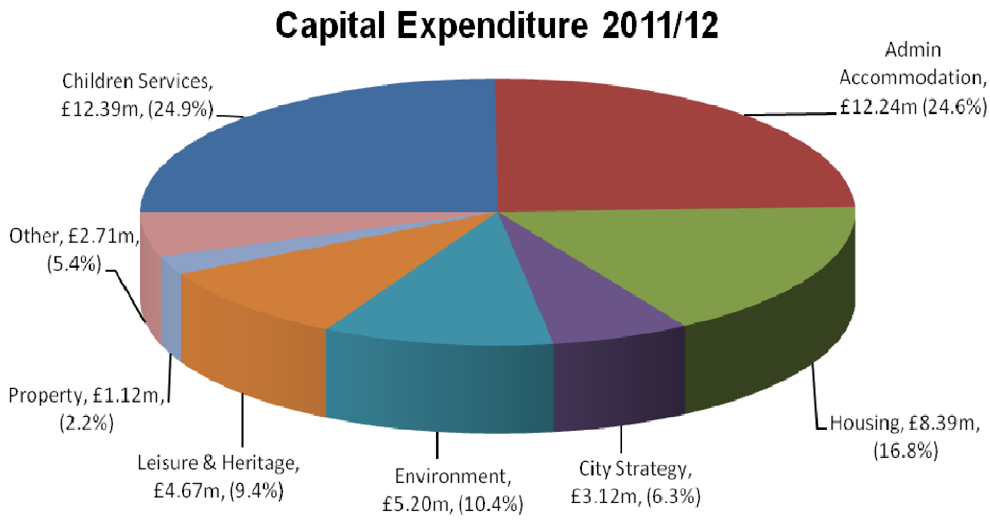
		£000's
(i)	Reduction in repairs and maintenance costs	336
(ii)	Reduced costs from departmental and support services, mainly due to staffing	509
(iii)	Reduced cost of providing temporary and sheltered accommodation	268
(iv)	Reduced revenue contribution due to slippage of capital schemes	218
(v)	Increase 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

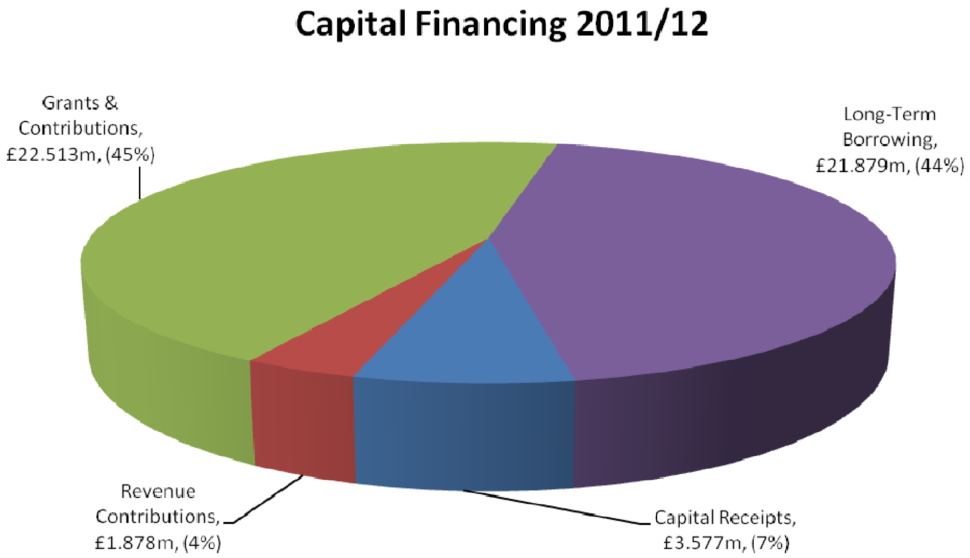
At 31 March 2012 the surplus on the Collection Fund is £0.209m although £0.040m of this is owed to the North Yorkshire Police Authority and the North Yorkshire Fire and Rescue Authority. The year-end surplus has arisen due to increased recovery action taken during the last three months of the year. 97.9% 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). This does not include £0.271m (2010/11 £1.009m) capital expenditure funded by finance leases. 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

The closing borrowing figure of £262.492m 11/12 (£133.848m 10/11) is different to note 16 borrowings figure of £262.768m (£134.123m 10/11) by £276k, as the former does not include the Coppergate Bond of £176k and the York Credit Union Loan of £100k.

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%.

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 for five years from 2007/08 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 the CIPFA Code Guidance Notes for 2011/12 Accounts 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.

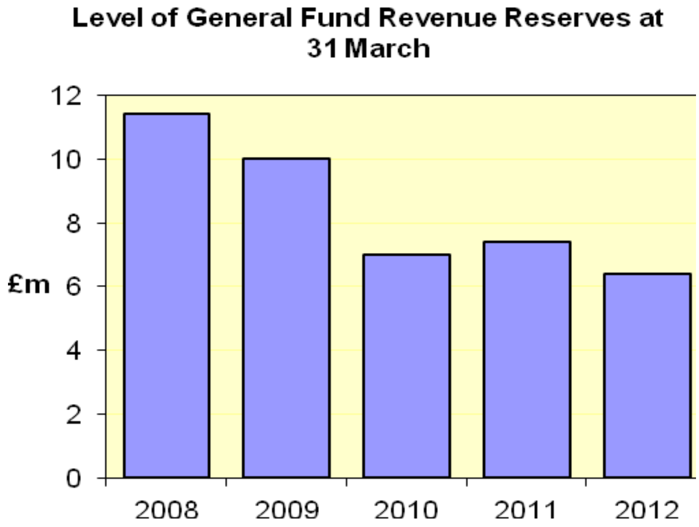
Depreciation in 2011/12 was £17.2m (10/11 £17.9m -restated for Heritage Asset Prior Period Adjustment), overall revaluation gain of £10.4m (10/11 revaluation loss £115.5m-restated for Heritage Asset Prior Period Adjustment) and capital expenditure contributing to the asset value by £49.8m (10/11 £43.0m - restated for Heritage Asset Prior Period Adjustment).

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

Opinion on the Council's financial statements

I have audited the financial statements of City of York Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of City of York Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Customer and Business Support Services and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of City of York Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

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

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

INDEPENDENT AUDITOR'S REPORT

I certify that I have completed the audit of the accounts of City of York Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Steve Nicklin
District Auditor

Audit Commission

Nickalls House

Metro Centre

Gateshead

NE11 9NH

September 2012

ANNUAL GOVERNANCE 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.

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)

Significant Governance Issues cont'd

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed Dated 18.09.12
K. England
Chief Executive

Signed Dated 18.09.12
Cllr J. Alexander
Leader of the Council

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

4. APPROVAL OF THE ACCOUNTS

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

The Statement of Accounts was approved by Audit and Governance Committee on 27 September 2012.

On behalf of the Audit and Governance Committee

Signed .... Dated ....

Cllr L. Cunningham-Cross
Chair, Audit and Governance Committee

CORE FINANCIAL STATEMENTS

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

		2011/12			2010/11 Restated		
		Gross		**Net**	Gross		Net
		Exp.	**Income**	**Exp.**	Exp.	Income	Exp.
	Note	**£000's**	**£000's**	**£000's**	£000's	£000's	£000's
Service Costs							
Central Services to the Public		**22,195**	**(16,252)**	**5,943**	27,320	(18,864)	8,456
Cultural Services		**16,277**	**(3,026)**	**13,251**	8,125	(723)	7,402
Environmental Services		**22,430**	**(6,110)**	**16,320**	29,003	(9,133)	19,870
Planning Services		**6,894**	**(2,736)**	**4,158**	6,971	(2,205)	4,766
Children's and Education Services		**195,175**	**(134,630)**	**60,545**	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		**7,039**	**-**	**7,039**	104,498	-	104,498
Local Authority Housing - settlement payment to							
Government for HRA self-financing		**121,550**	**-**	**121,550**	-	-	-
Local Authority Housing - Other		**19,928**	**(30,808)**	**(10,880)**	27,290	(28,522)	(1,232)
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		**571,441**	**(275,029)**	**296,412**	547,953	(321,866)	226,087
Other Operating Expenditure	(9)	**4,254**	**(3,578)**	**676**	8,768	(7,469)	1,299
Financing and Investment Income and	(10)						
Expenditure		**14,494**	**(3,038)**	**11,456**	18,579	(7,118)	11,461
Taxation and Non-Specific Grant Income	(11)	**-**	**(154,084)**	**(154,084)**	-	(152,720)	(152,720)
(Surplus)/Deficit on Provision of Services		**590,189**	**(435,729)**	**154,460**	575,300	(489,173)	86,127
Surplus/loss arising on the revaluation of							
property, plant and equipment assets	(26)			**(47,743)**			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				**(16,910)**			(20,594)
Total Comprehensive Income and Expenditure				**137,550**			65,533

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)	-	104,235	-	-	-	-	86,127	-	86,127
Other Comprehensive Income and Expenditure movement		-	-	-	-	-	-	-	-	(20,594)	(20,594)
Total Comprehensive Expenditure and Income		(18,108)	-	104,235	-	-	-	-	86,127	(20,594)	65,533
Adjustments between accounting basis & funding basis under regulations	7	16,389	213	(106,090)	-	136	(836)	529	(89,659)	89,659	-
Net Increase/Decrease before Transfers to Earmarked Reserves		(1,719)	213	(1,855)	-	136	(836)	529	(3,532)	69,065	65,533
Transfers to/from Earmarked Reserves	8	734	(734)	337	(337)		-	-	-	-	-
Increase/Decrease in Year		(985)	(521)	(1,518)	(337)	136	(836)	529	(3,532)	69,065	65,533
Balance at 31 March 2011 carried forward		**(14,711)**	**(16,399)**	**(10,398)**	**(2,120)**	**(667)**	**(990)**	**(1,314)**	**(46,599)**	**(433,246)**	**(479,845)**
Balance at 31 March 2011		**(14,711)**	**(16,399)**	**(10,398)**	**(2,120)**	**(667)**	**(990)**	**(1,314)**	**(46,599)**	**(433,246)**	**(479,845)**
Movement in Reserves during 2011/12											
Surplus /(Deficit) on Provision of Services		35,946	-	118,514	-	-	-	-	154,460	-	154,460
Other Comprehensive Income and Expenditure movement		-	-	-	-	-	-	-	-	(16,910)	(16,910)
Total Comprehensive Expenditure and Income		35,946	-	118,514	-	-	-	-	154,460	(16,910)	137,550
Adjustments between accounting basis & funding basis under regulations	7	(39,340)	-	(119,285)	-	93	(2)	(3,282)	(161,816)	161,816	-
Net Increase/Decrease before Transfers to Earmarked Reserves		(3,394)	-	(771)	-	93	(2)	(3,282)	(7,356)	144,906	137,550
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)	144,906	137,550
Balance at 31 March 2012 carried forward		**(13,441)**	**(21,063)**	**(10,811)**	**(2,478)**	**(574)**	**(992)**	**(4,596)**	**(53,955)**	**(288,340)**	**(342,295)**

