AUDIT COMMITTEE

Date:- **Wednesday, 22 July 2015** **Venue:-** **Town Hall, Moorgate Street, Rotherham. S60 2TH**

Time:- **4.00 p.m.**

A G E N D A

1. To consider whether the press and public should be excluded from the meeting during consideration of any part of the agenda.

2. To determine any item which the Chairman is of the opinion should be considered as a matter of urgency.

3. Minutes of the previous meeting held on 5th May, 2015 (herewith) (Pages 1 - 6)

4. Corporate and Children and Young People's Service Improvement Plans Governance Arrangements (report herewith) (Pages 7 - 13)

5. Audit Committee Work Plan 2015/16 (report herewith) (Pages 14 - 18)

6. Internal Audit Progress Report 2015/16 Quarter One (report herewith) (Pages 19 - 33)

7. Heritable Bank plc (In Administration) (report herewith) (Pages 34 - 36)

8. Annual Treasury Management Report and Actual Prudential Indicators 2014/15 (report herewith) (Pages 37 - 52)

9. 2014/15 Unaudited Statement of Accounts (report herewith) (Pages 53 - 200)

10. Draft Annual Governance Statement 2014/15 (report herewith) (Pages 201 - 218)

11. KPMG's 2014/15 External Audit Plan (as updated) (report herewith) (Pages 219 - 252)

12. Items for Referral for Scrutiny.

Jacqueline Collins

J. COLLINS,
Director of Legal and Democratic Services.

AUDIT COMMITTEE
Tuesday, 5th May, 2015

Present:- Councillor Sangster (in the Chair); Councillors Cowles and Kaye.

Apologies for absence:- Apologies were received from Councillors Rushforth and Sharman.

C38. MINUTES OF THE PREVIOUS MEETING HELD ON 11TH MARCH, 2015

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 11th March, 2015.

Reference was made to Minute No. N35, Third Paragraph (External Auditor's Value for Money Conclusion 2013/14) indicating findings and conclusions of three inspections. This should refer to two inspections only – Professor Jay and Ofsted.

Paragraph 5 of the same minute also referred to a "deadline to informally produce the Value for Money conclusion". The word "informally" should be deleted.

In terms of Minute No. N36 (Closure of Accounts 2014-15) Simon Tompkins, Finance Manager, suggested an addition to the minute as the change gave added emphasis in view of the fact that the Council's Treasury Strategy, which included the approach to determining Minimum Revenue Provision, be a matter reserved for full Council. This was at KPMG's request and would include the inclusion of the following text after the fifth paragraph:-

"Members were asked in approving the minutes to have particular regard to the amendment to accounting Policy 15 in Appendix 2 to the report which set out the basis on which charges were to be made to revenue for the repayment of debt which had been used to finance capital expenditure. This was known as the Minimum Revenue Provision or MRP.

Capital financing regulations and related statutory guidance allowed a range of options for determining Minimum Revenue Provision. The broad aim was that a prudent provision should be made which mirrors the benefit the Council gets from using the asset to deliver services over the life of the asset.

The accounting policy had been clarified in 2014/15 to simply state that prudent provision was made having regard to relevant statutory requirements and related guidance on MRP issued by DCLG. It no longer prescribed which options were to be employed to different types of debt in any given year. This afforded flexibility in how the policy was applied in practice in the face of changing circumstances.

The amendment to Accounting Policy 15 was being emphasised to Members in view of the fact that approval of the Council's Treasury Strategy, which includes the approach to determining Minimum Revenue Provision, was a matter reserved for full Council."

Resolved:- That the minutes of the previous meeting be approved as a correct record for signature by the Chairman, subject to the alterations/inclusions referred to above.

C39. INTERNAL AUDIT ANNUAL REPORT 2014/15

Consideration was given to a report presented by Colin Earl, Director of Transformation, which provided information on the role of Internal Audit, the work undertaken by the Service during the 2014/15 financial year and his overall opinion, as Director of Transformation, on the Council's control environment.

Based upon the audit work undertaken during 2014/15 and taking into account the findings of key external reviews: KPMG, Professor Jay Report, Corporate Governance Inspection and Ofsted Inspection, the Director of Transformation concluded that the Council's control environment for 2014/15 was inadequate and did not operate satisfactorily during the year.

Particular reference was made to the basis of the opinion, which was affected by a number of factors, some of which were exceptional. However, sufficient work was undertaken to enable a view on the Council's control environment to be formed, which also took account of other assessments of the Council's performance and its controls.

The control environment was found to be inadequate in six areas:
- Contract for School Improvement Activity.
- Children's Home.
- Transport for Looked After Children.
- Highways Contracts.
- Blue Badge Scheme.
- Taxi Licensing.

A summary of the audit work undertaken during the year was set out in the report submitted.

In addition, Internal Audit also provided audit services on a fee earning basis to five academy schools; since these are separate legal entities to the Council, there is no impact on the overall opinion of the Council's control environment.

Clarification was sought on control improvements to the blue badge scheme and the work taking place with management on applicant assessments. A further report on progress would be reported to the July

2015 meeting of the Audit Committee.

In terms of highways contracts, it was noted that a more robust process for the checking of costs incurred during the currency of contracts and at final account stage was being implemented to avoid errors in the future.

With regards to transport for looked after children a number of recommendations had been made to strengthen the arrangements, all of which had been accepted by management.

A further period of consultation had also been launched on the Licensing Policy in relation to taxi licensing, with a view to a more robust process being implemented. Implementation of the new Policy would have a phased approach for existing taxi drivers and operators.

It was suggested that a robust approach to taxi licensing should be adopted nationally and discussions had taken place with representatives from the Home Office for this to be considered further. Considerable interest had also been shown by Chief Executives of the other South Yorkshire Local Authorities and it was envisaged that some seminar with colleagues would be devised to share information once the Policy had been agreed.

Resolved:- That the Internal Audit Annual Report for 2014/15, including the opinion that the Council's control environment was inadequate and did not operate satisfactorily during the year, be noted.

C40. EXTERNAL AUDITOR'S FINAL ANNUAL AUDIT LETTER 2013/14

Consideration was given to a report presented by Stuart Booth, Strategic Director of Resources and Transformation, which reported receipt of the final annual audit letter from KPMG.

The Interim Annual Audit Letter 2013/14 presented to Audit Committee on 19th November, 2014 informed Members that KPMG had not been able to issue their Value for Money Conclusion pending consideration of the scope and outcomes from the inspection work commissioned following the independent inquiry into child sexual exploitation.

Subsequent to this, KPMG have completed their work and reported their Value for Money Conclusion to Audit Committee on 11th March, 2015.

The adverse conclusion they reached that the Council has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31st March, 2014 was reflected in the Final Annual Audit Letter.

The remaining headline messages contained in the Final Annual Audit Letter were unchanged from the Interim.

It was worth noting that, although an adverse Value for Money Conclusion had been issued, KPMG have not felt it necessary to issue any high priority recommendations relating to Value for Money as the Council was in the process of developing an improvement plan to address the weaknesses identified in the corporate governance inspection.

Representatives from KPMG confirmed the initial audit planning process identified two significant risks to the Value for Money conclusion, the closure of Digital Region Limited and the Authority's savings plans for reductions in savings.

In addition, in November, 2014, OFSTED published its judgement that Children's Services were overall inadequate. This, therefore, questioned the Authority's arrangements to deliver quality services for children. In February, 2015, the Report of the Inspection of Rotherham Metropolitan Borough Council was published and highlighted significant governance weaknesses. Specifically it reported the Authority was not fit for purpose and failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions.

In the context of KPMG's Value for Money conclusion, the significant weaknesses identified in the Authority's arrangements meant they were unable to be satisfied the Authority had arrangements to secure economic, efficient and effective use of resources and, therefore, issued an adverse conclusion on 26th March, 2015.

Commissioner Manzie confirmed that strategic arrangements were now in place to look at the conclusions in more detail and would form part of the overall framework in the Improvement Plan.

Resolved:- That the Final Annual Audit Letter 2013/14 be approved for publication on the Council's website.

C41. INTERNAL AUDIT PLAN 2015/16

Consideration was given to a report presented by Marc Bicknell, Chief Internal Auditor, which outlined the Council's Internal Audit Plan for 2015/16.

Significant changes had been made in the approach to audit planning. These have been reflected in the resulting audit plan, which now more fully reflects a risk based assessment using the Council's risk registers, budget documentation and other key plans. The Plan also reflects discussions with Directors and the Strategic Leadership Team on their views of key risks and areas for audit coverage.

The programme also included coverage in many areas criticised in the Professor Jay, Ofsted and Corporate Governance Inspection reports.

As well as a full refresh of the 'audit universe' and a thorough risk assessment of the Council's activities, the Audit Plan had also taken into account:-

- Financial information from budgets and key financial systems
- Review of key plans and policies
- Consultation with the Council's Directors and Strategic Leadership Team
- Known major upcoming changes in keys systems and governance arrangements
- Views on the risk of fraud and error
- Cumulative audit knowledge and experience
- External requirements (including requirements to audit and sign off grant claims for the Government)

A summary of the approach to the development of the Audit Plan for 2015/16 was provided, which would be delivered in accordance with the Internal Audit Charter. The Internal Audit Plan was focused on the achievement of the Council's key objectives and priorities and the risks that may hinder the Council from meeting these.

As well as identifying all of the proposed pieces of work to be carried out during the year, the Plan:-

- Explained the statutory requirement for Internal Audit
- Described the approach and methodology adopted in producing the Plan
- Showed the level of resources available to deliver the Plan was 1,405 days based on an establishment of 8.4 full time equivalents
- Identified the Audit Universe for the Council
- Included high level risk assessments for each Council service
- Included a contingency to use in responding to requests for advice/assistance that arose throughout the year. Client feedback told us that Internal Audit's ability to respond promptly to unforeseen issues of the nature was highly valued. With finite resources though, we would need to carefully review involvement in any issues presented

In line with the new UK Public Sector Internal Audit Standards, the Plan did not become fixed when it was approved. It remained flexible and would be revised to take into account any significant emerging risks facing the Authority.

The scale of change in audit approach and resulting audit plan would be challenging for Internal Audit to deliver. Resources would need to be revised and invested within the service as necessary to enable it to successfully deliver the audit plan.

Consideration was given to a number of issues specifically around the external reviews, the "missing" reports and the flow of information throughout the Authority. The Chief Internal Auditor confirmed this will be reviewed as part of a wider discussion on information governance and the management of Freedom of Information and Data Subject Access requests.

A series of quality assurance checks have been introduced in Children's Services and Internal Audit will examine these.

A new IT system is to be introduced for Children's Services and Adult Services and Internal Audit will examine this in due course.

One of the major areas of audit work would specifically focus on concerns raised by the Professor Jay and Casey reports and the serious weaknesses in children's social care in Rotherham and the quality assurance function with a view to making sure proper management arrangements and assessment timescales were in place.

Through careful management of our resources, we will continue to undertake the necessary work on fundamental financial systems to support the Section 151 officer to fulfil his statutory responsibilities.

Given the limited audit resources and the challenges to delivery of the Audit Plan, we will need to keep our practice of providing audit services to academies under review.

The audit plan will be kept under review on an ongoing basis, any significant changes to it will be reported to the Audit Committee for consideration and approval.

The Strategic Director of Resources and Transformation welcomed the shift in risk based focus, which was recognised in the report and which gave assurances as to how business was being managed from a governance perspective.

Resolved:- That the Internal Audit Plan for 2015/16 be approved.

Agenda Item 4

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**22 July 2015**
3.	**Title:**	**Corporate and Children and Young People's Service Improvement Plans Governance Arrangements**
4.	**Directorate:**	**Corporate Services and Children and Young People's Service**

5. Summary

5.1 The purpose of this report is to provide members of the Audit Committee details of the arrangements that are in place in respect of the governance of the improvement plans for both council-wide (the corporate Improvement Plan) and Children and Young People's Services (CYPS).

6. Recommendations

6.1 That the Committee receives this report and notes the governance arrangements that are currently in place for each of the Councils formal improvement plans.