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	31 March 2010 Restated £000's
Property, Plant and Equipment	(12)	**692,626**	659,282	756,172
Investment Property	(14)	**38,700**	43,026	44,167
Intangible Assets	(15)	**2,311**	2,162	2,214
Heritage Assets	(13)	**38,757**	38,757	38,757
Long - Term Investments	(39)	**1,215**	1,215	1,215
Long - Term Debtors		**4,468**	4,318	4,023
LONG - TERM ASSETS		**778,077**	748,760	846,548
Short-Term Investments	(16)	**10,000**	24,046	17,232
Assets Held for Sale	(22)	**1,335**	0	-
Inventories	(17)	**458**	495	506
Short-Term Debtors	(19)	**24,757**	21,009	26,989
Cash and Cash Equivalents	(21)	**21,459**	20,405	17,453
CURRENT ASSETS		**58,009**	65,955	62,180
Short-Term Borrowing	(16)	**(10,002)**	(11,942)	(8,676)
Provisions due to be settled within 12 months	(24)	**(5,821)**	(4,729)	(5,905)
Short-Term Creditors	(23)	**(33,278)**	(37,895)	(39,179)
CURRENT LIABILITIES		**(49,101)**	(54,566)	(53,760)
Long-Term Creditors		**(28)**	(28)	(41)
Provisions	(24)	**(2,768)**	(2,120)	(2,497)
Long-Term Borrowing		**(252,766)**	(122,181)	(108,147)
Other Long-Term Liabilities		**(6,849)**	(7,902)	(8,927)
Capital Grants Receipts in Advance		**0**	0	-
Liability related to Defined Benefit Pension Scheme		**(182,279)**	(148,073)	(189,978)
LONG-TERM LIABILITIES		**(444,690)**	(280,304)	(309,590)
NET ASSETS		**342,295**	479,845	545,378
RESERVES				
Usable Reserves	(25)			
Capital Receipts Reserve		**992**	990	154
General Fund Balance		**13,441**	14,711	13,726
Housing Revenue Account Reserve		**10,811**	10,398	8,880
Major Repairs Reserve		**574**	667	803
Capital Grants Unapplied		**4,596**	1,314	1,843
Earmarked Reserves		**23,541**	18,519	17,661
		53,955	46,599	43,067
Unusable Reserves	(26)			
Revaluation Reserve		**130,489**	83,517	88,869
Capital Adjustment Account		**347,342**	503,332	610,546
Available-for-sale Financial Instruments Reserve		**0**	0	-
Financial Instruments Adjustment Account		**(2,060)**	(2,173)	(2,198)
Pensions Reserve		**(182,279)**	(148,073)	(189,978)
Collection Fund Adjustment Account		**169**	1,085	975
Employee Benefit Adjustment Account		**(5,321)**	(4,442)	(5,903)
		288,340	433,246	502,311
TOTAL RESERVES		**342,295**	479,845	545,378

CASH FLOW STATEMENT

	Note	**2011/12**	2010/11 Restated
		£000's	£000's
Net (Surplus)/Deficit on the provision of Services		**154,460**	85,796
Adjustments to the Net (Surplus)/Deficit on the Provision of Services for non-cash movements	(27)	**(65,001)**	(123,777)
Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are investing and financing activities	(27)	**24,035**	25,527
Net Cash Flows from Operating Activities		**113,494**	(12,454)
Investing Activities	(28)	**26,762**	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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

	maintenance, bringing into doubt the useful lives assigned to assets.	
Property, Plant and Equipment and Investment Properties	Assets are re-valued on a five yearly cycle resulting in a gain or a loss. The current economic climate makes it uncertain as to the value of assets. A desk top review occurs to ensure that the value of assets remains current.	If the economic market improves, then the value of assets rise and the carrying amount of the assets increase. Alternatively if revaluation losses occur the carrying amount of the assets fall.
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 pension's 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

NOTES TO THE CORE FINANCIAL STATEMENTS

2011/12

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
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)	-	2,702	-	-	-	**34,354**
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:							
Statuatory 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	14,530	-	427	-	-	-	**(14,957)**
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:	**(39,340)**	**-**	**(119,285)**	**93**	**(2)**	**(3,282)**	**161,816**

NOTES TO THE CORE FINANCIAL STATEMENTS

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

NOTES TO THE CORE FINANCIAL STATEMENTS

2010/11

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
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)	-	(103,901)	-	-	-	**114,906**
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**	**(106,090)**	**136**	**(836)**	**529**	**89,659**

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	(7,426)	(12,070)	(7,441)
HRA				
53rd Week Rent	101	-	377	276
Voluntary Debt Repayment	-	(459)	(2,855)	(2,396)
	4,796	(9,818)	(23,541)	(18,519)

9. OTHER OPERATING EXPENDITURE

	2011/12 £'000's	2010/11 £'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

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	**(26,887)**	(22,284)
Capital grants and contributions	**(15,362)**	(18,058)
Total	**(154,084)**	(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 £000s
Net Book Value								
At 1 April 2011	259,966	268,005	8,505	89,435	4,378	28,993	659,282	14,279
Category Adjustments	-	7,519	990	1,015	-	(10,493)	(969)	-
Revised 1 April 2011	**259,966**	**275,524**	**9,495**	**90,450**	**4,378**	**18,500**	**658,313**	**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	8,406	46,883	-	-	712	-	56,001	1,116
Revaluation increases/ (decreases) recognised in the (Surplus)/Deficit on the Provision of services	(7,039)	(36,131)	-	-	(1,507)	-	(44,677)	(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	**263,303**	**285,304**	**7,666**	**94,060**	**3,507**	**38,786**	**692,626**	**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	(103,442)	(11,479)	-	-	-	-	(114,921)	-
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	**259,966**	**268,005**	**8,505**	**89,435**	**4,378**	**28,993**	**659,282**	**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£6.9m, this includes £2.97m in relation to West Offices/the new Administrative Accommodation building. 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			2010/11		
	Internally Generated Assets	**Other Assets**	**Total**	Internally Generated Assets	Other Assets	Total
	£000	**£000**	**£000**	£000	£000	£000
Balance at start of year:						
- Gross carrying amounts	**-**	**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		Remaining
	2011/12	2010/11	Amortisation
	£000's	£000's	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

NOTES TO THE CORE FINANCIAL STATEMENTS

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	**(28)**	(28)	**(33,278)**	(37,895)
Total Creditors	**(28)**	(28)	**(33,278)**	(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	**(20,478)**	**(23,220)**	(25,405)	(26,988)
Total debt	**(262,768)**	**(294,022)**	(134,022)	(141,481)
Long term creditors	(28)	(28)	(28)	(28)
Total Financial liabilities	**(262,796)**	**(294,050)**	(134,050)	(141,509)

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 the Year	**(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

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 **2011/12 £000's**	2010/11 £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	**(25,483)**	(23,925)
Total Creditors	**(33,278)**	**(37,895)**

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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	**(60,133)**		(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		**(47,743)**		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		**(130,489)**		(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.

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	**(503,332)**	**(619,719)**
Prior year adjustments (including Heritage Assets)	**-**	**9,174**
Revised Balance at 1 April	**(503,332)**	**(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	**34,354**	114,906
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
	66,226	151,758
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	**65,482**	**149,212**
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	**(347,342)**	**(503,332)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. [The 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.	**(14,957)**	(15,787)
Balance at 31 March	**182,279**	**148,073**

NOTES TO THE CORE FINANCIAL STATEMENTS

Collection Fund Adjustment Account

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

	31-Mar-12 £000's	31-Mar-11 £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**

Capital Grants Unapplied

The capital Grants Unapplied reserve is where capital grants have been received but not yet used to support capital expenditure. Capital grants unapplied will be used to fund a future committed capital scheme in the following year.

	31-Mar-12 £000's
Balance at 1 April	**(1,314)**
Capital Grants received in year including REFCUS	**(15,361)**
Revenue Expenditure Funded from Capital Under Statute (REFCUS)	**(4,683)**
Transfer from Earmarked Reserves to fund Capital Expenditure	**(473)**
Capital Grants Applied to Capital Expenditure	**17,235**
Balance at 31 March	**(4,596)**

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 Restated £000's
Interest received	**(787)**	(802)
Interest paid	**6,288**	6,472
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:

	31-Mar-12 £000's	31-Mar-11 Restated £000's
Depreciation, Impairment and Amortisation of fixed assets	**(61,902)**	(131,645)
Increase in Impairment for bad debt provision	**-**	-
Increase/(decrease) in stocks and works in progress	**(37)**	(11)
Increase/(decrease) in debtors	**3,572**	(5,980)
(Increase)/decrease in creditors	**3,126**	1,284
Pension Liability		
Net Charge to the CIES	**14,957**	2,716
Employers contributions to pension funds and direct payments to pensioners	**(18,280)**	15,787
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	**(1,775)**	1,554
Movements in the value of investment properties	**(937)**	-
Movements in the value of Finance Leases and PFI	**(73)**	-
Adjustment to the Net Surplus or Deficit on Provision of Services for non-cash movements	**(65,001)**	(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	**20,044**	18,058
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	**24,035**	25,527

28. CASHFLOW STATEMENT – INVESTING ACTIVITIES

NOTES TO THE CORE FINANCIAL STATEMENTS

	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	**(20,044)**	(18,058)
Net cash flows from investing activities	**26,762**	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.

	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)**	(140,852)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	**62,602**	119,626
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	**154,460**	**86,127**

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	3,323			878		**106,559**
Other Service Expenses	398,948	9,602					**408,550**
Support Service Recharges	18,790	17,931		(18,790)			**17,931**
Depreciation, Amortisation & Impairment		49,715					**49,715**
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**	**80,533**	**-**	**(18,790)**	**878**	**602**	**590,189**
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**	**62,602**	**111,846**	**-**	**(19,639)**	**(123,900)**	**154,460**

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	379,398	9,964					**389,362**
Support Service Recharges	18,862	(40,598)		(18,862)			**(40,598)**
Depreciation, Amortisation & Impairment		126,637					**126,637**
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		1,553					**1,553**
Total Expenditure	**516,013**	**79,028**	**-**	**(18,862)**	**(1,461)**	**582**	**575,300**
Fees, Charges & Other Service Income	(191,472)	40,598	(9,615)	18,862			**(141,627)**
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)				(22,053)	(44,571)	**(273,395)**
Total Income	**(399,045)**	**40,598**	**(9,615)**	**18,862**	**(22,053)**	**(117,920)**	**(489,173)**
Surplus Or Deficit On The Provision Of Services	**116,968**	**119,626**	**(9,615)**	**-**	**(23,514)**	**(117,338)**	**86,127**

31. ACQUIRED AND DISCONTINUED OPERATIONS

All Authority operations are categorised as continuing operations.

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 are detailed in the table:

	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	**548**	543
Expenses	**10**	9
Total	**558**	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 £558k (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 & Allowances) £000's	Expense Allowances £000's	Compensation for loss of office £000's	Total Remuneration excluding Pension contributions 2011/12 £000's	Pension contributions £000's	Total Remuneration including Pension contributions 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 2011/12	2010/11	Total cost of exit packages in each band 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	**49**	46
Fees payable in respect of other services provided by the appointed auditor	**5**	-
	260	271

39. DEDICATED SCHOOLS GRANT

The Authority's expenditure on schools is funded primarily by grant monies provided by the Department for Education, via the Dedicated Schools Grant (DSG). For 2011/12 the sum received is £98.654m (2010/11 £92.905m) 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 2011. The Schools Budget includes elements for a restricted range of services provided on an 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	10,964	87,559	-	98,523
Over/(under) spend for the year	(416)	285	-	(131)
Over/(under) spend from prior year	(256)	-	-	(256)
Underspend carried forward to 2012/13	(672)	285	-	(387)

NOTES TO THE CORE FINANCIAL STATEMENTS

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	**(13,866)**	(2,066)
Capital Grants	**(15,362)**	(18,058)
Contributions	**(1,269)**	
Housing and Planning Act Grant	**-**	-
TOTAL	**(154,084)**	(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)

NOTES TO THE CORE FINANCIAL STATEMENTS

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

	31-Mar-12 £000's
Current Liabilities	
Grants Receipts in Advance (Capital Grants)	
S106 Contributions with conditions	(275)
TOTAL	(275)
Grants Receipts in Advance (Revenue Grants)	
DOH Drug and Alcohol Action Team	(370)
Education Misc Grants	(168)
DCLG New Homes Bonus Scheme	(148)
SFA Work Based Training	(128)
Young Peoples Learning Agency	(56)
Miscellaneous other grants	(51)
TOTAL	(921)

	31-Mar-11 £000's
Current Liabilities	
Grants Receipts in Advance (Capital Grants)	
TCF 14-19 SEN and Access	(3,428)
Primary Capital Programme	(2,031)
Co-Location Fund	(396)
TCF Standards and Diversity	(624)
Dept of Education Devolved Formula Grant	(109)
TOTAL	(6,588)
Grants Receipts in Advance (Revenue Grants)	
Pot holes Grant	(435)
Drug and Alcohol Action Team	(369)
SF 14-19 Flexible Funding	(228)
SF Primary National Strategy	(223)
Diploma Formula Grant	(202)
Nursery and Pathfinder Grant	(165)
Balance of ASTs	(149)
School Lunch Grant	(134)
Campus Grant	(103)
SF Secondary National Strategy	(78)
Sustainability Grant	(69)
DfE Diploma Funding	(68)
Social Care Reform Grant	(55)
Work Based Learning Apprenticeships	(55)
E2E Foundation Level 1	(50)
Miscellaneous other grants under £50,000	(554)
TOTAL	(2,937)

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 Limited and Veritau Limited please see Long Term Investments note

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

Science City York is a company limited by guarantee and is a non profit organisation. There is no share capital but the Authority being a member is liable to contribute £1 in the event of the company being wound up. The members also include the University of York. There are two transactions between Science City York and the Authority each year. Loan interest is paid to the authority on the £50k loan and a service level agreement is set up where by the Authority gives a grant to Science City York of £100k. The Chief Executive of City of York Council – Kersten England – is a member of the board.

In May 2011, a subsidiary of Science City York was set up called SCY Enterprises Ltd. This is a wholly owned subsidiary of Science City York.

City of York Trading was incorporated as a private company, 100% owned by the Council, on the 18th November 2011 but no trading took place during 2011/12. Development work has been ongoing and the company commenced trading in June 2012.

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).

York Science Park
City of York Council has owned shares in the company since 23 December 1999 and the nominal value of the shares is £1. The Authority now holds 200 shares which represent less than 20% of the total share capital at £1.157m. The Authority received no dividends or profits from York Science Park and holds no liability. There were no monetary transactions between the Authority and the company during 2011/12.

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 **£000's**	2010/11 Restated £000's
Opening Capital Financing Requirement	**160,397**	145,228
Capital Investment		
Property, Plant and Equipment	**40,667**	42,771
Investment Properties	**4**	24
Intangible Assets	**145**	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 £000's	2010/11 £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 £000's	2010/11 £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 £6.382m (2010/11 £7.092m) to CTP in respect of teachers' retirement benefits, which represents 14.0% (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

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		**14,957**		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 Local Government Pension Scheme £000's	**As at 31-Mar-12** Unfunded Teachers Scheme £000's	As at 31-Mar-11 Local Government Pension Scheme £000's	As at 31-Mar-11 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 Local Government Pension Scheme £000's	**As at 31-Mar-12** Unfunded Teachers Scheme £000's	As at 31-Mar-11 Local Government Pension Scheme £000's	As at 31-Mar-11 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	**(14,265)**	**(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	**(288,036)**	**-**	(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)	(288,036)
(Surplus)/Deficit in the Scheme					
Local Government Pension Scheme	125,425	142,062	179,315	136,960	170,595
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	182,279

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:

NOTES TO THE CORE FINANCIAL STATEMENTS

	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

Waste Management - 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.

Municipal Mutual Insurance Ltd. - Prior to 1992, the council's public liability and employers liability insurance were supplied by Municipal Mutual Insurance Ltd. In 1992 the company ceased to accept new business and entered a run off period. In 1994, a Scheme of Agreement under the Companies Act 1985 was put in place, under which if the company became at risk of insolvency, it would be able to claw back the necessary percentage of the claims it had paid out since the commencement of the Scheme of Agreement. The council has been advised that a recent court ruling on 28 March 2012 in relation to employers' liability for occupational disease claims such as asbestos is likely to have adversely affected the financial position of Municipal Mutual Insurance Ltd to the extent that a clawback of claims has become likely. It is estimated that CYC will be potentially liable for £418,226.95. At this time it is still unclear as to the way forward and the Board of-Directors of MMI is seeking advice from its professional advisers in order to determine the full implications of the judgement.

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

This Council uses the creditworthiness service provided by Sector Treasury Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 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.

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 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 instituti	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 of 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 liabilities is as follows:

	31-Mar-12 £000's	31-Mar-11 £000's
Maturing within one year	**(3,977)**	(5,884)
Maturing in 1 - 2 years	**-**	(3,000)
Maturing in 2 - 5 years	**(13,676)**	(6,674)
Maturing in 5 - 10 years	**(38,000)**	(28,000)
Maturing in more than 10 years	**(207,115)**	(90,565)
Total	**(262,768)**	(134,123)

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.

The table below shows the authorities loans outstanding split by loan type / lender.

NOTES TO THE CORE FINANCIAL STATEMENTS

	Interest Rates Payable	**31-Mar-12 £000's**	31-Mar-11 £000's
Total Outstanding			
Public Works Loan Board (PWLB)	2.500% to 4.750%	**(241,615)**	(108,065)
PWLB (Carrying Value Adjustment)		**1,025**	957
CLF Municipal BANK		**-**	-
Royal Exchange Trust Co. Ltd	7.155%	**(10,000)**	(10,000)
Local Bonds		**(176)**	(174)
Short Term Loans		**(100)**	(5,000)
Dexia Bank LOBO	3.880%	**(5,000)**	(5,000)
RBS Bank LOBO	3.600%	**(5,000)**	(5,000)
Interest Owed on Long Term Debt at 31st March		**(1,902)**	(1,841)
Total		**(262,768)**	(134,123)

The authorities loans outstanding split by maturity are shown in the following table:

	31-Mar-12 £000's	31-Mar-11 £000's
Analysis of loans by maturity:		
Interest Due within one year	**(1,902)**	(1,841)
Maturing within one year	**(3,100)**	(5,000)
Maturing in 1 - 2 years	**-**	(3,000)
Maturing in 2 - 5 years	**(13,676)**	(6,674)
Maturing in 5 - 10 years	**(38,000)**	(28,000)
Maturing in more than 10 years (average maturity 20 years)	**(207,115)**	(90,565)
Carrying Value Adjustment	**1,025**	957
Total	**(262,768)**	(134,123)

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:

NOTES TO THE CORE FINANCIAL STATEMENTS

	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.

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.

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

PRIOR PERIOD ADJUSTMENT - NON CURRENT ASSETS, REVALUATION RESERVE AND CAPITAL ADJUSTMENT ACCOUNT: CHANGE TO THE 2010/11 FINANCIAL STATEMENTS RESTATED IN 2011/12

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.

The authority has also reviewed the accounting treatment for non-current assets, Revaluation Reserve and Capital Adjustment Account which has resulted in a Prior Period Adjustment. An explanation of the differences between the amounts presented in the 2010/11 financial statements and the equivalent amounts presented in the 2011/12 financial statements is set out in the following tables and notes that accompany the tables.

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 heritage assets accounting policy, the Authority has identified that the assets that were previously held as property, plant and equipment or investment properties at £1.495m should now be recognised as heritage assets in 2010/11. 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 £37.262m 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.

Prior Period Adjustment - For the Prior Period Adjust of non-current assets, in the main the revaluation reserve and capital adjustment account were changed by a movement of £7.862m. There was a minor adjustment of £595k which reduced Council House dwellings and also affected the Capital Adjustment Account.

The effects of the restatement on the **opening Balance Sheet 1 April 2010** are as follows:

- Heritage Assets - At 1 April 2010 the carrying amount of the Heritage Assets is presented at its valuation at £38.757m. The element that was previously recognised in property, plant and equipment / investment properties has been reclassified and written down by £0.732m. The revaluation reserve has increased by £38.696m and capital adjustment account decreased by £0.670m.
- Prior Period Adjustment - At 1 April 2010 the revaluation reserve has increased by £8.504m with the opposite entry decreasing the capital adjustment account.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	ORIGINAL 31 March 2010 £000's	Heritage Assets	Prior Period Adjustment	RESTATED 31 March 2010 £000's
Property, Plant and Equipment	756,823	(651)	-	756,172
Investment Property	44,247	(80)	-	44,167
Intangible Assets	2,214	-	-	2,214
Heritage Assets		38,757	-	38,757
Long - Term Investments	1,215	-	-	1,215
Long - Term Debtors	4,023	-	-	4,023
LONG - TERM ASSETS	808,522	38,026	-	846,548
Short-Term Investments	17,232	-	-	17,232
Assets Held for Sale	-	-	-	-
Inventories	506	-	-	506
Short-Term Debtors	26,989	-	-	26,989
Cash and Cash Equivalents	17,453	-	-	17,453
CURRENT ASSETS	62,180	-	-	62,180
Short-Term Borrowing	(8,676)	-	-	(8,676)
Provisions due to be settled within 12 months	(5,905)	-	-	(5,905)
Short-Term Creditors	(39,179)	-	-	(39,179)
CURRENT LIABILITIES	(53,760)	-	-	(53,760)
Long-Term Creditors	(41)	-	-	(41)
Provisions	(2,497)	-	-	(2,497)
Long-Term Borrowing	(108,147)	-	-	(108,147)
Other Long-Term Liabilities	(8,927)	-	-	(8,927)
Capital Grants Receipts in Advance	-	-	-	-
Liability related to Defined Benefit Pension Scheme	(189,978)	-	-	(189,978)
LONG-TERM LIABILITIES	(309,590)	-	-	(309,590)
NET ASSETS	507,352	38,026	-	545,378
RESERVES				
Usable Reserves				
Capital Receipts Reserve	154	-	-	154
General Fund Balance	13,726	-	-	13,726
Housing Revenue Account Reserve	8,880	-	-	8,880
Major Repairs Reserve	803	-	-	803
Capital Grants Unapplied	1,843	-	-	1,843
Earmarked Reserves	17,661	-	-	17,661
	43,067	-	-	43,067
Unusable Reserves				
Revaluation Reserve	41,670	38,696	8,504	88,870
Capital Adjustment Account	619,719	(670)	(8,504)	610,545
Available-for-sale Financial Instruments Reserve	-	-	-	-
Financial Instruments Adjustment Account	(2,198)	-	-	(2,198)
Pensions Reserve	(189,978)	-	-	(189,978)
Collection Fund Adjustment Account	975	-	-	975
Employee Benefit Adjustment Account	(5,903)	-	-	(5,903)
	464,285	38,026	-	502,311
TOTAL RESERVES	507,352	38,026	-	545,378

NOTES TO THE CORE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement 10/11

Presentational Changes – In 2010/11 the Code of Practice introduced presentational changes to make the understanding of the accounts more transparent. These changes are included in the presentational changes column.

Heritage Assets - 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.

Prior Period Adjustment – The restatement of non current assets resulted in changes to the way assets were supported by the revaluation reserve and capital adjustment account. Therefore, revaluation gain of the asset is recognised in the CIES as a charge £0.214m. In addition £0.011m was reflected in Financing and Investment Income & Expenditure area of the CIES rather than Net Cost of Services and an adjustment of £0.596m revaluation loss of Council House dwellings was recognised.

10/11 CIES - REVISED HEADINGS	ORIGINAL Net Exp. £000's	Presentation	Heritage Assets	Prior Period Adj	Prior Period Adj	Prior Period Adj HRA	RESTATED Net Exp. £000's
Service Costs							
Central Services to the Public	8,842		(103)	(272)	(11)		8,456
Cultural Services)		8,164	815	(6)			8,973
Environmental Services)	30,031	(12,931)		1,199	-		18,299
Planning Services)		4,767		(1)			4,766
Children's and Education Services	36,742			(389)			36,353
Highways, Roads and Transport Services	17,832			(535)			17,297
Local Authority Housing - revaluation losses:)							
loss on dwellings)		104,312		186			104,498
Local Authority Housing - settlement payment to)							
Government for HRA self-financing)							-
Local Authority Housing - Other)	103,676	(104,312)			-	(596)	(1,232)
Housing Services (General Fund)	7,451			1			7,452
Adult Social Care	44,700			31			44,731
Corporate and Democratic Core	4,256						4,256
Non-Distributed Costs - change in inflation factor							
for retirement benefits	-	(27,207)					(27,207)
Non-Distributed Costs - Other	177						177
Exceptional Items	(27,939)	27,207					(732)
Cost of Services	225,768		712	214	(11)	(596)	226,087
Other Operating Expenditure	1,299						1,299
Financing and Investment Income and Expenditure	11,450				11		11,461
Taxation and Non-Specific Grant Income	(152,720)						(152,720)
(Surplus)/Deficit on Provision of Services	85,797		712	214	-	(596)	86,127
Surplus/loss arising on the revaluation of property, plant and equipment assets	2,969		53	(214)			2,808
Surplus/loss arising on the revaluation of available-for-sale financial assets	-						-
Actuarial (gains)/losses relating to pensions	(23,402)						(23,402)
Other Comprehensive Income and Expenditure	(20,433)		53	(214)	-	-	(20,594)
Total Comprehensive Income and Expenditure	65,364		765	-	-	(596)	65,533

NOTES TO THE CORE FINANCIAL STATEMENTS

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 for Heritage Assets is presented in the table below, along with the prior period adjustment changes.