Proposals and Details

7. Children and Young People's Services Improvement Action Plan

7.1 **The Children and Young People's Improvement Action Plan** was developed in response to the following;

- Independent inquiry into CSE in Rotherham, by Professor Alexis Jay (26th August 2014)
- OFSTED Inspection of Services for children in need of help and protection, children looked after and care leavers *and* the Review of the effectiveness of the Local Safeguarding Board (19th November 2014)
- Corporate Governance Inspection report by Louise Casey CB (4th February 2015)
- Secretary of State for Education Direction under section 497A (4B) of the Education Act 1996.
- Secretary of State Directions to Rotherham MBC, (26th February 2015).

7.2 It aims to address the systemic improvement needed internally within RMBC Children and Young People Services and across our partnership structures to safeguard our children and young people.

7.3 The plan takes into account the following themes for improvement which align to the key judgments in the Ofsted Framework and evaluation schedule for the inspections of services for children in need of help and protection, children looked after and care leavers. Each them is overseen by a CYPS Director.

1. **Leadership**
2. **High Quality Practice**
3. **Effective Partnerships**
4. **Capacity and Skills**
5. **The Experience of the Child and Family**

The approach to CYPS Improvement

7.4 RMBC Commissioners, Elected Members, officers and partner agencies are determined to deliver rapid, visible and sustainable improvement to our children's services. There is a strong emphasis to ensure that the changes are embedded and sustained so that we build system capacity across the Partnership.

7.5 Working with our Children's commissioner we have identified the following seven immediate priorities, these contribute to the priority and immediate action recommendations in the Ofsted Report published 19th November 2014.

1. Strengthen the arrangements for screening through the introduction of a Multi-agency Safeguarding Hub
2. Put in place sufficient social workers to ensure caseloads are manageable across the service.

3. Clear up the backlog of out of date assessments and ensure that assessments are completed in a timely fashion
4. Recruit to a permanent senior and middle management structure.
5. Strengthen the specialist team for investigating Child Sexual Exploitation and put in place strong strategic and operational leadership of CSE
6. Ensure all children in need, children on a child protection plan and looked after children have an up to date plan focused on outcomes and that children on caseload are visited at the required frequency by social workers
7. Address the severe deficits in the ICS system as a matter of urgency and procure a replacement system

Governance

7.6 Internally the governance of the CYPS plan is through the Children's Improvement Board, Chaired by the Children's Commissioner and attended by the Directors of Children's Services and key partners, including health and the police. Ongoing monthly meetings are scheduled.

7.7 A key responsibility of the Children's Improvement Board is to oversee progress through monitoring, challenging and supporting the actions of the Children and Young People's Improvement Plan. The Board confronts the areas of greatest risk first, and lays the foundations for effective and sustained improvement. This includes monitoring the targets set out in the Improvement Plan and assuring that improvements are embedded through continuous quality assurance and scrutiny.

7.8 Through the Children's Commissioner the Improvement Board brings focus to the Improvement Programme through;

- A clear articulation of priorities
- Systematically reducing risks in the system
- Restoring confidence in Members, partners, staff, the public and National Government.

7.9 Evidencing improvements on a weekly and monthly basis is used to determine impact and improved outcomes. The evidence presented to the Board is quantitative as well as qualitative and is critically assessed and challenged to ensure that it is robustly implemented. In addition, an evidence bank is in place for the Improvement Plan to capture outcomes which demonstrate impact on each area identified.

"A Fresh Start" – Rotherham MBC corporate Improvemet Plan

7.10 The RMBC Council meeting on 22nd May approved a corporate, council-wide Rotherham Improvement Plan, with full cross-Party support, prior to the Plan's formal submission to the Secretaries of State for Communities and Local Government (DCLG) and Education (DfE) on 26th May. The version of the Plan as submitted to Government is publicly available via the Council website and has also been circulated to partners[1]. While the Plan is not intended as a public-facing document, a

[1] See www.rotherham.gov.uk/downloads/file/2313/rotherham_improvement_plan

short, executive summary version is also being finalised to support wider knowledge and understanding on the Plan's main aims amongst councils staff, elected members, partners and the public, particularly those over the next 12 months.

7.11 The Plan is Rotherham Council's strategic, organisation-wide response to the same list of reports and publications outlined at paragraph 7.1 above, but covering all aspects of the organisation, complementing the CYPS Improvement Plan as its "sister document". A section of the "Fresh Start" Plan (section 5) covers the interrelationship between it and the CYPS Action Plan.

7.12 As the Plan sets out, the specific actions and milestones contained within it – set out in a series of tables in sections 6.7 and 6.8 of the Plan document – were informed by the Government appointed Commissioners' assessment of the Council's key improvement requirements in order to achieve a "fresh start" (a key phrase used at the time of Louise Casey's CGI report). It took into account discussions with leading elected members, senior managers and a staff corporate working group. It also drew upon elements of initial work carried out by a corporate improvement board that the Council had established with the Local Government Association (LGA) following the publication of the Professor Jay report.

7.13 In practical terms, the Fresh Start plan is divided into two phases. The initial "transition" phase, to May 2017, focuses on ensuring the Council has the basic building blocks in place of an effective council, namely:

- Inspirational political leadership
- Robust governance, decision-making and performance management
- A culture of excellence and outstanding implementation
- Strong, high impact partnerships

7.14 The specific actions set out with in the document are presented in line with these four themes.

7.15 The second phase of the Plan is that beyond May 2016, following the appointment of key, permanent senior staff and the all-out elections, which is focused on role of embedded strong leadership and a new culture. Inevitably, at this early stage, this second phase is yet to be defined in detail, with most actions necessarily front loaded and focused on the key building blocks. Greater clarity over phase two will therefore emerge as phase one is implemented.

Implementation

7.16 Some early consideration was given by Commissioners to the practical implementation of the Fresh Start Plan as it was developed – including initial discussions at an "M3" (middle) managers session on 20th May as well as with the Senior Leadership Team.

7.17 The Plan itself (section 9, page 42) also set out its headline governance arrangements, chiefly through a "Joint Board" of Commissioners and leading Elected Members, supported by an officer corporate improvement plan group, linked to the Strategic Leadership Team (SLT).

7.18 The chief focus until the end of May had to be on ensuring a comprehensive improvement plan that would be accepted by two Government Departments, hence most work on an implementation strategy for the Plan's actions has taken place since its submission to Government, during June.

7.19 This has confirmed the role of the Joint Board referred to in the Plan, which meets for the first time on 28th July and will consist of Commissioners Myers, Manzie, Ney and Kenny, alongside the Leader, Deputy Leader and Leader of the Opposition.

7.20 To further support the focus on effective and robust delivery of all elements of the Plan, a total of nine implementation programmes have been established, bringing the actions together in sensible, operational groupings, with clear project leads for each element and appointed programme coordinators. The programmes are as follows:

1. Workforce training and development
2. Communication
3. Financial planning
4. Corporate governance
5. Supporting Elected Members
6. New Vision and Performance Framework
7. Restructure and appointments
8. Effective Partnerships
9. Service-level improvements

7.21 The nine programme coordinators will constitute the supporting officer group referred to in the Plan's governance section, building on the officer task-group that was established to inform the Plan's content as it was being developed. This is chaired by the Interim Strategic Director for Resources & Transformation, Stuart Booth, meets formally for the first time on 15 July and will aim to meet monthly thereafter.

7.22 Specific programme and project management documentation has also been developed alongside the implementation programmes to track progress of each element (including via RAG-ratings), which will also be supported by a more user-friendly SharePoint system. The first report on overall progress will be presented to the first meeting of the Joint Board on 28th July. Following this, the first formal review of progress to Government is due by 26th August as part of a 6-month report fro the Commissioners to DCLG and DfE on the progress being made.

7.23 Commissioners and the Joint Board may also wish to give further consideration to how members of the previous LGA Improvement Board could be engaged in reviewing progress at some future stage, helping to provide an external, independent perspective on the Council's improvement journey.

8. Finance

8.1 **In relation to the CYPS Improvement Plan**, the governance arrangements in respect of finance are met within existing budgets, however it is recognised that additional financial resources have been needed to implement and sustain the identified improvements within the service.

8.2 The 22nd May report to Council on the **corporate, "Fresh Start" Improvement Plan** noted that any investments required to support the delivery of the Improvement Plan would need to be picked up in the process to establish a new Medium Term Financial Strategy. In the immediate term, the Council paper also noted the "transformation reserve" allocated in the current 2015/16 Budget (totalling £8.4m) that is available to draw upon should this be required.

9. Risks and Uncertainties

9.1 There is a risk that actions are reported as completed without substance, however further evidence is collected as part of the respective quality assurance regimes and monitored through performance management, evidencing not just completion of actions, but the associated outcomes.

9.2 In the case of CYPS, recruitment to the most senior posts is now complete to ensure the positive direction of travel continues. Recruitment in relation to managers and social work posts to deliver the required improvements continues.

9.3 The processes for the "Fresh Start" plan, by comparison, are inevitably some months behind that in CYPS, with the process commencing at the end of June to set out project plans and mapping the risks associated with the each of the actions within the plan. Key, immediate term risks to highlight, however, are the need to ensure appropriate resources to support the Joint Board and performance/ programme management regime; as well as the relatively tight timescale and impacts of summer leave/other commitments on the first formal report to Government, due by 26 August. In part these are being mitigated by some dedicated, cost free programme manamenet support being provided to the Council by the LGA; and the officer group of Programme Managers will also bring greater focus to where gaps in delivery capacity might need to be addressed.

10. Policy & Performance Agenda Implications

10.1 The need for the improvements in Children's Services was a direct result of statutory intervention from the DfE following the inspections and subsequent reports in 2014. It is essential that improvements are made and sustained.

10.2 Rotherham is still subject to OFSTED inspections in addition to the regular reports to, and visits from the DfE. OFSTED's new integrated inspection framework is due to commence in September with six local areas being inspected, CYPS are currently making preparations in the event they are selected as one of the six.

10.3 In addition the implementatioin of both Improvement Plans and the responsibilities for delivery will need to be reflected in the review of the Council's overall performance and service planning frameworks in due course, including the establishment of a new Corporate Plan, informed by the new Community Strategy that will be informed following the Summer 2015 progreamme of "visioning" workshops with partners and being led by the Leader of the Council and Lead Commissioner.

11. Background Papers and Consultation

11.1 Independent inquiry into CSE in Rotherham, by Professor Alexis Jay (26th August 2014)

11.2 OFSTED Inspection of Services for children in need of help and protection, children looked after and care leavers and the Review of the effectiveness of the Local Safeguarding Board (19th November 2014)

11.3 Corporate Governance Inspection report by Louise Casey CB (4th February 2015)

11.4 Secretary of State for Education Direction under section 497A (4B) of the Education Act 1996.

11.5 Secretary of State Directions to Rotherham MBC, (26th February 2015).

11.6 CYPS Improvement Plan (25th February 2015)

11.7 "A Fresh Start" Rotherham Improvement Plan (26th May 2015)

Contact Name: Sue Wilson (CYPS Improvement Plan)
Email: sue.wilson@rotherham.gov.uk
Telephone: 01709 822511

Justin Homer ("A Fresh Start" Rotherham Improvement Plan)
Email: Justin.homer@rotherham.gov.uk
Telephone: 01709 823618

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	**Meeting:**	Audit Committee
2.	**Date:**	22 July 2015
3.	**Title:**	Audit Committee Work Plan 2015/16
4.	**Directorate:**	Resources

5. Summary

This report provides details of the draft Audit Committee's workplan for 2015/16.

The plan has been updated to ensure it remains as up-to-date as possible, by taking into account current significant issues relating to the Committee's terms of reference. The plan recognises the 'Fresh Start' being adopted by the whole of the Council and, correspondingly, the proposed plan provides for a fresh approach and a fresh start for the Audit Committee.

This 'Fresh Start' for the Audit Committee will be reflected in an Audit Committee Prospectus that is currently being drafted. This report highlights some of the key changes being built into the Prospectus.

6. Recommendations

The Audit Committee is asked to:

- **Note the development of the Audit Committee's role and approach**
- **Approve the corresponding workplan for 2015/16**
- **Note the drafting of a prospectus outlining the new approach.**

7. Proposals and Details

In line with good practice the Audit Committee has a work plan which identifies its activities and is reviewed regularly to ensure it reflects the Audit Committee's priorities. The workplan also sets out how the Committee aims to fulfil its terms of reference. In this respect the work plan shows activities under the 3 main functions of the Audit Committee; Accounts Matters, Audit/Control Matters and Risk Management/Other Matters.