	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 March 2010		**(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		(18,848)	-	104,645	-	-	-	-	85,797	-	85,797
- 10/11 adj for Heritage Assets		712	-	-	-	-	-	-	712	-	712
- 10/11 adj for Prior Period Adj		214	-	-	-	-	-	-	214	-	214
- 10/11 Prior Period Adj - HRA		(186)	-	186	-	-	-	-	-	-	-
- 10/11 Prior Period Adj - HRA Council Dwellings		-	-	(596)	-	-	-	-	(596)	-	(596)
Other Comprehensive Income and Expenditure movement		-	-	-	-	-	-	-	-	(20,433)	(20,433)
- Surplus / Loss on revaluation of PPE following split of assets going to Revaluation Reserve		-	-	-	-	-	-	-	-	(214)	(214)
- Surplus / Loss on revaluation of PPE following Heritage Asset adj going to Revaluation Reserve		-	-	-	-	-	-	-	-	53	53
Total Comprehensive Expenditure and Income		(18,108)	-	104,235	-	-	-	-	86,127	(20,594)	65,533
Adjustments between accounting basis & funding basis under regulations	7	17,129	213	(106,500)	-	136	(836)	529	(89,329)	89,329	-
- In year adj for **Heritage Assets** - depreciation and revaluation loss		(712)	-	-	-	-	-	-	(712)	712	-
- In year adj for Prior Period Adjustments - depreciation and revaluation loss		(214)	-	-	-	-	-	-	(214)	214	-
- In year adj for Prior Period Adjustment - HRA		186	-	(186)	-	-	-	-	-		-
- In year adj for Prior Period Adjustment - HRA Concil Dwellings		-	-	596	-	-	-	-	596	(596)	-
Net Increase/Decrease before Transfers to Earmarked Reserves		(1,719)	213	(1,855)	-	136	(836)	529	(3,532)	69,065	65,533
Transfers to/from Earmarked Reserves	8	734	(734)	337	(337)		-	-	-	-	-
Increase/Decrease in Year		(985)	(521)	(1,518)	(337)	136	(836)	529	(3,532)	69,065	65,533
Balance at 31 March 2011 carried forward		**(14,711)**	**(16,399)**	**(10,398)**	**(2,120)**	**(667)**	**(990)**	**(1,314)**	**(46,599)**	**(433,246)**	**(479,845)**

MOVEMENT IN THE HOUSING REVENUE ACCOUNT RESERVE

Effect on Balance Sheet 31 March 2011

The resulting restated Balance Sheets for 31 March 2010 and 31 March 2011 are provided on page 36 as part 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:

Heritage Assets - 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 £1.495m. The table shows the overall position of all assets and the movement from the previously stated balance sheet at 31 March 2011.

Prior Period Adjustment – The effect of reviewing the non-current assets has resulted in a change in the way the assets are funded, with a movement of £7.862m between the revaluation reserve and capital adjustment account. The change in the Council dwellings of £0.596m in non-current assets is reflected in the overall balance in the capital adjustment account, along with the movement from the revaluation reserve, of £of £7.226m

MOVEMENT IN THE HOUSING REVENUE ACCOUNT RESERVE

	ORIGINAL 31 March 2011 £000's	Heritage Assets	Prior Period Adjustment	RESTATED 31 March 2011 £000's
Property, Plant and Equipment	660,090	(1,404)	596	659,282
Investment Property	43,117	(91)	-	43,026
Intangible Assets	2,162	-	-	2,162
Heritage Assets		38,757	-	38,757
Long - Term Investments	1,215	-	-	1,215
Long - Term Debtors	4,318	-	-	4,318
LONG - TERM ASSETS	710,902	37,262	596	748,760
Short-Term Investments	24,046	-	-	24,046
Assets Held for Sale	-	-	-	-
Inventories	495	-	-	495
Short-Term Debtors	21,009	-	-	21,009
Cash and Cash Equivalents	20,405	-	-	20,405
CURRENT ASSETS	65,955	-	-	65,955
Short-Term Borrowing	(11,942)	-	-	(11,942)
Provisions due to be settled within 12 months	(4,729)	-	-	(4,729)
Short-Term Creditors	(37,895)	-	-	(37,895)
CURRENT LIABILITIES	(54,566)	-	-	(54,566)
Long-Term Creditors	(28)	-	-	(28)
Provisions	(2,120)	-	-	(2,120)
Long-Term Borrowing	(122,181)	-	-	(122,181)
Other Long-Term Liabilities	(7,902)	-	-	(7,902)
Capital Grants Receipts in Advance	-	-	-	-
Liability related to Defined Benefit				-
Pension Scheme	(148,073)	-	-	(148,073)
LONG-TERM LIABILITIES	(280,304)	-	-	(280,304)
NET ASSETS	441,987	37,262	596	479,845
RESERVES				
Usable Reserves				
Capital Receipts Reserve	990	-	-	990
General Fund Balance	14,711	-	-	14,711
Housing Revenue Account Reserve	10,398	-	-	10,398
Major Repairs Reserve	667	-	-	667
Capital Grants Unapplied	1,314	-	-	1,314
Earmarked Reserves	18,519	-	-	18,519
	46,599	-	-	46,599
Unusable Reserves				
Revaluation Reserve	37,003	38,652	7,862	83,517
Capital Adjustment Account	511,988	(1,390)	(7,266)	503,332
Available-for-sale Financial Instruments Reserve	-	-	-	-
Financial Instruments Adjustment Account	(2,173)	-	-	(2,173)
Pensions Reserve	(148,073)	-	-	(148,073)
Collection Fund Adjustment Account	1,085	-	-	1,085
Employee Benefit Adjustment Account	(4,442)	-	-	(4,442)
	395,388	37,262	596	433,246
TOTAL RESERVES	441,987	37,262	596	479,845

HOUSING REVENUE ACCOUNT

MOVEMENT IN THE HOUSING REVENUE ACCOUNT RESERVE

	Note	**2011/12 £000's**	2010/11 £000's Restated
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		**(43)**	-
Transfer from General Fund		**-**	-
Total Income		**(29,518)**	(27,926)
Expenditure			
Repairs and maintenance		**6,137**	6,237
Supervision and management		**6,987**	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)	**4,614**	6,957
Debt Management Costs		**8**	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		**147,226**	131,192
Net Cost of Services included in the Comprehensive Income and Expenditure Statement		**117,708**	**103,266**
Share of Corporate Costs			
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		**117,825**	**102,752**
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		**835**	865
Interest and investment income		**(221)**	(183)
Income and expenditure in relation to investment properties and changes in their fair value		**-**	(106)
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		**118,641**	**104,453**

MOVEMENT IN THE HOUSING REVENUE ACCOUNT RESERVE

	2011/12 £000's	£000's	2010/11 £000's	£000's
			Restated	
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	**118,641**		104,453	
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	**2,702**		(103,901)	
Market valuation investment properties	**-**		106	
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:

	2011/12 £000's	**2011/12 £000's**	2010/11 £000's	2010/11 £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 £000's	2010/11 £000's
Depreciation on other HRA assets	**(407)**	(204)
Depreciation on dwellings higher than MRA	**(1,724)**	(2,106)
Total Transfer from MRR	**(2,131)**	(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 £000's	2010/11 £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

2011/12 Movement of Fixed Assets

	Council dwellings £000's	Other land and buildings £000's	Vehicles, plant furniture & equipment £000's	Infra-structure Assets £000's	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	259,966	6,791	-	15	-	266,772	-
Category Adjustments	-	3,882	-	-	-	3,882	-
Restated 1 April 2011	259,966	10,673	-	15	-	270,654	-
Additions	8,391	-	-	-	-	8,391	-
Donations	-	-	-	-	-	-	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	8,406	(809)	-	-	-	7,597	-
Revaluation increases/ (decreases) recognised in the (Surplus)/Deficit on the Provision of services	(7,039)	(492)	-	-	-	(7,531)	-
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	**263,303**	**9,084**	**-**	**15**	**-**	**272,402**	**-**

NOTES TO THE HOUSING REVENUE ACCOUNT

2010/11 Movement of Fixed Assets

In 2010/11, a prior period adjustment (PPA) was made to non-current assets within the HRA. A movement of £0.596m was recognised in Council Dwellings. Further information is included in Note 56 which describes the PPA that occurred in the accounts more clearly. This restatement has been included in the table below.

RESTATED	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	(103,442)	(994)	-	-	-	(104,436)	-
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	**259,966**	**6,791**	**-**	**15**	**-**	**266,772**	**-**

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			
		Infra-				Infra-		
	Dwellings	structure	Equipment	Total	Dwellings	structure	Equipment	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£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	Land	Total	Council Dwellings	Land	Total
	£000's	£000's	£000's	£000's	£000's	£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 £(000)	2010/11 £(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 £(000)	2011/12 £(000)	2010/11 £(000)	2010/11 £(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 £000's	2010/11 £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.

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.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revaluation Reserve

This account contains surpluses and losses arising from the periodic valuation of fixed assets.

Revenue Account

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

Revenue Expenditure Funded from Capital Under Statute

Expenditure which may be properly capitalised, but which does not result in, or remain matched with, tangible fixed assets.

Revenue Support Grant (RSG)

A general central government grant paid to the Income and Expenditure Account in support of the Charging Authority's revenue expenditure.

Scheme Liabilities

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Section 151 Officer (S151)

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2003 to ensure that the Council's budgeting, financial management, and accounting practices meet relevant statutory and professional requirements. Furthermore section 25 of the Local Government Act 2003 requires the Section 151 Officer to comment on the robustness of the budget estimates and the adequacy of reserves. In York the Section 151 Officer is Ian Floyd, Director of Customer and Business Support Services.

Settlement

An irrevocable action that relieves the employer (or the defined benefit pension scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements can include: a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits; the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Statement of Recognised Practice (SORP)

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

Statement of Standard Accounting Practice (SSAPs)

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

Stocks

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

Support Services

The costs of departments that provide professional and administrative assistance to services.

Tangible Fixed Assets

These are assets with a physical substance that yield benefits to the Council and the services it provides for a period of more than one year.

Temporary Borrowing/Investment

Money borrowed or invested for an initial period of less than one year.

Trading Services

These are activities of the Council where the workers are directly employed to carry out specified tasks. Such organisations were formerly known as Direct Service Organisations (DSO). In York the work is undertaken under the name of Neighbourhood Services.

Trust Funds

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

UK GAAP

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

Unapportionable Central Overheads

These are overheads from which no user benefits, therefore they cannot be allocated to a service area.

Useful Life

The period over which the Council will derive benefits from the use of an asset.

Vested Rights

In relation to a defined benefit pension scheme these are for active members, benefits to which they would unconditionally be entitled on leaving the scheme, for deferred pensioners, their preserved rights and for pensioners, pensions to which they are entitled.

Work in Progress

The value of work done on an uncompleted project that has not been recharged to the appropriate account at the balance sheet date.

Agenda Item 5b

CITY OF YORK COUNCIL

Audit and Governance Committee 27 September 2012

Report of the Director of Customer & Business Support Services

Annual Governance Report – Audit Commission

Summary

1. The International Standard on Auditing (United Kingdom and Ireland) – ISA (UK&I) - 260 requires the Audit Commission to report to those 'charged with governance', issues arising from the audit of Financial Statements. The purpose of this report is to bring to Members' attention the Audit Commission's Annual Governance Report, agree the Council's response and seek approval to changes to the 2011/12 Financial Statements. A copy of the Audit Commission Annual Governance Report is attached at Annex A.

Background

2. In 2006 the Audit Commission introduced revised reporting arrangements that included the requirement for an Annual Governance Report (AGR) to be presented to those 'charged with governance' at the council. The council must consider the report before a statutory deadline of the 30 September each year.

3. The AGR is made in addition to the Annual Audit Letter. The Annual Audit Letter is published after the audit certificate and opinion have been issued and is published on the Council's and Audit Commission's website A draft of the proposed Annual Audit Letter is attached at Annex B.

4. International Standard on Auditing (ISA) 260 also requires the Audit Commission to give an opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion). An unqualified Audit Opinion on the Council's arrangements is anticipated by the 30th September 2012.

5. The Pre-Audit Statement of Accounts 2011/12 were approved by the Director of Customer & Business Support Services on 30th June 2012 in accordance with the planned timetable and revised Accounts and Audit Regulations.

6. The 2011/12 audit is now substantially complete. The audit of the accounts will formally continue until the statutory deadline of the 30th September 2012, however it is not expected that the position will change significantly from this report. During the course of the audit to date, a number of errors have been identified which the Council proposes to amend, pages 6 and 7 of the Audit Commission's Annual Governance Report attached at Annex A details these "Errors adjusted by management". There are 2 immaterial misstatements that have been identified, but not adjusted, and these are included in the Letter of Representation.

7. The Letter of Representation (as required by International Auditing Standards) has been prepared which the Council's S151 Officer – Director of Customer Business & Support Services - will be required to sign. The Letter of Representation includes information to show that the accounts show a true and fair view of the financial position and financial performance of the Council.

8. The letter of Representation also explains that management believes the 2 uncorrected misstatements to be immaterial, both individually and in aggregate, to the financial statements as a whole – (i) Civic regalia valued at £145,000 included twice in error (ii) PFI prepayments and liabilities both understated, the net impact on the accounts is £164,000. The letter has been drafted in accordance with the template provided by the Audit Commission and is located at Annex A in the Audit Commission's Annual Governance Report at Appendix 2.

9. A revised Annual Financial Report - Statement of Accounts 2011/12 reflecting all the agreed changes has been provided as a separate item on this agenda. Approval is required in the recommendations of this report.

10. In planning their work, the Audit Commission identified nine key areas of risk that have been considered during the audit. The Annual Governance Report on pages 7 to 9 details the findings on these areas. Seven out of the nine risks identified were adequately controlled, with Heritage Assets being immaterial misstated (£145k was double counted) and the valuations of Property Plant and

Equipment resulted in the correction of an error as previously noted. In order to improve further the recognition of non-current assets in the accounts in 2012/13 the CIPFA Asset Register is being utilised to minimize errors / immaterial misstatements in future.

11. The Audit Commission's Annual Governance Report on page 9 confirms that there are adequate arrangements in place to ensure that the systems of internal financial control are effective in practice. Other matters that have been raised include Cash and Bank – where the process has significantly improved from previous years being more transparent - and component accounting.

12. The production of the Statement of Accounts is the subject of continuous review and improvements will be sought in 2012/13. This year will focus on (i) enhanced project planning to ensure tighter more efficient deadlines are achieved (ii) increased frequency of meetings with the new external auditors - Mazars (iii) further specific training sessions / communication with accountants

Consultation

13. The report of the External Auditor has been discussed with the relevant responsible officers and has been approved in draft by the S151 Officer – Director of Customer Business & Support Services. It is reported here for due consultation with those members charged with governance at the council.

Options

14. Not relevant for the purpose of the report.

Analysis

15. Not relevant for the purpose of the report.

Corporate Priorities

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

Implications

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

Risk Management

18. The council will fail to comply with legislative and best practice requirements to provide for the proper audit of the authority if it does not consider this report or approve and sign the Statement of Responsibility in the Accounts.

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

Recommendations

20. Members are asked to:

(a) Note and discuss the matters set out in the Annual Governance Report, Annex A, presented for discussion by the External Auditor;

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

(b) Consider the items identified as material misstatements on pages 6 and 7 of the Annual Governance Report at Annex A (Errors adjusted by management) and agree to amend the 2011/12 Statement of Accounts for those items.

(c) Approve the amended Annual Financial Report - Statement of Accounts 2011/12 for signature by the chair from a resolution of this Audit & Governance Committee of City of York Council in accordance with the Accounts and Audit Regulations 2003 (as amended)

(d) Approve the letter of representation attached at Annex A – Audit Commissions Annual Governance Report – Appendix 2, having first considered whether it sufficiently reflects the views and beliefs of the Committee as those charged with governance at the Council

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

(e) Note the anticipated receipt of an unqualified Audit Opinion to both the Statement of Accounts 2011/12 and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

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

(f) Note the Draft Annual Audit Letter at Annex B which will be published on the Council's and Audit Commission's website at the conclusion of the audit.

Contact Details

Author:	**Chief Officer Responsible for the report:**
Louise Branford-White Technical Finance Manager Telephone: 01904 551745	Ian Floyd Director of Customer & Business Support Services Telephone: 01904 551100
	Report Approved √ **Date** 27/09/12

Specialist Implications Officers

Not applicable

Wards Affected: **All** √

For further information please contact the author of the report

Background Papers:

Audit and Governance Committee 27th July 2012 – Pre-Audit Statement of Accounts 2011/12

Annex

Annex A Annual Governance Report; City of York Council; Audit 2011/12
Annex B Annual Audit Letter

Annual governance report

City of York Council

Audit 2011/12

audit commission

Contents

Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

My audit work is now substantially complete. Subject to satisfactory clearance of outstanding matters, I intend to issue an unqualified opinion on the Council's 2011/12 financial statements.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. The Council is facing significant funding reductions, but financial planning is based on realistic assumptions and volatile budgets have been successfully managed to date. The Council is not high cost compared to others, and there is an increasing focus in providing services for those most in need.

Certificate

I expect to complete all outstanding audit work and issue my certificate by 30 September 2012.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Fees

I reported my planned audit fee in the 2011/12 Audit Plan, and will complete the audit within the planned fee as previously agreed.

Table 1: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	£224,010	£224,010
Claims and returns	49,280	49,280
Non-audit work	5,000 *	5,000
Total	**£278,290**	**£278,290**

* asset management diagnostic – report issued December 2011.

The Audit Commission has paid separately a rebate of £17,921. This reflects additional internal efficiency savings.

I ask the Audit and Governance Committee to:

- take note of the adjustments to the financial statements included in this report; and
- approve the letter of representation (appendix 2), on behalf of the Council before I issue my opinion and conclusion.

Financial statements

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

Opinion on the financial statements

My audit work is now substantially complete. I still await:

- letters of assurance from pension fund auditors
- confirmation from the Council's insurers regarding heritage asset values (art collections and civic regalia)
- some supporting information and explanations from the Council.

Subject to satisfactory clearance of these outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors adjusted by management

Prior period adjustments in respect of heritage assets and componentisation had been made to the 2011/12 draft accounts. The substance of these adjustments is correct but they had not been presented in the correct format. Some entries in the cash flow statement and related notes were also inconsistent with other entries in the accounts. Officers have agreed to make appropriate adjustments, and to correct the following errors identified during the course of the audit:

- Non ringfenced government grants incorrectly allocated between revenue and capital (£1.4m)
- Current service pension costs omitted in error from the CIES (£0.3m)
- Council dwellings incorrectly valued (£7.7m)
- Capital commitments in respect of West offices (£2.97m) omitted from the relevant disclosure note

The Council also agreed to include an additional post balance sheet events disclosure in respect of the recent MMI "trigger" case, and to make a number of other, more minor amendments to:

- correct minor casting, typing and cross referencing issues
- include additional disclosures, meeting Code requirements.

Significant risks and my findings

I reported in my 2011/12 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 2: **Significant risks and audit findings**

Risk	Audit finding
Heritage Assets The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For City of York Council the value of such assets is likely to be material.	My work confirmed that heritage assets had been correctly identified, although some civic regalia, valued at £145,000 had been included twice in error. I am also obtaining specific confirmation from management and the Council's insurers to confirm ownership and the valuation of heritage assets. Some additional disclosures have been made to meet Code requirements.
Valuation of property, plant and equipment (PPE) The Council is required to value PPE at fair value (with some exceptions), and to implement component accounting as appropriate. There is an inherent risk that PPE valuations will be materially misstated due to errors in the valuation method, the fixed asset register itself, or failure to implement component accounting as required by the Code. Specific local risks at City of York Council relate to assets under construction, especially West Offices, and the value of council dwellings.	My work confirmed that in most cases PPE has been correctly identified and valued. However, I found that: • some council dwellings had been incorrectly valued • capital commitment disclosures in relation to West Offices required adjustment.
Accounts preparation The Council relies heavily on spreadsheets to prepare its year end accounts, and there is an inherent risk that superseded or inaccurate	I have undertaken detailed sample checks on spreadsheets, working papers and year end adjustments to the accounts, in addition to all material transactions, balances and disclosures. There are no issues of

Risk	Audit finding
spreadsheets may be used in error, leading to material mis-statements. Service accountants rather than the central finance team are also heavily involved in the closedown process and this increases the risk of errors if there are inconsistencies in approach.	concern arising from this work.
Estimation techniques The prescribed deadlines for production of year end financial statements mean that estimation techniques are necessary to assess the value of future receipts and commitments. This increases the risk that income and expenditure transactions around the year end will not be correctly stated.	I have successfully sample tested: • all key accounting estimates • year end journal adjustments • income and expenditure transactions occurring around the year end.
Joint waste PFI The Council is contractually committed to a joint waste PFI with North Yorkshire County Council. The value of this contract is material to the 2011/12 accounts. Details of payments due should be disclosed as soon as planning permission is granted, even though the scheme is not expected to be operational by 31 3 2012.	We have confirmed that the joint waste PFI is not yet operational and that planning permission has yet to be secured. Therefore no disclosure of future liabilities is required. Compensation is payable to the contractor if the scheme does not eventually go ahead, and we have confirmed that this contingent liability is included in the accounts.
Implementation of new payroll system The Council's new iTRent payroll and HR system went live in December 2011. This is a key financial information system, generating material expenditure assertions in the 2011/12 accounts.	I have documented, assessed and sample tested both payroll systems. I have also reviewed work undertaken by Internal Audit.
Financial standing A mandatory ISA+ requirement is to consider the impact of in-year financial performance on the organisation's overall financial standing. Half-year financial reports to members indicate a possible overspend of £3.5m against budget for 2011/12. If realised this would have a significant impact on useable general fund balances brought forward .	I have reviewed year end financial outturn against budget and in-year reporting and ascertained the reason for any significant variations. I have also assessed the Council's overall financial standing and confirmed that the going concern assumption remains valid.
Restructuring and Redundancies	We have undertaken tests of detail to confirm that all severance,

Risk	Audit finding
A number of severance and exit packages have been agreed during the year.	redundancy and exit packages have been properly approved by members and disclosed in the financial statements.
HRA reform The government has adopted a self-financing model for housing authorities from 1 April 2012. This has been achieved through a one-off settlement payment in the current year, used to redeem an equal percentage of loan debt and thereby reduce financing costs. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.	I have confirmed the value of the Council's HRA settlement payment, the redemption of debt, and the Council's accounting treatment of these transactions.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

Issues relating to the regularity of bank reconciliations and control account reconciliations have been raised in earlier reports. I have no additional matters that I wish to bring to your attention.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices - these include accounting policies, accounting estimates and financial statement disclosures.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have only two such matters to report:

Table 3: **Other matters**

Issue	Finding
Cash and Bank	■ Cash and bank balances at the year end include £2.5m unallocated cash not processed through the ledger system until after the year end. This is an established accounting treatment at many local authorities, but it does overstate cash balances and understate debtors at the year end ■ Schools balances were reconciled at 23 3 2012 rather than 31 March 2012.
Component accounting	The Council have made reasonable progress to date in implementing IAS16 requirements, which state that

Issue	Finding
	component accounting should be implemented as assets are revalued over time. However: ■ some land and buildings revalued during 2011/12 were not componentised; and ■ this process needs to be completed over the next two years.

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office. As at 17 September 2012 I have not completed these procedures However, I expect to complete this audit work and issue my report by 30 September 2012.

Value for money

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

In my 2011/12 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work in relation to each of the risks I identified.