This review has been completed to ensure the work plan remains as up-to-date as possible, by taking into account:

- The need to confirm there are appropriate arrangements in place for managing risks, including risks linked to the financial reductions forced on councils
- The continuing adoption of Financial Reporting Standards
- The effective monitoring of audit recommendations
- Provision for the continuation of regular updates and, where relevant, refresher training sessions.

Appendix A contains a draft workplan which provides for progress on these and other regular issues to be reported to the Audit Committee. This workplan covers 2015/16.

A review of the work done by the Audit Committee is reported in the Audit Committee's Annual Report.

Following the criticisms of the whole of the Council, including the Audit Committee, within the Casey Report, and the subsequent Government intervention, the Council has produced a corporate improvement plan (which complements the already existing Children's Improvement Plan) to create a fresh start for all of its services and the governance arrangements across the whole of the Council.

The Lead Commissioner, Sir Derek Myers, has recently met with the Chair of the Audit Committee and they have agreed the Audit Committee also needs a Fresh Start. It is proposed that the fresh start will be reflected in an Audit Committee Prospectus, which is currently being drafted (with a deadline target of 31 July). It will set out Audit Committee standards, the scope of its work and how it will seek the assurances about the management of risks across the Council.

Some of the more notable elements of the new arrangements include:

- Regular briefing / training sessions on a topical subjects prior to each Audit Committee meeting
- The recruitment of an independent member to augment the skills and experience currently provided by the Audit Committee
- Regular detailed reviews of directorate risk registers, including the involvement of Cabinet Members in managing / reviewing the risks
- Setting aside one full meeting, in January 2016, for a self-assessment exercise
- A reflection at the end of each meeting on any matters arising during the meeting that should be mentioned to or referred to Overview and Scrutiny Management Board, to take into account in its work planning. This will ensure effective communication between Scrutiny and the Audit Committee and ensure their roles are complementary and, collectively, carried out more effectively.

The fresh approach including these, and other, new arrangements will strengthen the Audit Committee and enable it to better obtain assurances about the effective management of the Council's activities.

8. Finance
There are no direct financial implications arising from this report.

9. Risks and Uncertainties
The Audit Committee aims to comply with standards established by the Chartered Institute of Public Finance and Accountancy (CIPFA). The maintenance of a workplan is consistent with the CIPFA standards. The production of a workplan also helps the Audit Committee to ensure it achieves its terms of reference.

10. Policy and Performance Agenda Implications
The Audit Committee's workplan is wholly related to good governance and the achievement of the objectives in the Council's Corporate Plan.

11. Background Papers and Consultation
Audit Committee terms of reference
Audit Committee work plan

Contact Names:
Colin Earl, Assistant Director of Audit, ICT and Procurement x22033

Appendices:
Appendix A **Draft Audit Committee work plan 2015/16**

Appendix A

Audit Committee Work Plan 2015/16:

Date of Meeting	Accounts Matters	Audit/Control Matters	Risk Management/Other Matters
22 July 2015	• Draft Statement of Accounts 2014/15 • Heritable Bank – update • Annual Treasury Report	• Internal Audit Plan – Progress Report • External Auditor's Audit Plan 2014/15	• Corporate and Children's Improvement Plans – Governance • Draft Annual Governance Statement 2014/15
23 September 2015	• Final Statement of Accounts 2014/15	• Anti-Fraud and Corruption Arrangements • Annual Fraud Report 2014/15 • External Auditor's (ISA 260) Report on the Accounts 2014/15 • Progress on the Implementation of Audit and Inspection recommendations	• Review of Risk Management Policy and Strategy • Improvement Plan – Governance related issues • Final Annual Governance Statement 2014/15 • Refresh of the Local Code of Corporate Governance
25 November 2015	• Mid-Year Report on Treasury Management and Prudential Indicators 2015/16	• Review of Financial Regulations • External Auditor's Annual Audit Letter 2014/15 • Review of Internal Audit	• Improvement Plan – Governance related issues • Corporate Risk Register • Annual Review of the Local Code of Corporate Governance and Review of Overall Governance Arrangements • Directorate risk register 'deep-dive' review (directorate to be determined)

Date of Meeting	Accounts Matters	Audit/Control Matters	Risk Management/Other Matters
20 January 2016	• *Audit Committee Self-Assessment*		
17 February 2016	• Final accounts closedown arrangements and review of accounting policies • Prudential Indicators and Treasury Management Strategy	• External Audit Plan 2015/16 • External Audit Grants Report 2014/15 • Progress on the Implementation of Audit and Inspection recommendations	• Corporate Risk Register • Improvement Plan – Governance related issues • Directorate risk register ‘deep-dive’ review (directorate to be determined)
27 April 2016		• Internal Audit Charter and Strategy • Internal Audit Plan 2016/17 • Internal Audit Annual Report 2015/16	• Improvement Plan – Governance related issues • Audit Committee Annual Report 2015/16 • Audit Committee Self-Assessment • Directorate risk register ‘deep-dive’ review (directorate to be determined)
20 July 2016	• Draft Statement of Accounts 2015/16	• Progress on the Implementation of Audit and Inspection recommendations • Annual Fraud Report 2015/16 • Anti-Fraud and Corruption Arrangements	• Corporate Risk Register • Improvement Plan – Governance related issues • Draft Annual Governance Statement 2015/16 • Directorate risk register ‘deep-dive’ review (directorate to be determined)

ROTHERHAM BOROUGH COUNCIL - REPORT TO AUDIT COMMITTEE

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**22nd July 2015**
3.	**Title:**	**Internal Audit Progress Report 2015/16 Quarter One**
4.	**Directorate:**	**Finance and Corporate Services**

5. Summary.

This report provides a summary of Internal Audit work completed during the three months ending 30 June 2015 and the key issues that have arisen from it. It also provides information regarding the performance of the Internal Audit function during the period.

6. Recommendation

The Audit Committee is asked to:

i) **Note the Internal Audit work undertaken during the three months ending 30th June 2015 and the key issues that have arisen from it.**

ii) **Note the information contained regarding the performance of Internal Audit during the period.**

7. Proposals and Details.

Internal Audit produced a risk based Annual Internal Audit Plan in accordance with the UK Public Sector Internal Audit Standards (UKPSIAS). This was received by the Audit Committee at its meeting on 5 May 2015. The Plan is regularly monitored and reviewed during the year so that it provides sufficient coverage of the key risks facing the Council.

During the year, the Audit Committee will receive regular updates on the work of Internal Audit and a summary of the key issues that have arisen. This is the first of four quarterly progress reports and summarises the main activities of the Internal Audit service for the first three months of 2015/16.

The quarterly progress report is attached at **Appendix 1**. It includes the following information:

- The audit planning process
- Audit work undertaken during the period, including both planned and responsive work
- Management response to audit reports
- Internal Audit performance indicators.

Headlines from the report include:

- An Internal Audit Plan for 2015/16 was produced in line with the UK Public Sector Internal Audit Standards
- We assessed the Council's internal control environment to be inadequate in 2014/15 following audit work undertaken in the areas of taxi licensing, a voluntary sector grant claim, the Integrated Housing Management System, records management and a review of the support package for Abbey School by Winterhill School.
- An action plan to address Internal Audit recommendations was in place for all audits completed during the period.
- Internal Audit delivered 13% of the audit plan in the first quarter of the year. This is not exceptional for the first quarter of the year when work carried over from the previous year is finished off, and we are confident % completion will move back into line with expectations in the next few months.

8. Finance.

There are no direct financial implications arising from this report. The budget for the Internal Audit function is contained within the budget for the Finance and Corporate Services Directorate

9. Risks and Uncertainties.

Failure to deliver an effective Internal Audit would significantly weaken the Council's internal control arrangements and increase the risk of erroneous and/or irregular activities.

10. Policy and Performance Agenda Implications.
Internal Audit is an integral part of the Council's Governance Framework, which is wholly related to the achievement of the Council's objectives.

11. Background Papers and Consultation.
UK Public Sector Internal Audit Standards
Accounts and Audit (England) Regulations 2015

Contact Names:
Colin Earl, Assistant Director Audit, ICT and Procurement, ext. 22033
Marc Bicknell, Chief Internal Auditor, ext. 23297

Appendix 1: Internal Audit Progress Report 2015/16 Quarter One

Finance and Corporate Services Directorate

Appendix 1: Internal Audit Progress Report 2015/16 Quarter One

1. Purpose of the Report.

1.1 To provide a summary of Internal Audit work completed and the key issues arising from it for the three months ending 30th June 2015.

1.2 To provide information regarding the performance of the Internal Audit function during the period.

2. Introduction.

2.1 Internal Audit produced a risk based Annual Internal Audit Plan in accordance with the UK Public Sector Internal Audit Standards (UKPSIAS). This was received by the Audit Committee at its meeting on 5 May 2015. The Plan is regularly monitored and reviewed during the year so that it provides sufficient coverage of the key risks facing the Council.

2.2 At the end of the financial year, Internal Audit will produce an Annual Internal Audit Report, which will provide our overall opinion on the adequacy of the Council's control environment and compliance with it during the year.

2.3 This report summarises the main activities of the Internal Audit service for the first three months of 2015/16. The report is presented to the Audit Committee to enable it to fulfil its responsibility for overseeing the work of Internal Audit.

3. Legislation Surrounding Internal Audit.

3.1 The provision of Internal Audit is a statutory requirement for all local authorities that for the period under consideration is set out in the Accounts and Audit (England) Regulations 2015. These state:

> *"each principal authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."*

3.2 Internal Audit also has an important role in helping the Council to fulfil its responsibilities under s.151 of the Local Government Act 1972, which are that:

> *"each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".*

3.3 In order to deliver its functions as determined by statute and professional standards, Internal Audit has unrestricted coverage and access to all employees, records and assets of the Council. Additionally, it has unrestricted access to, and the freedom to report to, the Commissioner Managing Director, the other Commissioners appointed by the Government, the Head of Paid Service, the Responsible Financial Officer, the Monitoring Officer and the

Audit Committee. These requirements are set out in the Internal Audit Charter, which has recently been reviewed in line with the UKPSIAS.

4. Audit Planning Process.

4.1 The 2015/16 Audit Plan was produced taking account of the following:

- Analysis of the Council's risk registers
- Examination of revenue and capital budgets
- Cumulative audit knowledge and experience of previous work undertaken
- Review of both Corporate and Service Plan objectives and priorities
- Discussions with Strategic Directors and Directors
- Knowledge of existing management and control environments
- Professional judgement on the risk of fraud or error.

4.2 The 2015/16 Audit Plan was approved by Audit Committee on 5 May 2015.

4.3 During the first part of the quarter, we have focused significant resources on the audit planning process. This is to ensure that the 2015/16 audit plan is compliant with the requirements of the UK Public Sector Internal Audit Standards, and that Internal Audit is able to maximise the value and assurance we provide the Council's Executive / Commissioners, while ensuring we fulfil our statutory obligation to review and report on the Council's internal control environment.

5. Audit Work Undertaken During the Period

5.1 Internal Audit Opinion

Internal Audit provides an 'opinion' on the control environment for all systems or services which are subject to audit review. These are taken into consideration when forming our overall opinion on the Council's control environment. An 'inadequate' opinion is given in any area under examination where one or more concerns of a 'fundamental' nature are identified in the area.

5.2. Summary of Findings from Audit Reviews

Summary conclusions in all significant audit work concluded during the three months ending 30th June 2015 are set out in **Appendix A**. Appendix A also lists the audits that are at draft report stage. We have not provided our overall opinion on these nor have we provided a summary of the significant issues arising, because we have not yet been able to discuss the issues with management.

5.3 Audits with Inadequate Control Environment

Our work concluded that the control environment was inadequate in five areas, detailed below.