Table 4: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Council may not fully understand its future financial challenges, and may focus on thinking and operating in the short term. There may be poor communication to staff and stakeholders about financial risks and the strategies in place to tackle them. Financial risks may not be properly identified or effectively managed. Budget setting processes may not be robust, and the Council may fail to manage its spending within budget or not meet key financial targets. Poor treasury management could lead to additional budget pressures, cash flow problems or non-compliance with Code and other requirements	The Cabinet receives regular and detailed reports about the financial position, savings required and strategies in place to tackle the problem. The medium term financial plan, together with more detailed annual budgets, set out how the Council intends to manage its finances over the next 3-5 years. Financial planning is based on realistic assumptions about pay, prices and funding, and the need to maintain adequate balances. Members are increasingly demonstrating their ability to make, and stick to, unpopular but necessary decisions. Budgetary control continues to improve and all financial data is subject to regular review. Although some particularly volatile budgets are expected to overspend in the current year,

Criteria	Risk	Findings
		these are being proactively managed and are offset by underspends elsewhere.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	Insufficient action may be taken to review priorities and challenge established ways of working in the light of reduced funding. Savings decisions may not be based on adequate or up to date information, and may not properly consider the impact of savings delivery on the public and services. Efficiency plans may not be sufficiency challenging or detailed, and may focus on achieving short-term goals or ignore the potential impact on performance. Arrangements to monitor delivery of savings plans may be deficient.	City of York is not a high cost authority, but continues to deliver services that compare favourably with the national average. Consultation with the public informs every budget setting round, and there is an increasing focus on providing services for those most in need. Some innovative models of service delivery are in place, and there is scope to do more. Targets for financial savings are offset by additional investment in priority areas such as regeneration, and care for vulnerable adults and children. The Council's approach to savings and efficiency improvements has been more top down in 2011/12, with targets given to each Directorate as part of the budget setting process. Savings delivery is monitored through the corporate risk management process, as well as budgetary control, and indications to date are that a balanced budget will be delivered.

I therefore intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Appendix 1 – Draft independent auditor’s report

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

Opinion on the Council’s financial statements

I have audited the financial statements of City of York Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of City of York Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Customer and Business Support Services and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of City of York Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

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

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, City of York Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of City of York Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Steve Nicklin

District Auditor

Audit Commission

Nickalls House

Metro Centre

Gateshead

NE11 9NH

September 2012

Appendix 2 – Draft letter of management representation

City of York Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of City of York Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

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

- Civic regalia valued at £145,000 included twice in error
- PFI prepayments and liabilities both understated, the net impact on the accounts is £164,000

Supporting records

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

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

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

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

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

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

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

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

- depreciation charges are adequate;
- property, plant and equipment, including heritage assets, have been appropriately valued and the basis of that valuation meets Code requirements.

Specific representations

- I confirm that all heritage assets included in the financial statements are owned by the Council and are not being held on behalf of, or for the benefit of, any other organisation or third parties

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

Related party transactions

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of City of York Council

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on 27 September 2012

Signed

Name

Position

Date

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Council and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

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

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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

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

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

www.audit-commission.gov.uk

September 2012

September 2012

Members
City of York Council
The Guildhall
York

Direct line 0844 798 1675
Email s-nicklin@audit-commission.gov.uk

Dear Member

City of York Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of City of York Council.

Financial statements

On 27 September 2012 I presented my Annual Governance Report to the Audit and Governance Committee. This set out the findings from my audit of the 2011/12 financial statements, and I will not replicate those findings in this letter.

Following the Audit and Governance Committee on 28 September 2012 I:

- issued an unqualified opinion on the Council's 2011/12 financial statements ;
- concluded that you have made proper arrangements to secure value for money;
- certified the Council's Whole of Government Accounts pack; and
- certified completion of the audit.

Value for money

I have concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Council has successfully met one of its most significant financial challenges, delivering a balanced budget and savings of £21m this year. However, further spending reductions will be required and there is an increasing focus on prioritising services for those most in need.

I have summarised my findings in the Appendix to this letter.

Closing remarks
I have discussed and agreed this letter with the Chief Executive and Director of Customer and Business Support Services. This has been another challenging year for the Council and I wish to thank your officers for the positive and constructive approach they

have taken to my audit. Also, as this is the last audit carried out by the Audit Commission's Audit Practice, I would like to take the opportunity to thank senior management and Members for their support and co-operation during this year's audit and also over the many years previously.

Yours sincerely

Steve Nicklin
District Auditor and Engagement Lead

Appendix 1-Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion, and I assess your arrangements against the two criteria specified by the Commission. These criteria, and a summary of my findings, are set out below.

Table 1 - Value for money conclusion

Criteria	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Cabinet receives regular and detailed reports about the financial position, savings required and strategies in place to tackle the problem. The medium term financial plan, together with more detailed annual budgets, set out how the Council intends to manage its finances over the next 3-5 years. Financial planning is based on realistic assumptions about pay, prices and funding, and the need to maintain adequate balances. Members are increasingly demonstrating their ability to make, and stick to, unpopular but necessary decisions. Budgetary control continues to improve and all financial data is subject to regular review. Although some particularly volatile budgets are expected to overspend in the current year, these are being proactively managed and are offset by underspends elsewhere.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	City of York is not a high cost authority, but continues to deliver services that compare favourably with the national average. Consultation with the public informs every budget setting round, and there is an increasing focus on providing services for those most in need. Some innovative models of service delivery are in place, and there is scope to do more. Targets for financial savings are offset by additional investment in priority areas such as regeneration, and care for vulnerable adults and children. The Council's approach to savings and efficiency improvements has been more top down in 2011/12, with targets given to each Directorate as part of the budget setting process. Savings delivery is monitored through the corporate risk management process, as well as budgetary control, and indications to date are that a balanced budget will be delivered.

Agenda Item 6

Audit & Governance Committee **27 September 2012**

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

Key Corporate Risk Monitor Two 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 Two

3. The two critical KCR's have not changed since Monitor 1 2012/13 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 increased since the last monitor, there are now 19. This is due to the inclusion of some new high level risks around the Community Stadium project. The risk owners comments can be found below:

KCR 0016 - Capital Programme

<u>Community Stadium (Tim Atkins)</u>

"Since the last KCR Cabinet report the Community Stadium project has passed through some significant milestones; mainly in May 2012 been granted outline planning permission to build a minimum 6,000 all seater stadium on the grounds of the existing Huntington athletics facility. This has led the project to enter into a new phase of work looking towards developing the detail around the build, design and operation of the stadium and the surrounding facilities (Community Hub, Leisure Facilities). To help with this work a full review of the projects risks has been undertaken with the removal of several risks that solely related to gaining planning permission and associated matters. These have been replaced with the key risks that represent the now current and future challenges of the project."

5. 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

6. The move to West Offices and all it entails represents a massive logistical challenge. The risk owner looks at the risks around the project in more detail below:

Moving On Up - Accommodation Programme

7. The accommodation programme is a complex portfolio of projects that are designed to deliver a new innovative building, West Offices, and support and to transition the organisation into an environment conducive to leading edge delivery of service and partnership working optimised for customer service. A programme of this complexity presents a number of challenges in terms of risk management as there are key pieces of work on the critical path of each project and many interdependencies.

8. The principle risks lay around the delivery of the build project. This is designed to reduce the accommodation portfolio from a number of buildings to two, West Offices and Hazel Court, the quality and timeliness of the construction and commissioning work, the disposal of our current portfolio, readiness the business for the move and ensuring that the operational objectives are met.

9. The build timetable can be affected in many ways, from resource availability to weather, and this could have a significant financial and reputational impact on the council. Between our staff in property services and specialists involved with our contractor the rate, cost and quality of the build work is monitored. Our property exit brings about risks involving timing of exit and level of dilapidations work required. If there are problems in these areas again there can be huge financial consequences as it may result in having to retain properties longer than necessary. Along with Property Services ensuring the buildings are ready for handover and sale a detailed migration plan has been developed to ensure that once West Offices is ready staff and partners can move in and as moves happen our existing property estate can be released.

10. To ensure the principles of working, or smart working, in the future the organisation needs to adopt new work styles and processes. To achieve this the business and partners need readying for the transition. The consequence of this not being done is that the building isn't used to its maximum efficiency and there are issues with managing the space and working in the space. The mitigate this policies have been developed to support these styles of working and change management resource has been assigned to the project to ensure that managers and staff are supported and managed through the transition and properly induced into the buildings and that operational objectives in terms of service delivery to the customer are achieved.

11. The risks and subsequent issues, if they arise, are managed through the monthly accommodation programme board and regular weekly meetings with the project leads and the

operational directorate project. At these sessions risks and issues are identified, discussed, scored and reviewed and mitigations and action plans are developed. This is always done within the context of providing best value for the council.

New Developments

12. 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.

13. With this in mind, we need to ensure that the risks held within the council's risk register "Magique" that are not regularly reported upon ie those that are medium, low or very low are accurate and up to date to ensure the authority has a full view of its risks.

14. In July, we began to write to all the risk owners, attaching the risks that were currently in the system and asking them to review and update them should it be required. This has achieved a positive response with many risk owners responding with amendments or requesting deletion as the risk is no longer valid.

15. There is still some substantial work to do where the risk owners have not responded or where the previous risk owner has now left the authority and responsibility has not yet been allocated elsewhere. Where the risk is clearly no longer valid we will delete these from the system and notify the risk owner and if they are incomplete we will notify them of a notice period after which the risk will be deleted. This is on the basis that if the information is incomplete it does not provide any useful management information.

Directorate Risks

16. The risks in respect of CBSS are attached to this paper at Annex A. The Director of Customer and Business Support

Services is in attendance to answer any queries you have in respect of the risks contained within the annex.

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

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

Options

18. Not applicable.

Council Plan 2011 - 2015

19. 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

20. 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

21. A&G are asked to:

(a) Consider the risks relating to the Accommodation Programme at paragraphs 7 to 11.

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

(b) Approve the directorate risk reporting agenda set out at paragraph 17.

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

Contact Details

Author:	**Chief Officer Responsible for the report:**
Lisa Nyhan Corporate Transactional & Business Services Manager Phone No. 01904 552953	Tracey Carter Assistant Director Customer and Business Support Services (Finance, Asset Management and Procurement)
	Report Approved √ **Date** 18 September 2012

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

Annex A CBSS Risk Report

<u>Directorate Risks – CBSS</u>

This note looks at the main risks within CBSS, and focuses upon a generic overarching risk of reduced funding, and then more specific service based issues.

1) Reduced Funding

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

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

Within CBSS efficiency savings of over £6m have already being achieved in the last 4-5 years (incl approved savings for 13/14). This has been achieved through restructuring, consolidation of services, and additional income.

Looking ahead however, a further £1.7m of savings will be expected of the Directorate in 14/15 as part of a new 2 year budget – this reflects a much increased size of Directorate with the inclusion of Asset Management, and Council wide consolidated facilities management.

This brings with it risks in a number of ways, and in particular there are two broad themes to these risks

- Reduced staff levels which mean lower service levels, impacting on both internal and external customers
- Impact on staff morale, due to ongoing restructuring/potential job loss
-

Each of these areas is discussed more below

- **Reduced staffing levels, and the implications for service delivery**

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

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

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

In respect of external customers, the expectations of Customers are increasing, with people expecting more ways to interact with the Council, and at different times. This brings with it potential resource issues, and also related ICT implications in developing new solutions. In respect of benefits, there is a huge national agenda, with complex changes in the benefits system, alongside increased client numbers seeking assistance.

The risks are clear then, and the challenge is how best to respond, as the one certainty is that we face reduced funding.

The Directorate has to date shown its ability to deliver major efficiency changes, and structural change. Major restructuring has taken place in recent years, including major reductions in senior management (all the AD posts for example now have considerably increased portfolios of responsibility than say 2-3 years ago). Work in relation to income collection/debt management has been very successful, along with wide ranging changes in all areas.

Opportunities are being reviewed to see what areas of service we could trade to other organisation (ie attract income), and to see how we can work with other authorities

There will be continued detailed review of all service areas, to seek out opportunities for efficiency. However, its clear that not all savings can be delivered through “efficiency”, there will need to be a significant element of “cuts”. Managing those cuts, and prioritising service delivery, will need very careful handling to mitigate the potential risks.

- **Impact of Staff Morale**

In order to achieve high levels of service, during a time of reduced resource, there is a need to ensure that staff remain committed and deliver services to the highest standards.

However, with the considerable change, and at times uncertainty that staff are facing, there is a natural danger that morale suffers and that this leads to some implications in terms of service.

Throughout such periods it is important to be open with staff, and to engage with them, and this is something the Directorate seeks to achieve at all times. Close working exists with the Unions, and the Directorate is committed to avoid compulsory redundancies wherever possible.

2) **Other Directorate Risks**

Significant specific tasks which the Directorate lead upon are summarised below, with brief comment about the main risks

- **Developing the financial strategy** – linked to earlier comments, the challenges facing the Council are major in terms of the impact of funding changes, increased costs, and unavoidable pressures. There are risks in the non achievement of savings, and risks in terms of service delivery with reduced funding. A detailed risk assessment is undertaken as part of the financial strategy, and risks associated with savings are considered.
- **Budget Monitoring** – risk of non achievement of the budget in year. Detailed monitoring, reporting, and mitigation takes place, and this has resulted in the spending being within budget in all recent years.
- **Final Accounts** – linked to earlier general comments, the pressures on reduced staff could potentially lead to delays to final accounts productions/errors in production. This is a statutory responsibility however, and the Director recognises the need to ensure staffing is maintained in this area

- **Council Tax Benefit Changes** – major changes in the funding of council tax benefits, requiring a significant change to be introduced unless the Council fully funded the loss in Government Grant (around £1.5m)
- **Localisation of Business Rates** – this brings with it both the potential to benefit from additional income, but also places any shortfalls in collection upon the Council. This has been recognised as an area where greater resource needs to be targeted, and the income team will be reviewed accordingly.
- **Ensuring Legal Compliance** – general ongoing need to ensure that all the Council does is in line with legislation.
- **HR Issues** – significant changes in terms of roles being undertaken by staff, major restructuring, and significant numbers of staff being made redundant/taken voluntary redundancy. These all require effective HR to mitigate any risks.
- **ICT –** all services rely upon ICT, and any period without systems would impact on service delivery. The service has a comprehensive Disaster Management plan in place. The work the service will undertake linked to the West Offices move is a key piece of work.
- **Facilities Management** – undergoing a major period of change, consolidation, and preparation for the move to West Offices
- **Major Projects** – Directorate supports or leads on a number of major projects, including West Offices, EPH review, Community Stadium. Each of these has their own risk assessment and are monitored through appropriate project teams. Key risks naturally involve issues in terms of ensuring schemes stay within budget, within timescale, and deliver the project objectives.

Audit and Governance Committee 27 September 2012

Report of the Head of Internal Audit

Internal Audit Follow Up Report

Summary

1 This is the regular six monthly report to the committee setting out progress made by council departments in implementing actions agreed as part of internal audit work.

Background

2 Where weaknesses in systems are identified, internal audit discuss and agree a set of actions to address the issues, with the responsible managers. The agreed actions include target dates. The auditors carry out follow up work to check the issue has been resolved, once these target dates are reached. The follow up work is carried out through a combination of questionnaires completed by responsible managers, risk assessment, and by further detailed review by the auditors where necessary. Where managers have not taken the action they agreed to, issues are escalated to more senior managers, and ultimately may be referred to the Audit and Governance Committee.

3 A summary of the findings from follow up work is presented to this committee twice a year. The current report covers agreed actions with target dates up to 31 July 2012.

Consultation

4 Details of the findings of follow up work are discussed with the relevant service managers and chief officers.

Follow up of internal audit agreed actions

5 A total of 134 actions have been followed up since the last report to this committee in April 2012. A summary of the priority of these actions is included in figure 1, below.

Figure 1: actions followed up as part of the current review

Priority of actions*	Number of actions followed up
1	4
2	23
3	107
Total	**134**

* *The priorities run from 1 (high risk issue) to 3 (lower risk)*

6 Figure 2 below provides an analysis of the actions which have been followed up, by directorate.

Figure 2: actions followed up by directorate

Priority of actions	Number of actions followed up by directorate				
	OCE	CES	CANS	ACE	CBSS
1	0	0	1	1	2
2	0	4	7	9	3
3	0	16	19	50	22
Total	**0**	**20**	**27**	**60**	**27**

7 Of the 134 agreed actions, 100 (74.6%) had been satisfactorily implemented and 16 (11.9%) were no longer needed[1].

8 In a further 17 cases (12.7%) the action had not been implemented by the target date, but a revised date was agreed. This is done where the delay in addressing an issue will not lead to unacceptable exposure to risk and where, for example, the delays are unavoidable (eg due to unexpected difficulties or where actions are dependent on new systems being implemented). These actions will be followed up after the revised target date and if necessary they will be raised with senior managers in accordance with the escalation procedure. Figure 3 below shows the priority of these actions.

[1] For example because of other changes to procedures or because the service has ended or changed significantly.

Figure 3: priorities of actions with revised implementation dates

Priority of actions	Number of actions with a revised implementation date
1	2
2	5
3	10
Total	**17**

9 One issue (0.7%) has been escalated to the relevant Assistant Director and while discussions are ongoing, no action has yet been taken. This will be monitored and escalated further if appropriate. There are no other specific concerns that need to be brought to the attention of the Audit and Governance Committee at this time.

10 There are a further 47 actions where a final audit report has been issued but where the actions are not yet due for follow up.

Conclusions

11 The follow up testing undertaken confirms that in general good progress is being made by council departments to implement actions agreed as a result of internal audit work. This is an ongoing process and progress in implementing agreed actions will continue to be monitored and reported as required through the escalation procedure.

12 It was noted in follow up reports last year that there had been an increase in the percentage of actions where revised implementation dates were agreed – from an average of around 15% to over 30% in September 2011 and April 2012. While the reasons for the increase were not clear, it is encouraging to note that the figure has now reverted to historic levels (paragraph 8 – 12.7%). This suggests more actions are being implemented within the timescales originally agreed. Future trends will continue to be monitored.

Options

13 Not relevant for the purpose of the report.

Analysis

14 Not relevant for the purpose of the report.

Corporate Plan

15 The work of internal audit contributes to the council's aims by helping to promote good governance and contributing to overall efficiency and effectiveness.

Implications

16 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management

17 The Council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if it fails to follow up on audit recommendations and report progress to the appropriate officers and members.

Recommendations

18 Members of the Audit and Governance Committee are asked to:

– consider the progress made in implementing internal audit agreed actions as reported above (paragraphs 5 – 12)

Reason
To enable members to fulfil their role in providing independent assurance on the council's control environment.

Contact Details

Author:

Max Thomas
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Veritau Ltd
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Chief Officer Responsible for the report:

Ian Floyd
Director of Customer and Business Support Services
Telephone: 01904 551100

Report Approved ✔ **Date** 12/09/2012

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable **All** ✔

For further information please contact the author of the report

Background Papers:

None

Annexes

None

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 Agenda Item 8

Audit and Governance Committee 27 September 2012

Report of the Head of Internal Audit

Audit, Counter Fraud & Information Governance Monitoring Report

Summary

1 This report provides an update on progress made in delivering the internal audit workplan for 2012/13 and on current counter fraud and information governance activity.

Background

2 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the CIPFA Code of Practice for Internal Audit in Local Government. In accordance with the Code of Practice, the 2012/13 audit and fraud plan was approved by the Audit and Governance Committee on 2 April 2012. The plan included a programme of audit reviews, together with details of planned counter fraud and information governance activities. This report provides an update on work undertaken against the approved plan.

Internal Audit

3 Two of the priorities for Veritau are to deliver at least 93% of the audit plan and to ensure that the service continues to operate to recognised professional standards (as determined by the Code of Practice).

4 Internal audit successfully delivered 95.9% of the 2011/12 audit plan. To date, 26% of the 2012/13 audit plan has been completed (compared to 25% at this point last year). It is anticipated that the 93% target will be exceeded by the end of April 2013 (the cut off point for 2012/13 audits).

5 Details of the audits completed and reports issued since the last report to this committee in June 2012 are given in annex 1. There are two reports which include significant findings. These relate to health and safety and housing and council tax benefits. Comments from the service department about action being taken to address control weaknesses are included in the annex. Separate follow up work will also be undertaken in these areas by internal audit, as action dates become due.

6 Further to the issues raised in the annual report of the Head of Internal Audit, in June, further work is being undertaken by officers to review corporate controls around partnerships. It is expected that a report will be taken to CMT in October. Internal audit will provide further advice and support to officers on appropriate controls as part of the review.

7 No variations to the 2012/13 audit plan have been made, to date.

Counter Fraud

8 Counter fraud work has been undertaken in accordance with the approved plan. Annex 2 provides details of the investigations completed to date and provides a summary of the work undertaken.

Information Governance

9 Veritau Information Governance provides support and advice corporately to the Information Governance Strategy, and to service departments on information matters including data security and incident management, support for data protection subject access requests, the EDRMS project and the move to the new HQ, and on improving records management.

10 So far this year (to 31 August) the team has tracked 447 Freedom of Information requests, up from 364 for this period in 2011/12.

11 From 1 September 2012 the tracking of requests for information has transferred to the Customer Service Centre. Veritau Information Governance will continue to be the council’s source of advice and assistance on information law, and related guidance and codes of practice and will also complete reviews in the event of any complaints, provide

training on this and other information-related matters, and publish the replies on the website.

Breaches of Financial Regulations

12 A number of breaches of the council's financial regulations have been identified during the course of recent audit work. Details of these breaches are summarised in annex 3. There are no specific issues to draw to the committee's attention.

Consultation

13 Not relevant for the purpose of the report.

Options

14 Not relevant for the purpose of the report.

Analysis

15 Not relevant for the purpose of the report.

Council Plan

16 The work of internal audit, counter fraud, and information governance helps to support overall aims and priorities by promoting probity, integrity and accountability and by helping to make the council a more effective organisation.

Implications

17 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

18 The council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if the results of audit work are not reported to those charged with governance.

Recommendation

19 Members are asked to:

Note the progress made in delivering the 2012/13 internal audit work programme, and current counter fraud and information governance activity.

Reason
To enable members to consider the implications of audit and fraud findings.

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Report Approved ✓ **Date** 12/9/12

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable **All** ✓

For further information please contact the author of the report

Background Papers

- 2012/13 Internal Audit, Counter Fraud, and Information Governance Plan

Annexes

Annex 1 – 2012/13 Audits Completed and Reports Issued
Annex 2 – Counter Fraud Activity
Annex 3 – Breaches of Financial Regulations

AUDITS COMPLETED AND REPORTS ISSUED

The following categories of opinion are used for audit reports.

Opinion	Level of Assurance
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Actions to address issues are agreed with managers where weaknesses in control are identified. The following categories are used to classify agreed actions.

Priority	Long Definition	Short Definition – for use in Audit Reports
1 (High)	Action considered both critical and mandatory to protect the organisation from exposure to high or catastrophic risks. For example, death or injury of staff or customers, significant financial loss or major disruption to service continuity. These are fundamental matters relating to factors critical to the success of the area under review or which may impact upon the organisation as a whole. Failure to implement such recommendations may result in material loss or error or have an adverse impact upon the organisation's reputation. Such issues may require the input at Corporate Director/Assistant Director level and may result in significant and immediate action to address the issues raised.	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
2	Action considered necessary to improve or implement system controls so as to ensure an	A significant system weakness, whose impact or frequency presents risks to the system

Priority	Long Definition	Short Definition – for use in Audit Reports
	effective control environment exists to minimise exposure to significant risks such as financial or other loss. Such issues may require the input at Head of Service or senior management level and may result in significantly revised or new controls.	objectives, and which needs to be addressed by management.
3	Action considered prudent to improve existing system controls to provide an effective control environment in order to minimise exposure to significant risks such as financial or other loss. Such issues are usually matters that can be implemented through line management action and may result in efficiencies.	The system objectives are not exposed to significant risk, but the issue merits attention by management.

Draft Reports Issued
11 internal audit reports are currently in draft. These reports are with management for consideration and comments. Once the reports have been finalised, details of the key findings and issues will be reported to this committee. The draft reports are categorised as follows:

Opinion	Number
“High Assurance”	1
“Substantial Assurance”	5
“Moderate Assurance”	2
“Limited Assurance”	2
“No Assurance”	0
“Not given”	1

Final Reports Issued
The table below shows audit reports finalised since the last report to this committee in June 2012. In all cases the recommendations made have been accepted by management, and will be followed up by internal audit.