Directorate / Audit Area	**Report to mgt**	**Summary of Significant Issues**
EDS Taxi Licensing	26/06/15	This audit identified a number of serious failings with regard to the completion of processes leading to the issuing of operator, driver and

Directorate / Audit Area	Report to mgt	Summary of Significant Issues
		vehicle licenses. We made detailed recommendations, which have been or are being actioned by management, to strengthen arrangements. We will carry out a follow-up audit of this sensitive area to confirm that recommendations have been implemented in full.
EDS Voluntary Organisation grant claim	10/06/15	A voluntary organisation claiming grant from the Council could not provide evidence that confirmed delegates' attendance at events for which the claim had been made. We were, therefore, unable to approve the claim.
EDS Integrated Housing Management System	05/06/15	We have identified significant problems with the implementation of the new housing management system, including with specific aspects of its functionality, security and its interface with other Council systems, resulting in significant delays to implementation. We also found weaknesses in the contract for the system. Council officers are working with the developer to address the issues prior to go live, which is expected for the Autumn.
RESOURCES Records Management	13/07/15	This audit identified significant weaknesses in the process for managing the Council's paper based records and gaps in the information kept about a large volume of records held at Bailey House.
CYPS Abbey School	12/05/15	The audit highlighted a number of weaknesses in the governance of the arrangement between Winterhill School and Abbey School, including: • Lack of clear lines of accountability for monitoring delivery of the support package • No clear basis for arriving at the cost of the support package.

5.3 In addition to our assurance work, we also investigate allegations of fraud, corruption or other irregularity. Details of significant investigations completed in the period are set out in **Appendix B**.

6. <u>Management Response to Audit Reports.</u>

6.1 Following the completion of audit work, draft reports are sent to the responsible manager to obtain their agreement to the report and commitment to the implementation of recommendations. This results in the production of an Action Plan, containing details of implementation dates and the officers responsible for delivery.

6.2 Internal Audit subsequently seeks assurance from that agreed actions emanating from audit work have been implemented. As a minimum this involves contacting the manager responsible two months after the issue of the final audit report to seek written confirmation that agreed actions have been implemented or where they have not that appropriate progress is being made. Where fundamental weaknesses in internal control arrangements have been identified, a more detailed follow up piece of work is undertaken.

6.3 It is pleasing to note that an Action Plan has been agreed in respect of each final audit report issued. See Appendix A for further details.

6.4 The two month timescale for seeking confirmation that agreed actions have been implemented has not been reached for any of the audit reports referred to in this quarterly progress report. We will provide details on progress in implementing recommendations in our next update report.

7. Assessment of the Control Environment for Quarter to 30th June 2015.

7.1 We do not provide an overall opinion on the Council's control environment at the first quarter stage due to the limited number of audits that have been undertaken. We will provide our overall opinion at the half year stage and at the end of the year in the Annual Internal Audit Report.

8. Work for Outside Bodies

8.1 During the period Internal Audit provided audit services on a fee earning basis to the Wingfield academy school. Since academies are separate legal entities to the Council, this work does not have any impact on our overall opinion of the Council's control environment.

9. Internal Audit Performance Indicators

9.1 Our performance against a number of indicators is summarised below:

Performance Indicator	2015/16 Target	Apr to Jun 2015
Draft reports issued within 15 days of field work being completed.	95%	88%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%
Chargeable Time/Gross Time.	63%	69%
Audits completed within planned time.	95%	75%
Percentage of Audit Plan completed.	85% (full year)	13% At 30 June
Cost per Chargeable Day.	£275	£266
Client Satisfaction Survey.	100%	None received

9.2 Achievement in relation to the "Percentage of Audit Plan completed" (13% at 30 June 2015) is not unusual at this stage of the financial year, being skewed by four key factors:

- A significant focus of Internal Audit activity during the early part of the period was completion of 2014/15 audit work which overlaps the end of the financial year; this is ordinarily the case in any year.
- There have been a number of audits carried forward from 2014/15 that have taken longer to complete than anticipated due to the complex nature of the issues involved. These include the audits of taxi licensing, Risky Business and the Key Players Group records.
- A significant proportion of resource during April was devoted to the production of the 2015/16 Internal Audit Plan, adopting an updated approach following comments in the Casey Report about the approach to internal audit.
- An assurance mapping exercise is being undertaken to maximise the efficiency and effectiveness of our work in the key area of Children's Social Care. This is involving working with colleagues from the Performance and Quality function to understand where reliance can be placed on other internal sources of assurance, including the CYPS Quality Assurance function.

9.3 We are currently using additional interim resources to help with delivery of the Plan which will improve overall performance. Through the use of a risk based approach to our work and careful use of our resources through performance management, we expect to be able to have a sufficient body of audit evidence to form an opinion on the Council's control environment, whilst helping the organisation achieve its objectives by adding value.

9.4 Two reports were issued after 15 days; one was due to the complexity of issues involved and lengthy discussions with management about the report and the second was as a result a member of staff leaving and another officer picking up the reporting of the work.

9.5 The indicator relating to "Audits completed within planned time" is also behind target. This is due to a number of complex pieces of work taking longer than was anticipated. In some cases these included investigative work where new evidence emerged which had not been expected at the onset of the investigation.

APPENDIX A

Summary of Audit Work Undertaken

Audit Area	Assurance Objective	Final Report to man't	Overall Audit Opinion	Summary of Significant Issues
CHILDREN AND YOUNG PEOPLE SERVICES				
Adoption Allowances	To obtain assurance that the Council has proper processes in place for the payment of Adoption/ Residence Order/Child Arrangement and Special Guardianship Allowances.	20/05/15	Adequate	Children and Young People's Services discovered a significant Adoption Allowance overpayment (totalling £16,078) had been made over a period of 15 months between October 2013 and January 2015. This arose due to a manual error made in transferring payment details onto the SWIFT system. Investigations by management and Internal Audit confirmed this to be an isolated error. A series of audit recommendations were agreed which will reduce the likelihood of errors in future. Recovery of the overpayment is being pursued by the Council.
Children's Social Care Emergency Payments	To assess the robustness of financial administration arrangements in Riverside House with regard to Emergency Payments.	13/04/15	Adequate	Overall the arrangements were assessed as adequate, although one significant weakness was identified; this was that a number of people had access to the safe, which would make it difficult to identify any individual responsible for any shortfalls in the money held. Actions have been agreed with management to strengthen this and other, minor, weaknesses found.
Early Education Provision	To assess the adequacy of the arrangements in place to manage key risks associated with Early Education provision.	Draft report issued	n/a	n/a

Audit Area	Assurance Objective	Final Report to man’t	Overall Audit Opinion	Summary of Significant Issues
Clifton Community School	To assess the financial management arrangements at Clifton Community School.	Draft report issued	n/a	n/a
ENVIRONMENT AND DEVELOPMENT SERVICES				
Taxi Licensing	To ensure that necessary checks are performed before issuing licences for drivers, vehicles and operators.	26/06/15	Inadequate	This audit identified a number of serious failings with regard to the completion of processes leading to the issuing of operator, driver and vehicle licenses. It also revealed weaknesses in communication and information sharing between the administration and enforcement teams, which meant the enforcement did not always have up to date details with which to carry out its responsibilities. We made detailed recommendations, which have been or are being actioned by management, to strengthen arrangements. We will carry out a follow-up audit of this area to confirm that recommendations have been implemented in full.
Voluntary Organisation Grant Claim	To audit the documentation supplied by a voluntary organisation in support of their grant claim.	10/06/15	Inadequate	The organisation could not provide evidence that confirmed delegates’ attendance at events for which the claim had been made. We were, therefore, unable to approve the claim.
Integrated Housing Management System	To assess the Council’s arrangements for the management of the project risks arising from the implementation of the new Integrated Housing Management System.	05/06/15	Inadequate	We have identified significant problems with the implementation of this system, including with specific aspects of its functionality, security and its interface with other Council systems. These have resulted in significant delays to implementation. We also found weaknesses in the contract for the system. Council officers are working

Audit Area	Assurance Objective	Final Report to man't	Overall Audit Opinion	Summary of Significant Issues
				with the developer to address the issues prior to go live, which is expected for the Autumn, but there remain a number of risks to the successful implementation of this project. We will continue to review developments.
Fuel System	To review the adequacy of the arrangements in place for the supply of fuel to Council vehicles from Hellaby, Barbers Avenue and Oaks Lane depots. To review the adequacy of the arrangements in place for the issuing and use of fuel cards.	23/04/15	Adequate	Arrangements were found to be adequate.
Registrars	To assess progress made with the implementation of the recommendations made by the General Register Office, following its inspection of the Council's service in January 2015.	Draft report issued	n/a	n/a
Barnsley, Doncaster and Rotherham (BDR) Waste PFI	To validate the cost of the Rotherham MBC client function as required by the BDR external auditor, BDO.	Draft report issued	n/a	n/a
Business Continuity Management	To assess the adequacy of the Council's Business Continuity arrangements.	Draft report issued	n/a	n/a

APPENDIX A

Audit Area	Assurance Objective	Final Report to man’t	Overall Audit Opinion	Summary of Significant Issues
RESOURCES				
Records Management	To determine whether the Council has an adequate records management system in place for its paper records, in light of the findings arising from an audit investigation regarding the minutes of the Key Players Group meetings.	13/07/15	Inadequate	This audit identified significant weaknesses in the process for managing the Council’s paper based records and gaps in the information held about a large volume of records held at Bailey House. Recommendations were made to improve the system in place and to assess the actions required with regard to the unrecorded boxes.
NNDR	Ensure that the Council has proper arrangements in place for the collection of national non domestic rates.	28/05/15	Adequate	Arrangements were found to be adequate.
Benefits	Ensure that the Council has proper arrangements in place for the administration of Housing Benefits and Council Tax Support.	22/06/15	Adequate	Arrangements were found to be adequate.
Creditors	Ensure that the Council has proper arrangements in place for the payment of creditors	Draft report	n/a	n/a
ADULT SOCIAL CARE				
Better Care Fund	To assess the adequacy of the arrangements for the	12/05/15	Adequate	Arrangements were found to be adequate.

Audit Area	Assurance Objective	Final Report to man't	Overall Audit Opinion	Summary of Significant Issues
	administration of the Better Care Fund, including budgetary control and risk management processes.			
GRANTS				
Troubled Families Grant	Audit in accordance with grant funding body requirements.	27/05/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Camino Grant April 2014 to March 2015	Audit in accordance with grant funding body requirements.	30/04/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Disabled Facilities (Adaptations) Grant	Audit in accordance with grant funding body requirements.	15/07/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.

Investigations / Responsive

Audit Area	Assurance Objective	Status	Overall Audit Opinion	Summary of Significant Issues
Abbey School	To consider the adequacy of arrangements in place for the brokering and monitoring of the partnering arrangement between Abbey School and Winterhill School.	12/05/15	Inadequate	The audit confirmed the results of an external review into this issue (the Bell Report) and highlighted a number of weaknesses in the governance of the arrangement between Winterhill School and Abbey School, including: • No clear basis for arriving at the cost of the support package • Lack of clear lines of accountability for monitoring delivery of the support package An Interim Executive Board has now been put in place to oversee the extension of the arrangement to 31st August 2015. The Board is working in partnership with the Council. Early indications are that this arrangement will be far more satisfactory. Audit recommendations were agreed with management which should ensure more robust governance around any future arrangements that are brokered between schools.
Risky Business	To investigate an allegation that files regarding child sexual exploitation belonging to a researcher were stolen from the International Centre in April 2002.	Draft report	n/a	n/a
Key Players Group records	To investigate why the Council was unable to comply with a request by	Draft report	n/a	n/a

APPENDIX B

Audit Area	Assurance Objective	Status	Overall Audit Opinion	Summary of Significant Issues
	Professor Jay to be provided with records of the Key Players Group as part of her Independent Enquiry into Child Sexual Exploitation.			

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**22nd July 2015**
3.	**Title:**	**Heritable Bank plc (In Administration)**
4.	**Directorate:**	**Finance & Corporate Services**

5. Summary

To provide an update on the recovery of the Council's investment in Heritable Bank plc.

6. Recommendation

That Audit Committee notes the current position with regard to the recovery of the Council's investment in Heritable Bank plc.

7. Proposals

The Council invested £1.950m in Landsbanki Islands hf (LBI hf) in October 2007 and invested £1.800m with Heritable Bank plc (the UK subsidiary of the Icelandic Bank, Landsbanki Islands hf) in September 2008.

Both Banks collapsed in early October 2008 and since then the Council has been seeking to recover its investments.