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
Project Management	06/06/12	Limited Assurance	6	0	This audit looked at arrangements across the council for project management. Weakness identified were mainly around a lack of clarity and understanding about

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					the council's project monitoring and control framework and a lack of consistency in the identification of projects and the management of project risks. A timescale of the end of October was agreed for implementing the agreed actions.
Office Move Project	06/06/12	Substantial Assurance	2	1	A review of the current position and plans in place specifically regarding preparations for the move relatec to scanning, paper reduction and storage arrangements. The 2 agreed actions have now been successfully implemented.
Health & Safety	21/06/12	No Assurance	9	2	The council delegates responsibility for health and safety issues at individual premises to a wide number of officers. The main issues identified during the audit arose from a lack of ownership of health and safety risks by the officers at those premises. This was exacerbated by a lack of central monitoring and enforcement. The findings principally related to fire, asbestos, and water/legionella risk assessments. However, a brief review of general premises workplace

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					inspections indicated that the issues were more generic. <u>Comment by Service Department</u> Senior Management and leading members have received briefings and a report detailing actions taken since the audit undertaken in 2011. This includes the letting of contracts for external inspection of the key areas of concern and improved accountability of senior officers for Health & Safety risks in their area. More work is to be undertaken on embedding Health & Safety management of risks at all levels, and this is a priority within a 3 year plan which will be received by the Joint H&S Committee with Trade Unions in November 2012.
Commercial Waste	27/06/12	Moderate Assurance	8	0	A review of procedures and controls in place in the Commercial Waste service. The main issues identified were: • waste disposal paperwork required by law is not being issued and retained for all customers

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					• debt chasing and income collection procedures could be improved • further action is needed regarding implementation of specialist software packages.
Housing Allocations	27/06/12	Substantial Assurance	2	0	An audit of the Choice Based Lettings Scheme looking at arrangements for processing applications and allocating properties. No significant weaknesses were identified.
Contract audit work – compliance with financial regulations	13/07/12	No Opinion Given	0	0	A detailed review of a large sample of council expenditure to ensure that contracts were in place where appropriate and expenditure was in line with relevant legislation and council financial regulations. No problems were identified with the majority of items tested. Specific instances of expired contracts were raised with service managers and will be followed up as part of similar work to be undertaken during 2012/13.
Huntington Secondary	17/07/12	Substantial Assurance	9	0	A schools audit. While a number of areas for improvement were identified, none represented

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
School					significant system weaknesses.
St Paul's Nursery	17/07/12	Substantial Assurance	7	0	An audit of the council's maintained nursery school. No significant weaknesses were identified.
Handling Complaints	01/08/12	Substantial Assurance	2	0	An audit of procedures across the council for handling complaints. Actions agreed relate to ensuring consistency between departments in how complaints are recorded and classified.
Housing Benefits and Council Tax Benefits	01/08/12	Limited Assurance	3	2	While many day to day operational controls and procedures were found to be operating well, there were a number of significant weaknesses that need to be addressed. These related to: • high error rates identified by the benefit team's own quality assurance checks • a lack of interventions, to ensure ongoing benefit claims are accurate • actions required to improve functionality and usability of the LAGAN system.

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					<u>Comment by Service Department</u> • Staff with high error rates are still subject to monitor and have been given stretch targets to bring error rates to within acceptable levels. • An interventions policy is now in force following consultation with our Fraud partners and the first batch of targeted interventions (reviews) have been sent out. Interventions will continue on a rolling programme. • Lagan issues are being addressed by ICT developers. Significant progress has been made in the last 3 months and regular reviews and updates happening.
Main Accounting System	14/08/12	Substantial Assurance	1	0	No significant issues were identified but there is still work to be done to address weaknesses with the completion of bank reconciliations raised in previous audits. Follow up work in this area will continue until satisfactory action has been taken.

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
Payroll	05/09/12	Substantial Assurance	1	0	An audit of payroll processes including those aspects of the new iTrent system which were implemented during 2011/12. The only issue identified is that evidence of authorisation by the relevant manager and chief officer is not always being retained when a new post is created or filled.

ANNEX 2

COUNTER FRAUD ACTIVITY 2012/13

The table below shows the total numbers of fraud referrals received and summarises the outcomes of investigations completed. While benefit fraud is still a major role for the team, there is a continuing increase in the work the team undertakes in other areas. The indicators have been updated from previous years to reflect this and now include the full range of counter fraud work undertaken.

	2012/13 (as at 01/09/12)	**2012/13 (Target: Full Yr)**	**2011/12 (Actual: Full Yr)**
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked, management action taken). *The target is designed to measure the effectiveness of counter fraud activity*	60%	30%	38%
Number of investigations completed	109	320	335

Caseload figures for the period are:

	As at 1/4/12	**As at 01/09/12**
Awaiting allocation	68	70
Under investigation	195	142

Summary of counter fraud activity:

Activity	**Work Completed or in Progress**
Data Matching	Investigation of 2010/11 National Fraud Initiative cases is now complete. A sample of council tax single person discount matches were reviewed by the Council Tax Department. The department concluded that the matches were of poor quality and it was not cost effective to review all the matches from the NFI. The 2012/13 National Fraud Initiative is now underway and preparations are being made to provide council data to the Audit Commission next month. Housing Benefit Matching Service (HBMS) referrals continue to be investigated - the counter fraud team has received 719 HBMS referrals to date in 2012/13.
Fraud Detection and Investigation	In addition to benefit fraud investigation, the service continues to promote the use of criminal investigation techniques and standards in other areas to encourage a robust response to any fraud perpetrated against the council. Activity to date includes the following: • Benefit Fraud - 8 people have been prosecuted for benefit fraud offences and a further 6 have received formal sanctions (cautions and administrative penalties). Benefits have been corrected in a further 33 cases. • Housing Fraud – working in conjunction with housing officers, 8 houses have been recovered in 2012/13. One tenant was subsequently prosecuted for illegally subletting a

Activity	Work Completed or in Progress
	council property. This was only the third such prosecution in the country and the only one outside of London. In addition, 2 properties were prevented from being let where the prospective tenants had provided fraudulent information in their housing applications. • Internal Fraud - the team has investigated 5 internal frauds during the year. • Social Care Fraud – Fraud awareness has been delivered to frontline staff and processes setup for the referral of cases where abuse of the system is suspected. There are currently 4 ongoing investigations in this area.

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ANNEX 3

SUMMARY OF BREACHES OF FINANCIAL REGULATIONS IDENTIFIED DURING INTERNAL AUDIT WORK COMPLETED IN THE PERIOD

Description of Breach	Instances
Failure to initiate prompt recovery action	2
Inadequate separation of duties	1
Failure to seek a waiver when 3 quotes/tenders not obtained	3
Failure to correctly account for VAT on income	1
Failure to ensure payments made are correct	1
Significant expenditure without a contract in place	15*

* A detailed piece of contract audit work was undertaken during 2011/12 which identified a number of instances of expenditure without a contract in place. See table below and annex 1 for more details.

Contract Audit Work – compliance with financial regulations 2011/12

Issue identified	Number of Contracts	Value £'000
Expired contracts	11	4,604
No contract had ever been put in place	4	642

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CITY OF YORK COUNCIL

Audit and Governance Committee 27 September 2012

Report of the Head of Internal Audit

Direct Payments Update Report

Summary

1 This report provides an update on action taken by officers to address weaknesses identified in monitoring direct payments during a 2011/12 audit.

Background

2 As part of the 2011/12 internal audit review of personalisation and direct payments, significant weaknesses in monitoring direct payments usage were identified. As a result, the service agreed action to introduce new monitoring procedures from April 2012.

3 At the meeting of this committee in June, it was requested that an update on progress against the agreed actions be brought in September. This report is based on a review of progress by internal audit in August 2012.

Findings

4 City of York Council currently has 217 customers who receive direct payments. For 67 of these, the council pays the money directly into the customers' bank accounts. In the remaining 150 cases, the council pays the money to the Independent Living Scheme (ILS) who administer accounts for customers, and provide support for customers employing personal assistants.

5 Following changes in responsibilities within the department, approximately two years ago, systems for monitoring direct payments fell into disuse. At the time of the 2011/12 audit it was found that there were no formalised procedures for:

- informing customers that they were required to provide monitoring information to the council about how direct payments had been used
- requesting monitoring information on a periodic basis
- obtaining monitoring information from the ILS for customers they supported
- monitoring returns and chasing information, and
- taking appropriate action where payments were not used in line with expectations (including funds not being used and excessive bank balances accruing).

6 As a result, there were increased risks that customers would not receive the care they required, that any misuse of funds would not be detected, and that unused funds may not be recovered[1]. To address these risks, a number of actions were agreed, including:

- New monitoring arrangements would be put in place from April 2012. Information from directly paid customers would be requested quarterly and the ILS would be asked to provide information on a six monthly basis for the customers they support.
- All existing customers would be given a copy of the terms and conditions attached to direct payments, during the course of annual reviews over the next year.
- A review of the new systems and processes would be undertaken by the service in October 2012, to identify areas requiring further development.

Monitoring - Directly paid customers

7 Requests for monitoring information for direct payments for the period up to 31 March 2012 were sent out to customers in April 2012. These went to 49 of the 67 directly paid customers. In 18 cases, requests were not sent because it was considered inappropriate (for example where there were current care management issues). While the audit did not look in detail at the reasons behind these decisions, the approach seems reasonable. In July 2012, further monitoring requests for the first quarter of 2012/13 were sent out to 44 customers.

[1] As a guideline, the department will consider a balance of greater than eight weeks worth of payments for recovery, though this is dependent on individual circumstances.

8 Following the April requests, monitoring information was returned in 28 of the 49 cases. In addition, an excess balance of £7,700 was repaid by one customer voluntarily. At the time of the follow up audit, 23 customers had returned information following the July requests.

9 The audit also looked at the procedures being introduced to assess information returned, and to chase outstanding returns. While a monitoring record has been introduced (using a spreadsheet) it was found that this does not currently enable easy analysis or follow up of the information. Feedback has been provided by the auditor, which will be fed into the service's review of procedures due to be completed by October.

10 The service is currently failing to chase information where it is not returned. This appears to be at least in part due to resource constraints. It is recognised that the planned improvements to the monitoring records may simplify the process and facilitate follow up. The service will, however, need to consider the extent of follow up work to be undertaken in light of the potential benefits (for example in terms of reclaimed direct payments).

Monitoring - Independent Living Scheme (ILS) Customers

11 The ILS provided the first tranche of six monthly monitoring data for 56 of the 150 customers it supports, in April 2012. No further action has been taken by the service to chase for outstanding information, and it is currently unclear where responsibilities for this should lie. This will be followed up further with the department.

Reissue of Terms and Conditions

12 The service has confirmed that the process of re-issuing terms and conditions has now commenced, and will be completed over the next year. Further follow up will be undertaken in this area in October 2012.

Conclusions

13 The service has now introduced systems for monitoring direct payment usage by customers and this represents a significant improvement in control. Further work now needs to be done to

introduce mechanisms to follow up information that has not been returned, and to improve procedures for analysis and review of direct payment usage information.

14 Internal audit have provided initial feedback and advice to the service on areas for improvement. In addition, the audit team will work with the department to support their own review of procedures in October 2012, and to undertake further follow up.

Consultation

15 Not relevant for the purpose of the report.

Options

16 Not relevant for the purpose of the report.

Analysis

17 Not relevant for the purpose of the report.

Council Plan

18 The work of internal audit helps to support overall aims and priorities by promoting probity, integrity and accountability and by helping to make the council a more effective organisation.

Implications

19 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

20 The Council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if it fails to

follow up on audit recommendations and report progress to the appropriate officers and members.

Recommendations

21 Members are asked to:

(a) note the progress made to date to implement actions agreed following the audit of personalisation and direct payments in 2011/12.

Reason
To enable members to fulfil their role in providing independent assurance on the council's control environment.

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Report Approved ✔ **Date** 12/09/2012

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable **All** ✔

For further information please contact the author of the report

Background Papers
2011/12 internal audit report on personalisation and direct payments

Annexes
None

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