As LBI hf was based in Iceland the recovery process was co-ordinated by the LGA on behalf of all the Local Authority creditors using Bevan Brittan. The process was complex and likely to go on for some time and thus the Council along with a majority of other Local Authority creditors, agreed to sell their claims in early 2014 (reported to Cabinet 26th February 2014 – Minute C203).

The proceeds from the auction sale were sufficient to recover £1.904m of the original principal invested of £1.950m, a shortfall of £46k or 2.36%. An independent assessment which had looked at the timing of further instalments prior to the decision to sell had indicated that a sale at that time and at the auction price achieved was the equivalent to a recovery of the Council's full principal by 2019. This was considered to be at the higher/best level of expected outcomes.

Being UK based Heritable Bank plc was placed into Administration with Ernst & Young LLP appointed as Administrators.

During the intervening period the Administrators have issued progress reports and also declared interim dividends to the Creditors of the Bank, including the Council.

In the first progress report of April 2009 the Administrators indicated that based on the information at that time any return would be in the region of 70 to 80 pence in the pound, but may be in the region of 55 to 70 pence under a more adverse set of circumstances.

Over time those estimates have been revised upwards such that now the Administrators have confirmed the estimated recovery will be between 98 and 100 pence.

Between July 2009 and August 2013 fourteen interim dividends have been paid amounting to approximately £1.696m or 94.22 pence in the pound based on the original amount invested. Including the interest which would have accrued on the investment (£3,815) which is included in the Council's claim the interim payments amount to 94.02 pence in the pound.

Following the resolution of a long running financial issue between Heritable and the old parent bank LBI hf the Administrators have now provided notice to the Council of a fifteenth interim dividend, the exact amount is unknown at this stage but it is hoped this will be declared and paid in August 2015.

The current position can therefore be summarised as follows:

	£
Investment	1,800,000
Recoveries to date	1,695,898
Shortfall on the original investment, the recoveries equating to 94.22 pence in the £	104,102

Based on the recovery estimate of between 98 and 100 pence in the pound the following table sets out the implications of achieving a recovery at the lower and higher levels. In addition it indicates that achieving a recovery of 99.79 pence in the pound would ensure full recovery of the Council's investment. It is still hoped that the final amount recovered will be at the higher end of the range and recovery at a level above 99% has been assumed in closing the Council's 2014/15 statutory accounts.

	£
Recovery based on 98p of the claim	1,767,739
Shortfall on the original investment	32,261
Recovery based on 99.79p of the claim	1,800,000
Shortfall on the original investment	0
Recovery based on 100p of the claim	1,803,815
Surplus representing the accrued interest	3,815

8. Finance

This is fully set out in the preceding section to this report

9. Risks and Uncertainties

Whilst the timing and amount of further recoveries remains uncertain it is still expected that the Council will receive a significant proportion of the amount which remains outstanding with the result that most if not all of the original investment in Heritable Bank plc will have been recovered.

10. Policy and Performance Agenda Implications

Effective Treasury Management will assist in delivering the Councils' policy and performance agenda.

11. Background Papers and Consultation

Cabinet 26th February 2014 and Senior Leadership Team 21 July 2015

Contact Name: Stuart Booth, Interim Strategic Director of Finance and Corporate Services, ext. 7422034 or 22034, stuart.booth@rotherham.gov.uk
Derek Gaffney, Chief Accountant, ext. 7422005 or 22005, derek.gaffney@rotherham.gov.uk

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**22 July 2015**
3.	**Title:**	**Annual Treasury Management Report and Actual Prudential Indicators 2014/15**
4.	**Directorate:**	**Finance & Corporate Services**

5. Summary

The Council received an annual treasury strategy in advance of the 2014/15 financial year and also received a mid year report representing a mid year review of treasury activity during 2014/15.

The annual treasury management report is the final treasury report for 2014/15. Its purpose is to review the treasury activity for 2014/15 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2014/15 in accordance with the requirements of the Prudential Code.

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

The treasury activity and actual prudential indicators for 2014/15 were reported as part of the Council's Outturn report to Commissioner Manzie 's meeting held on 9th July 2015. At that meeting Commissioner Manzie was Minded to Grant Decision to approve the indicators.

6. Recommendation

Audit Committee is asked to note the Annual Treasury Management Report for 2014/15.

7. Proposals and Details

The Interim Strategic Director of Finance and Corporate Services has delegated authority to carry out treasury management activities on behalf of the Council and this report is produced in order to comply with the CIPFA Code of Practice in respect of Treasury Management in Local Authorities and the "Prudential Code".

8. Finance

Treasury Management forms an integral part of the Council's overall financial arrangements.

9. Risks and Uncertainties

Regular monitoring will ensure that risks and uncertainties are addressed at an early stage and hence kept to a minimum.

10. Policy and Performance Agenda Implications

Effective treasury management will assist in delivering the Council's policy and performance agenda.

11. Background Papers and Consultation

Commissioner Manzie's Meeting – 9th July 2015
CIPFA – Code of Practice for Treasury Management in the Public Services
Local Government Act 2003 (as updated)
CIPFA – Prudential Code (as updated)

Contact Names:

Derek Gaffney, Chief Accountant, ext 7422005 or 22005.
derek.gaffney@rotherham.gov.uk

Simon Tompkins, Finance Manager (Accountancy Services), ext 54513,
simon.tompkins@rotherham.gov.uk

Annual Report on the Treasury Management Service and Actual Prudential Indicators 2014/15

Executive Summary

During 2014/15 the Council complied with its legislative and regulatory requirements in terms of setting, monitoring and reporting on its prudential indicators for the year.

Indicators are set prior to the start of the financial year and reflect the known position at that time. Approved changes to the capital programme and its funding throughout the financial year, together with variations in treasury management activity, does mean that actual indicators for the year may vary from the initial projections made prior to the start of the financial year. However by regularly monitoring these indicators the Council is able to ensure the impact is known and managed through the Medium Term Financial Strategy.

The actual prudential indicators for 2014/15, with comparators, are as follows:

	2014/15 Actual £m	**2014/15 Revised Indicator £m**	**2014/15 Original Indicator £m**	**2013/14 Actual £m**
Capital Expenditure	73.002	78.894	59.348	71.769
Capital Financing Requirement: - Non-HRA	351.795	316.339	316.593	317.758
Capital Financing Requirement: - HRA	304.125	305.583	307.646	304.125
Total excluding PFI and similar arrangements	655.920	621.922	624.239	621.883
Cumulative adjustment for PFI and similar arrangements	125.694	125.749	125.617	127.567
Total including PFI schemes and similar arrangements	781.614	747.671	749.856	749.450
	%	%	%	%
Financing Costs as a proportion of Net Revenue Stream: Non-HRA	8.45	8.67	9.14	8.16
HRA	17.22	17.28	17.52	17.74

The main reasons for the change in the actual indicators, from those originally set in March 2014 and subsequently revised in March 2015 are as follows:

- The final level of capital expenditure for 2014/15 varied against the revised indicator principally due to slippage on schemes. The main areas of slippage were Housing initiatives and Highways Projects.

  Included within the outturn capital expenditure is £1.741m of spending in respect of the capitalisation of schools' PFI lifecycle works and this Accounting Adjustment generated an equivalent amount of revenue benefit in 2014/15.

- At the end of the financial year the closing Capital Financing Requirement (CFR) is higher than that approved as the revised indicator for the year. Whilst capital expenditure funded by borrowing and the MRP charge for the year were broadly in line with the estimates, the CFR increased as a result of the following MRP Accounting Adjustments

  In common with a number of local authorities the Council examined various options for reviewing the calculation of its annual MRP charge. This is a complex area involving Government Regulations and some options were consequently dismissed. However it was felt that a more equitable and fair approach for council tax payers could be achieved by adopting the following approaches:

  - Retrospectively re-profiling the Council's MRP charge for debt repayment on pre-2007/08 capital expenditure which was funded from borrowing.

  - Replacing existing borrowing of the capital programme with funding through readily available capital receipts and unapplied capital grants.

  Papers setting out the above proposals were submitted to the Council's External Auditor, KPMG, seeking their view and they are not minded to challenge the proposed changes regarding MRP.

  Lead Commissioner Sir Derek Myers considered a report on these options at his meeting on 11th June and Council approved the changes at the meeting held on 8th July.

  The proposals have led to a reduction in the MRP charged to date and led to an increase in the Council's underlying need to borrow as measured by the CFR.

The Interim Strategic Director of Finance & Corporate Services also confirms that borrowing was only undertaken for a capital purpose and the Statutory Borrowing Limit, the Authorised Limit, was not breached.

At 31 March 2015, the Council's external debt totalled £468.884m (£476.164m at 31 March 2014) and investments totalled £18.674m (£19.749m at 31 March 2014).

At 31 March 2015, the Former South Yorkshire County Council external debt totalled £96.121m (£96.121m at 31 March 2014). The Former SYCC had no investments at that date (nil at 31 March 2014).

1. Introduction

1.1 This report summarises:

- the capital activity for the year;
- how this activity was financed;
- the impact on the Council's indebtedness for capital purposes;
- the Council's overall treasury position;
- the reporting of the required prudential indicators;
- debt activity; and
- investment activity.

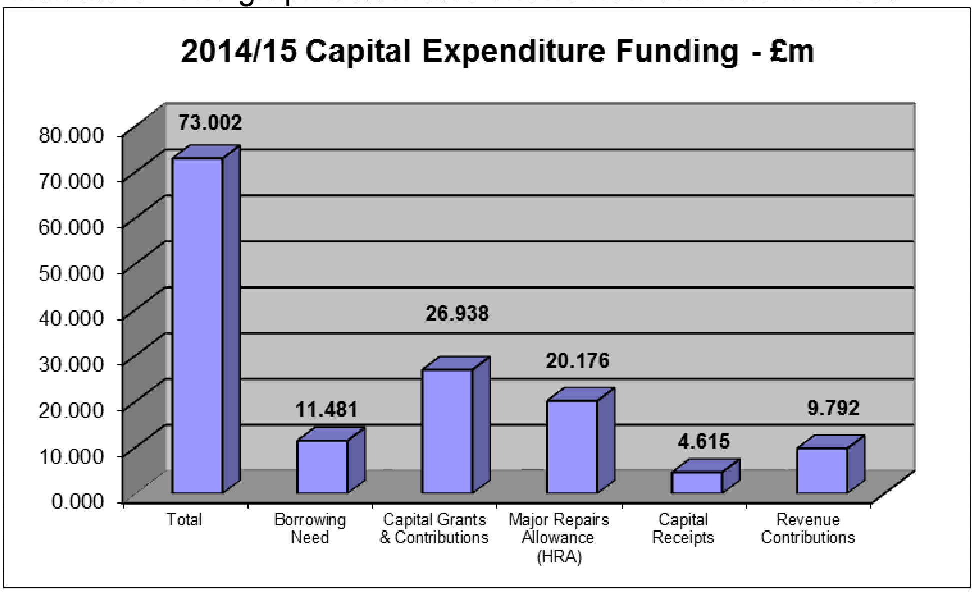
2. The Council's Capital Expenditure and Financing 2014/15

2.1 The Council undertakes capital expenditure on long term assets. These activities may either be:

- Financed immediately through capital receipts, capital grants etc.; or
- If insufficient financing is available the expenditure will give rise to a borrowing need.

2.2 Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance. The primary objective is security ahead of liquidity and then yield or return. Wider information on the regulatory requirements is shown in Section 8.

2.3 The actual capital expenditure forms one of the required prudential indicators. The graph below also shows how this was financed.



3. The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. It represents 2014/15 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources.

3.2 The Non-HRA element of the CFR is reduced each year by a statutory revenue charge (called the Minimum Revenue Provision - MRP). The total CFR can also be reduced by:

- the application of additional capital resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

CLG Regulations require Full Council to approve an MRP Statement and detailed rules have been replaced by a single duty to charge an amount of MRP which the Council considers 'prudent'. The Council approved the following MRP policy in relation to the charges for 2014/15:

(a) The MRP charge in relation to capital expenditure incurred prior to 2007/08 where the expenditure was funded by either supported or unsupported borrowing will be calculated using the expected useful life of the asset and the calculation of the provision will be by the annuity method;

(b) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by both supported and unsupported borrowing will be calculated using the expected useful life of the asset at the point the asset is brought into use. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate; and

(c) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by a 'capitalisation directive' (e.g. equal pay) will be calculated on the basis of the specified period(s) set down within the regulations. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate.

3.3 In addition to showing the Council's underlying borrowing need, following changes to accounting rules in 2009/10, the CFR also includes other long term liabilities which have been brought on balance sheet, for example, PFI schemes and finance lease assets.

CFR (£m)	31 March 2015 Actual £m	31 March 2015 Revised Indicator £m	31 March 2015 Original Indicator £m	31 March 2014 Actual £m
Opening balance (excluding on-balance sheet PFI and similar arrangements)	621.883	621.883	627.042	625.698
Plus increase in borrowing need	11.481	10.262	7.599	7.310
Less MRP/VRP/Met Debt Principal Repayment	-9.696	-10.223	-10.402	-9.865
Other net changes in borrowing need	32.252	0.000	0.000	-1.260
Closing balance (excluding on-balance sheet PFI and similar arrangements)	655.920	621.922	624.239	621.883
Closing balance (excluding on-balance sheet PFI and similar arrangements)	**655.920**	**621.922**	**624.239**	**621.883**
Plus cumulative PFI adjustments	125.694	125.749	125.617	127.567
Closing balance (including on-balance sheet PFI and similar arrangements)	**781.614**	**747.671**	**749.856**	**749.450**

3.4 Actual capital expenditure in 2014/15 which was funded by borrowing was higher than had been estimated, however the actual MRP charge for the year (i.e. excluding the MRP Accounting Adjustment) was less than estimated. The net change of £1.785m also contributed to the increased in closing CFR when compared to the revised indicator for the year.

4. Treasury Position at 31 March 2015

4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Director of Financial Services and the treasury function can manage the Council's actual borrowing position by either:

- borrowing to the CFR (excluding the impact of PFI and similar contracts); or
- choosing to utilise some temporary internal cash flow funds instead of borrowing (under-borrowing); or

- borrowing for future increases in the CFR (borrowing in advance of need).

4.2 It should be noted that accounting practice defined by the Code of Practice requires financial instruments in the accounts (debt and investments etc.) to be measured in a method compliant with International Financial Reporting Standards. The figures in this report are based on the amounts borrowed and invested and so may differ from those shown in the final accounts by items such as accrued interest.

4.3 The expectation for 2014/15 had been that borrowing would have been mainly in line with the estimated borrowing need for the year whilst partly reducing the Council's 31 March 2014 under-borrowed position. The continued volatility in the financial markets was such that the most prudent approach was to continue to utilise temporary cash flow funds instead of borrowing. The Council's treasury position at the 31 March 2015 compared with the previous year was:

RMBC Treasury position	**31 March 2015**		**31 March 2014**	
	Principal £m	**Average Rate %**	**Principal £m**	**Average Rate %**
Fixed Interest Rate Debt *	372.884	4.56	370.164	4.85
Variable Interest Rate Debt **	96.000	4.61	106.000	4.41
Total Debt	468.884	4.57	476.164	4.75
Fixed Interest Investments	18.674	*** 0.26	19.749	*** 0.25
Variable Interest Investments	0	0.00	0	0.00
Total Investments	18.674	0.25	19.749	0.25
Net borrowing position	**450.210**		**456.415**	

* Includes all debt where the interest rate is fixed for the whole of the following financial year
** Includes all debt where the interest rate may be subject to interest rate variation on specified dates during the following financial year
*** The investments shown include the principal outstanding on the Council's Icelandic investments (£0.104m at 31/03/15, £0.104m at 31/03/14), with an assumed average rate of zero

4.4 Compared to the Council's CFR (£655.920m), the outstanding debt levels (£468.884m) are lower than this Requirement by approximately £187m due to the Council's prudent and sensible approach to utilise temporary cash flow funds rather than take out additional borrowings. A Council is generally allowed to borrow up to its CFR.

4.5 The Council's net borrowing position reflects the capital spend that is yet to be financed from revenue or other resources as it is to be repaid over a prudent and affordable period in line with the Council's Minimum Revenue Provision Policy.

4.6 The **Former South Yorkshire County Council's** treasury position at the 31 March 2015 compared with the previous year was:

Former SYCC Treasury position	**31 March 2015**		**31 March 2014**	
	Principal £m	**Average Rate %**	**Principal £m**	**Average Rate %**
Fixed Interest Rate Debt *	96.121	5.92	96.121	5.92
Variable Interest Rate Debt **	0	0.00	0	0.00
Total Debt	96.121	5.92	96.121	5.92
Fixed Interest Investments	0	0.00	0	0.00
Variable Interest Investments	0	0.00	0	0.00
Total Investments	0	0.00	0	0.00
Net borrowing position	**96.121**		**96.121**	

* Includes all debt where the interest rate is fixed for the whole of the following financial year
** Includes all debt where the interest rate may be subject to interest rate variation on specified dates during the following financial year

5. Prudential Indicators and Compliance Issues

5.1 Some of the prudential indicators provide either an overview or specific limits on treasury activity. These are shown below:

5.2 **Net Borrowing and the CFR** - In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not therefore, except in the short term, exceed the CFR for 2014/15 plus the expected changes to the CFR over 2015/16 and 2016/17. The table below highlights the Council's net borrowing position against the CFR and demonstrates that the Council has complied with this prudential indicator, i.e., the Council's net borrowings are lower than its CFR.

RMBC Treasury Position	31 March 2015 Actual £m	31 March 2015 Revised Indicator £m	31 March 2015 Original Indicator £m	31 March 2014 Actual £m
Excluding PFI and similar arrangements				
Net borrowing position	450.210	448.922	472.424	456.415
CFR	655.920	621.922	624.239	621.883
Including PFI and similar arrangements				
Net borrowing position	575.904	574.671	598.041	583.982
CFR	781.614	747.671	749.856	749.450

5.3 **The Authorised Limit** - The Authorised Limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2014/15 the Council has maintained gross borrowing within its Authorised Limit, both excluding and including the impact of bringing PFI and similar arrangements on to the Council's Balance Sheet.

Authorised Limit	RMBC £m	Former SYCC £m
Original Indicator – Authorised Limit	765.376	96.121
Revised Indicator – Authorised Limit	774.798	96.121
Actual indicator – Maximum gross borrowing position – External Debt only	481.738	96.121
Actual indicator - Maximum gross borrowing position – External Debt plus PFI and similar arrangements	609.305	96.121

5.4 **The Operational Boundary** – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached. The table below demonstrates that during 2014/15 the Council has maintained its borrowing position around its Operational Boundary, both excluding and including the impact of bringing PFI and similar arrangements on to the Council's Balance Sheet.

Operational Boundary for External Debt	RMBC £m	Former SYCC £m
Original Indicator - Operational Boundary	614.912	96.121
Revised Indicator - Operational Boundary	601.489	96.121
Actual indicator - Average gross borrowing position - External Debt only	476.490	96.121
Actual indicator - Average gross borrowing position - External Debt plus PFI and similar arrangements	603.120	96.121

5.5 **Actual financing costs as a proportion of net revenue stream** - This indicator identifies the trend in the cost of capital (borrowing and the cost of other long term obligations but net of investment income) against the Council's Budget Requirement (net revenue stream) for the General Fund and budgeted income for the HRA.

5.6 Both indicators show a reduction reflecting an overall fall in borrowing costs. Whilst the share of these costs is approximately equal (as reflected by the respective CFRs) the HRA has a lower net revenue stream and therefore the impact on the indicator is greater.

Rotherham MBC	2014/15 Actual	2014/15 Revised Indicator	2014/15 Original Indicator
Financing costs as a proportion of net revenue stream:			
Non HRA	8.45%	8.67%	9.14%
HRA	17.22%	17.28%	18.17%

5.7 **Incremental impact of Capital Investment Decisions –** Two indicators are used to highlight the trend in cost arising from changes to the Council's capital investment plans:

- the impact on Council Tax Band D levels as already budgeted for within the Council's MTFS of changes to the General Fund capital programme, and
- the impact on weekly rent levels arising from changes in the housing capital programme

Rotherham MBC	2014/15 Actual	2014/15 Revised Indicator	2014/15 Original Indicator
Incremental impact of capital investment decisions on the Band D council tax	£7.29	£7.10	£6.69
Incremental impact of capital investment decisions on the Housing Rent Levels	£0.00	£0.06	£0.13

The incremental impact of capital investment decisions on the Band D council tax is broadly in line with the revised indicator. This reflects the fact that the actual borrowing need in 2014/15 is consistent with the revised forecast. None of the HRA capital investment was financed by borrowing in 2014/15 and as such there was no incremental impact of capital investment on HRA rent levels.

5.8 **Treasury Management Indicators and Limits on Activity**

5.8.1 **Upper limits on fixed and variable interest rates as at 31 March 2015** – These indicators identify the maximum limits for fixed interest rate gross debt and for variable interest rates based upon the debt position, net of investments. The table confirms the Council remained within the limits set.

Rotherham MBC	2014/15 Actual	2014/15 Revised Indicator	2014/15 Original Indicator	2013/14 Actual
Upper limit on fixed interest rates based on fixed net debt	83.16%	100%	100%	76.85%
Upper limit on variable interest rates based on variable net debt	22.26%	30%	30%	28.87%

Former SYCC	2014/15 Actual	2014/15 Revised Indicator	2014/15 Original Indicator	2013/14 Actual
Upper limit on fixed interest rates	100%	100%	100%	100%
Upper limit on variable interest rates based on net debt	0%	30%	30%	0%

5.8.2 **Maturity structure of fixed rate borrowing during 2014/15** – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The position as at 31 March 2015 is shown in the table below.

	RMBC				
	Original Indicator %		**Revised Indicator %**		**Actual %**
	Lower	Upper	Lower	Upper	
Under 12 months	0	35	0	35	5.98
12 months to 2 years	0	35	0	35	8.66
2 years to 5 years	0	40	0	40	24.64
5 years to 10 years	0	40	0	40	19.62
10 years to 20 years	0	45	0	45	8.80
20 years to 30 years	0	50	0	50	9.14
30 years to 40 years	0	50	0	50	15.11
40 years to 50 years	0	55	0	55	8.05
50 years and above	0	60	0	60	0.00

	Former SYCC				
	Original Indicator %		**Revised Indicator %**		**Actual %**
	Lower	Upper	Lower	Upper	
Under 12 months	0	50	0	50	9.79
12 months to 2 years	0	70	0	70	10.40
2 years to 5 years	0	100	0	100	59.32
5 years to 10 years	0	100	0	100	20.49

5.8.3 **Maximum funds invested for more than 364 days** – This limit is set to reduce the need for early sale of an investment and is based on the availability of funds after each year end. The position as at 31 March 2015 for the Council is shown in the table below. The Former SYCC had no investments at that date.

Rotherham MBC	**2014/15 Actual £m**	**2014/15 Revised Indicator £m**	**2014/15 Original Indicator £m**
Maximum funds invested for longer than 364 days			
Cash Deposits	0	10	10

6. Actual debt management activity during 2014/15

6.1 **Borrowing** - One new loan was drawn by Rotherham MBC during the year, £20m from BAE Systems over 44 years at an interest rate of 4.05%.

6.2 This compares with a budget assumption of new & replacement borrowing of £22.2m but as explained earlier (para. 4.4) the most prudent approach in 2014/15 was to continue to utilise temporary cash flow funds instead of borrowing.

6.3 **Rescheduling** – No rescheduling took place in 2014/15 due to the continuing unfavourable market conditions.

6.4 **Repayment** – Two loans, one of £20m and one of £5m, matured during the year as shown in the table below. Part repayments of principal continued on the Annuity and Equal Instalment of Principal (EIP) loans taken up in prior years. £20m of the maturing debt was replaced in the year (6.1 above refers).

Lender	Principal	Type	Interest Rate	Average rate
PWLB	£2,000,000	Fixed rate	3.46%	
PWLB	£20,000,000	Fixed rate	9.50%	
PWLB	£5,000,000	Variable rate	0.58%	
PWLB Annuity	£279,639	Annual repayments	Various	
Total:	£27,279,639			7.36%

6.5 **Summary of Debt Transactions** – The debt activity resulted in a decrease in the average interest rate of 0.18%, from 4.75% to 4.57%. This principally arose due to the maturity of the high cost fixed rate loan shown above.

6.6 **Former South Yorkshire County Council** – No new borrowing or rescheduling took place during 2014/15 and no debt was repaid during the year.

7. Investment Position

7.1 **Investment Policy –** The Council's investment policy is governed by DCLG Guidance, which was implemented in the annual investment strategy approved by Council on 5 March 2014. The investment activity during the year conformed to the approved strategy.

The Council maintained an average balance of £42.0m and received an average return of 0.27%. When compared to the local measure of performance the average return was below the average 7 day LIBID rate for 2014/15 of 0.35%.

8. Regulatory Framework, Risk and Performance

8.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

8.2 The Council has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular, the adoption and implementation of the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable. Treasury investment practices are governed by the primary objectives of security ahead of liquidity and then yield. Revised operational guidelines enhanced the weighting towards security still further at the expense of yield or return.

Agenda Item 9

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**22 July 2015**
3.	**Title:**	**Statement of Accounts 2014/15**
4.	**Directorate:**	**Finance and Corporate Services**

5. Summary

This report summarises for Members the statutory requirements relating to the preparation, audit and publication of the Council's Statement of Accounts.

It also highlights, in **Appendix 1**, how the key accounting issues and changes to the accounting framework in 2014/15 have manifested themselves in the 2014/15 unaudited Statement of Accounts which are attached as **Appendix 2**.

Whilst there is no formal requirement for Members to consider or approve the unaudited Statement of Accounts, they are being brought before Audit Committee now, so that Members have an opportunity to consider them before being asked to formally approve the Statement of Accounts at the meeting in September after they have been audited.

6. Recommendation

The Audit Committee is asked to receive the unaudited 2014/15 Statement of Accounts and to note that the statutory requirement for them to be published no later than 30 June has been complied with.

7. Proposals and Details

Statutory Background

The Accounts and Audit Regulations 2011 specify the arrangements for preparing and publishing local authority financial statements (the Statement of Accounts) in relation to the 2014/15 financial year.

The key aspects are as follows:

- The Council is required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting published by CIPFA ("the Code"). In recent years the Code has adopted International Financial Reporting Standards (interpreted where appropriate for the public sector) as the basis for local authority accounts. This requires that the Statement of Accounts gives a true and fair view of the Council's financial performance during the year and of its financial position at the end of the year. The unaudited Statement of Accounts must be published on the Council's website no later than 30 June having first been authorised for issue by the Council's responsible financial officer
- Once the unaudited Statement of Accounts have been published they are open to inspection by local electors who may inspect the accounting records and supporting documents and exercise their legal rights to ask questions of the external auditor or raise a formal objection if they believe an item of account to be unlawful. The accounts are also subject to audit
- On conclusion of the audit, the external auditor presents the outcomes of the audit to those charged with governance which in the case of this Council is the Audit Committee. The Audit Committee will be asked to consider the audit findings prior to giving formal approval for the financial statements to be signed and published as final. This is the version of the accounts on which the external auditors express their opinion. The final audited Statement of Accounts must be published on the Council's website no later than 30 September

The Council satisfied the first of these requirements in publishing its unaudited Statement of Accounts on the Council's website on 29 June 2015.

The accounts are currently on deposit for inspection until 24 July 2015. Thereafter, from 27 July 2015 until the conclusion of the audit, local electors may exercise their inspection rights to ask the external auditor any questions about the accounts they may have.

The audit of the Statement of Accounts is nearing its completion. KPMG will report findings from their audit to Audit Committee at its September meeting so that Members can take them into consideration before being asked to formally approve the accounts.

Members will note that there is no formal requirement for them to consider or approve the unaudited Statement of Accounts published in June. However, Audit Committee resolved previously that it would like an opportunity to consider them in advance of the meeting in September where formal approval is to be given.

Preparation of the Statement of Accounts

Preparations for producing the Statement of Accounts commence early in the financial year with an evaluation of the changes to accounting standards and presentation adopted by the Code which affect the current year's accounts.

Complex accounting issues are identified as they emerge and the proposed treatment discussed and agreed with the external auditor as far as possible in advance of the year end.

Early work is undertaken in year where possible in advance of the year end to support earlier closure of the accounts.

The recent changes made to the coding structure of the Chart of the Accounts, greater use made of standard templates to collect information required for the Statement of Accounts, semi-automation of the production of figures for the accounts directly from the ledger, and systems development such as the introduction of commitment accounting, have all contributed to a more efficient year end..

These have all played a part in enabling the process for producing the accounts to become more streamlined.

This is vitally important, as revised Accounts and Audit Regulations issued in 2015 introduced a new requirement for the accounts to be closed down faster. With effect from 2017/18 the unaudited Statement of Accounts will need to be published by the end of May (a month earlier than at present) and the audited Statement of Accounts by the 31 July (two months earlier than at present)

Key issues to be aware of in the 2014/15 Statement of Accounts

Audit Committee received a report on 11 March 2015 of the key accounting issues and changes to the accounting framework relevant to 2014/15, the principal of these being:

- A change to the Council's accounting policy relating to the charges made to revenue for the repayment of debt known as the Minimum Revenue Provision or MRP
- Reviewing the treatment of PFI Lifecycle replacement costs
- Potential liabilities relating to Child Sexual Exploitation claims
- Impact of changes to group accounts accounting standards on the way in which schools are accounted for in the Council's Statement of Accounts

The highlights report attached as Appendix 1 summarises for members the key disclosures contained in the 2014/15 Statement of Accounts relating to these and other matters.

The 2014/15 unaudited Statement of Accounts are attached at Appendix 2.

There is a recognition that local authority accounts have become very difficult to interpret, not least because the way in which local government is financed on a statutory basis differs in many respects from the way in which financial information is presented in the Statement of Accounts on an accounting basis under International Financial Reporting Standards.

In response, the Accounts and Audit Regulations 2015 have introduced a new requirement from 2015/16 for a narrative statement on an authority's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year to be prepared and published on its website. CIPFA are also about to embark on a consultation to streamline the accounts and to make them easier to relate to the way in which a Council is funded and organised. It is hoped that this will widen accountability and accessibility to ordinary users of the accounts.

8. Finance

There are no financial implications, other than the external auditor reserves the right to consider the level of audit fee should new risks emerge during the course of the audit.

9. Risks and Uncertainties

The unaudited Statement of Accounts are subject to external audit which may result in the need for matters arising from the audit to be reported to the Audit Committee. Any such matters will be reported in the external auditor's ISA 260 report which will be presented to Audit Committee at its meeting in September 2015.

10. Policy and Performance Agenda Implications

None, other than reputational risk.

11. Background Papers and Consultation

2014/15 unaudited Statement of Accounts
Code of Practice on Local Authority Accounting in the UK 2014/15
Accounts and Audit Regulations 2011
Accounts and Audit Regulations 2015
Audit Committee – 11 March 2015

Contact Names:
Derek Gaffney, Chief Accountant, ext. *22005,*
derek.gaffney@rotherham.gov.uk, and
Simon Tompkins, Finance Manager, ext *54513*
simon.tompkins@rotherham.gov.uk

Appendix 1

Briefing Note for Members of Audit Committee

2014/15 Unaudited Statement of Accounts – highlights report

Introduction

This highlights report draws Audit Committee's attention to key disclosures reported in the 2014/15 unaudited Statement of Accounts.

The key financial statements that Members should be aware of are:

- The Explanatory Foreword on pages 2 to 12 which summarises the Council's financial performance against its revenue budget, the level of revenue reserves held by the Council at the of 2014/15, the level of capital investment in the year and how it has been financed, key events that have taken place during the year or are about to take place, and, finally, in the outlook section, the Council's financial prospects in the medium term
- The Balance Sheet on page 17 of the accounts which sets out the assets and liabilities of the Council at the end of 2014/15
- The Movement in Reserves Statement on page 16 of the accounts which sets out the change in the overall level of usable reserves (revenue and capital) available to support revenue spending and the capital programme in future years
- The Collection Fund on page 99 of the accounts which shows separately the surplus or deficit to be distributed or recovered relating to council tax and retained business rates

The Comprehensive Income and Expenditure Statement (CIES) on page 14 of the accounts and HRA on page 91 of the accounts show what the Council's financial performance would have been on an accounting basis under International Financial Reporting Standards, ie a deficit of £120.737m overall on the CIES and £2.437m surplus on the HRA.

This is very different to the revenue outturn reported on the basis on which local government is funded and which is used to determine the amount to be raised from council tax payers and rent payers, ie a net underspend of £0.520m on the General Fund including schools and a net increase in the HRA balance of £4.031m.

The Movement in Reserves Statement on page 16 provides a reconciliation of the deficit reported in the CIES on an accounting basis to the net change in the General Fund balance and HRA balance on a local government funding basis.

Key disclosures

Revenue Reserves

As shown in Note 37 on page 78 of the accounts, the Council had £119.99m of revenue reserves at 31 March 2015 compared to £70.845m the year before.

The increase is mainly due to earmarked reserves (General Fund and HRA) having risen by £44.565m from £36.622m at the end of 2013/14 to £81.187m at the end of 2014/15.

As can be seen in Note 2 on page 24 of the accounts, the increase in earmarked reserves mainly comprises £34.783m in respect of the MRP Adjustment Reserve and £8.457m in respect of the Transformation Reserve.

As explained in section 2.2 of the Explanatory Foreword on page 5 of the accounts, although the level of revenue reserves has increased substantially, most are earmarked for specific purposes or are ring-fenced for use by the HRA or schools.

As a consequence, the level of uncommitted General Fund reserves and balances available to safeguard the Council against potential financial risks is at a similar level to last year. The uncommitted balance of £11.27m represents 5.5% of the 2015/16 net revenue budget of £203.5m. This is a little higher than in previous years but is considered necessary in view of the ongoing financial challenge to the Council from further budget cuts (£41m over the three years 2016/17 to 2018/19), uncertainty about the impact of welfare reform, and, greater risks attached to major sources of income, as risk is transferred from central government to local government through localisation, most notably the impact of appeals on business rates income.

MRP Adjustment Reserve

As explained in the Explanatory Foreword on page 6 of the accounts, the MRP Adjustment Reserve was created as a result of a change to the profile of MRP charges to revenue relating to pre 2007/08 debt. This was prompted by an Inspection Report into Birmingham City Council published late last autumn which led the Council, in common with a number of local authorities, to examine various options for reviewing the calculation of its annual MRP charge.

The effect of using the revised profile is that a correction of £34.783m has been made to the amount of MRP charged on pre 2007/08 debt. However, this is not freely available, as it is needed to cover higher MRP charges that will arise under the revised profile in later years.

As a consequence, the £34.783m has been transferred into an MRP Adjustment Reserve.

The re-profiling of MRP charges has been facilitated by a change to the Council's accounting policy on MRP and methodology to be applied to determining MRP set out in the annual MRP statement, both of which are effective from 2014/15.

Further detail on these changes is contained in the annual report on treasury management which is also being presented to Audit Committee at its meeting today.

Transformation Reserve

In addition to re-profiling MRP relating to pre 2007/08 debt, approval has been given for uncommitted capital resources of £6.263m to replace existing borrowing in order to reduce the amount of MRP chargeable to revenue. This has generated £4.537m of revenue savings in 2014/15 with the balance of savings being achieved in 2015/16 and 2016/17. Further detail on this is contained in the annual report on treasury management.

The review of the treatment of PFI lifecycle costs identified that the Council has prepaid lifecycle expenditure of £2.180m in advance of the expenditure being incurred by the PFI provider and that a further £1.741m of expenditure that has been incurred is of a capital nature and has therefore been capitalised in accordance with proper practice. These two elements together have generated revenue savings of £3.921m in 2014/15.

Overall, the MRP saving of £4.537m and PFI lifecycle saving of £3.921m, has enabled £8.458m to be added to the transformation reserve to bring the overall balance on the reserve at the end of 2014/15 to £16.851m. This has been set aside to support the specific purpose of meeting the likely additional significant costs and potential liabilities of addressing the failings identified in OFSTED's inspection of Children's Services and wider Corporate Governance inspection at the earliest opportunity.

Child Sexual Exploitation claims

As disclosed in Note 36 on page 77 of the accounts, the Council is liaising with its insurers and taking expert legal advice to determine the extent to which the Council's insurance policies can be used to meet any liabilities arising from legal claims brought against the Council.

Accounting for Schools

The clarification provided in the Code on accounting for schools has not led to any change to the way in which local authority maintained schools are accounted for in the Council's accounts.

However, there continues to be a major impact from the effect of schools converting to academy status. The impact on the Council's 2014/15 Statement of Accounts from schools converting is summarised in section 6(a) of the Explanatory Foreword on page 10 of the accounts.

Pensions liability

As disclosed in Note 50 on page 89 of the accounts, the Pensions Liability, representing the Council's share of the estimated deficit on the South Yorkshire Local Government Pension scheme, has increased from £264.2m at the end of 2013/14 to £369.8m at the end of 2014/15.

This has largely arisen due to a change in the financial assumptions made by the actuary which have had the following estimated effect:

- Reduction in discount factor from 4.5% to 3.3% - Increase deficit by £300m
- Reduction in rate of inflation (CPI) from 2.4% to 2% - Reduce deficit by £100m
- Reduction in pay growth from 4.15% to 3.75% - reduce deficit by £20m
- Actuarial gain due to the actual return on the Scheme's assets exceeding the actuary's forecast – reduce deficit by £75m

As can be seen from the above, relatively small changes to these assumptions can have a major effect on the deficit.

Under normal accounting practice, the pensions deficit would form part of the Council's reserves. However, because the charges to revenue under local government funding rules are the employer contributions due to be paid over to South Yorkshire Pensions Authority in the year, the pensions deficit does not form part of Council's revenue reserves but is instead shown as unusable (see Note 38 on page 79 of the accounts). This means that that the deficit does not need to be taken into account in determining the amount to be met by council tax payers and rent payers. It does, however, give an indication of the size of the deficit which might ultimately need to be recovered in between the triennial valuations of the Pension scheme undertaken by the actuary.

Collection Fund – Business rates

The introduction of the business rates retention scheme in 2013/14, means that the Council now shares the risks and rewards of growth or reductions in business rates income with central government. The Council's share as billing authority is 49%, central government's is 50% with South Yorkshire Fire and Civil Defence Authority bearing the other 1%.

A major factor on the level of business rates income is the number and value of appeals made by business ratepayers against the rateable value of their business property. These appeals can, in some cases, be back-dated for several years and give rise to significant refunds.

At the time that the business rates retention scheme was introduced at the beginning of 2013/14 there was no reliable information on appeals on which to make a reliable estimate of the potential liability from refunds.

Since then, the Valuation Office, who are the government agency responsible for maintain the Rating List, have started to provide appeals data on a regular basis. This has enabled better estimates to be made of the potential liability.

At the end of 2014/15, the overall provision for appeals was £7.905m, the Council's 49% share of which was £3.874m as shown in Note 36 on page 76 of the accounts.

Whilst better appeals data now exists, the potential liability for refunds remains volatile, due to the unpredictable nature of what appeals might be lodged in the future, and uncertainty over the value at which outstanding appeals are ultimately settled. This should reduce over time as the Valuation Office clears the backlog of outstanding appeals and as a result of new regulations being introduced which prevent appeals lodged on or after 1 April 2015 being back-dated to 2014/15 or earlier.

The Collection Fund has been segmented to show separately, the surplus or deficit attributable to business rates from that attributable to council tax. Note 5 to the Collection Fund on page 101 of the accounts, shows that there is a deficit on business rates at the end of 2014/15 of £4.904m which has still to be recovered of which the Council's 49% share is £2.403m. This deficit arose in 2013/14 due the impact of appeals being underestimated in the absence of reliable appeals data.

UNAUDITED

METROPOLITAN BOROUGH OF ROTHERHAM

STATEMENT OF ACCOUNTS 2014/15

Contents	Page Number

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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 Interim Strategic Director of Resources and Transformation;
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- to approve the Statement of Accounts.

The Interim Strategic Director of Resources and Transformation Responsibilities

The Interim Strategic Director of Resources and Transformation is responsible for the preparation of the Council's Statement of Accounts, consistent with the CIPFA/LASAAC Code of Practice on Local Authority Accounting (the Code).

In preparing this Statement of Accounts, the Interim Strategic Director of Resources and Transformation has:

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that were reasonable and prudent,
- complied with the Code of Practice.

The Interim Strategic Director of Resources and Transformation has also:

- kept proper accounting records which were up to date,
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Interim Strategic Director of Resources and Transformation Certificate

This Statement of Accounts is that upon which the Auditor should enter his certificate and opinion. It presents a true and fair view of the financial position of the Authority at 31 March 2015 and its income and expenditure for the year then ended.

S Booth

Signed…………………………………………………………….

Stuart Booth CPFA

Date………………………29 June 2015……..……………

FOREWORD BY THE INTERIM STRATEGIC DIRECTOR OF RESOURCES AND TRANSFORMATION

1 Introduction

The Statement of Accounts summarises the Authority's financial performance during the year ended 31 March 2015 and shows its overall financial position at the end of that period.

The Statement is prepared in accordance with the Code of Practice on Local Authority Accounting (the Code), as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code is based on approved accounting standards issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), except where these are inconsistent with specific statutory requirements.

The principle bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the financial statements of the Authority are set out in the section of this report headed 'Statement of Accounting Policies'. These accounting policies are kept under review and updated where appropriate to take account of changes in accounting practice adopted within the Code.

The Statement of Accounts comprises:

- **Statement of Responsibilities for the Statement of Accounts** (Page 1) – which details the respective responsibilities of the Authority and its chief financial officer for the accounts
- **An Explanatory Foreword** (Page 2) – which details the most significant matters reported in the accounts
- **A Statement of Accounting Policies** (Page 106) – The accounting policies are the principle bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the financial statements. The accounting policies that have been applied in preparing the Council's 2014/15 financial statements are detailed on Page 106.
- **Financial Statements and related disclosure notes** – which are explained further below

For the sake of clarity, the Accounts and Audit Regulations 2011 has clarified that the Annual Governance Statement does not form part of the Statement of Accounts although there is an expectation that it is published alongside the audited Statement of Accounts. The Council follows this practice.

Financial Statements

The Financial Statements report the Authority's financial performance for the year and its financial position.

The Authority's financial performance is reported through the:

- **Comprehensive Income and Expenditure Statement (CIES)** (Page 14) – The Comprehensive Income and Expenditure Statement shows the surplus or deficit on the provision of services and other gains and losses recognised in the year prior to any statutory adjustments for the differences between the way transactions are presented on a commercial accounting basis and the amounts which are statutorily required to be met under the Local Authority Accounting Framework from local taxpayers and housing rents to meet the cost of General Fund and HRA services.
- **Movement in Reserves Statement (MIRS)** (Page 15) – The Movement in Reserves Statement shows the net change in the balances on reserves allowing for the aforementioned statutory adjustments. Reserves are analysed into usable reserves and unusable reserves. Usable reserves represent revenue or capital resources which are available to fund revenue or capital expenditure or repay debt in the future, subject to the need to maintain a prudent level of reserves to cover contingencies and unforeseen commitments. Unusable reserves are not available for use.
- **The Cash Flow Statement** (Page 18) – This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. The statement

shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

- **The Housing Revenue Account (HRA) Income and Expenditure Account** (Page 91) – This Account summarises the income and expenditure in respect of the provision of local authority housing accommodation. Local Authorities are required by statute to account separately for all transactions relating to the cost of providing such accommodation.

- **Collection Fund Account** (Page 99) – By statute, billing Authorities are required to maintain a separate Collection Fund which shows the level of National Non Domestic Rates, Council Tax and the residual Community Charge received by the Authority during the accounting period and the distribution of these funds.

The Authority's financial position is reported through the:

- **Balance Sheet** (Page 17) - The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) represent the Council's net worth and are matched by the reserves held by the Council. Reserves are analysed into usable and unusable in the same way as in the MIRS.

The financial statements described above include the income, expenditure, assets, liabilities, reserves and cash flows of local authority maintained schools within the control of the Council.

The Council's Financial Statements also include the Metropolitan Debt Administration (Page 102) statement as under the Local Government Act Reorganisation (Debt Administration – South Yorkshire) Order, 1986, the Council became responsible for the administration of the former South Yorkshire County Council Debt with effect from 1 April 1986. A separate account has been established to record the transactions, in order to arrive at an average rate of interest with which to charge the four district councils and joint boards within the South Yorkshire area.

2 General Fund Services

The Council set a revenue budget for General Fund services (excluding schools) of £208.885m in 2014/15. The actual outturn of £207.741m resulted in an underspend of £1.144m of which surpluses on traded services accounted for £0.809m. The £1.144m has been added to the General Fund balance which has, as a consequence, increased to £12.365m at the end of 2014/15. Included within this balance, approval has been given for the £0.809m of traded services surpluses and a further £0.277m of unspent budgets on specific projects or developments to be carried forward to 2015/16.

The principal reasons for the £1.144m underspend are:

- A £1m underspend on Neighbourhoods and Adult Services principally due to additional income from the Furnished Homes scheme and additional fee income from the increase in private sector adaptations

- A £1.4m underspend on Environment and Development Services principally due to a £0.8m underspend on Corporate Property and £0.4m underspend on Cultural Services

- A £1m underspend on Resources due to a combination of £0.3m savings on HR and Payroll, £0.2m recovery of overpaid benefits, £0.2m savings on Electoral Services including members allowances, and £0.3m of surpluses on traded services

- A £3.3m underspend on Central Services budgets including a £1.3m underspend on voluntary early retirement and voluntary severance costs, £0.7m supplier discounts, and a £0.3m underspend on financing and investment income

- A £5.5m overspend on Children and Young People Services due to the volume of placements within Safeguarding and Corporate Parenting services and the high level of costs associated with the placement of Looked After Children in out of authority placements.

The Council also undertook a review of complex technical accounting issues during the year around the re-profiling of charges to revenue for the repayment of debt, optimising the use of capital resources to minimise such charges and reviewing the accounting around payments made to contractors under PFI schemes.

The overall effect of these changes has been to enable the Council to place £34.783m into an MRP Adjustment Reserve and an additional £8.457m into a Transformation Reserve. The nature and purpose of both these reserves is explained in more detail in section 2.2 of the Explanatory Foreword below.

Schools outturn

In addition to General Fund balances and reserves the Council also holds £5.05m relating to School Delegated Budgets. As can be seen below, this represents a reduction of £1.4m on the previous year. The reduction has arisen, in part, due to schools having drawn down on £0.624m of balances to support spending in 2014/15 and, in part, due to the transfer of £0.762m of school balances from the Council's balance sheet as a result of schools converting to an academy during the year.

2013/14 £m		2014/15 £m
0.151	Schools' Declared Savings (see Note 2 Earmarked Reserves)	0.135
6.305	Unspent Schools' Budgets (see Note 37 Usable Reserves)	4.918
6.456	Total	5.053

2.1 Housing Revenue Account Income and Expenditure Account

For 2014/15, the Income and Expenditure Account shows a surplus on the provision of HRA services of £2.437m. This has been adjusted by a credit of £1.594m to produce the overall increase in the HRA balance of £4.031m.

The £1.594m credit comprises adjustments for items which are charged to the HRA under normal accounting practice but which are disregarded in determining the amount to be met by rent payers. They include the following: Gain on sale of Non-Current Assets, capital expenditure funded directly from revenue and capital grants and contributions.

Previously, under the subsidy regime, depreciation and impairment was similarly disregarded. Following the move to self – financing in 2012/13, these have now become real charges to be met by rent payers. However, the Council has taken advantage of transitional protection arrangements which allow impairment of council dwellings to be disregarded and depreciation to be realigned to notional Major Repairs Allowance. These items are the principal reason for the credit of £1.594m.

In 2014/15 a budget was set which required a transfer from HRA reserves of £1.440m to contribute towards capital expenditure commitments in year. At final outturn the transfer from reserves was not required and an overall surplus of £4.031m was achieved for 2014/15. The balance on the HRA at the end of 2014/15 was £20.7m. The principal reasons contributing to the HRA surplus were:

Increases to surplus:

- Repairs and Maintenance costs were less than anticipated – (£2.042m)
- Supervision and Management costs were less than anticipated – (£2.136m)
- Interest payable costs were lower than budget – (£0.136m)
- A decrease in the provision for bad debts - (£0.084m)
- An increase in rental income – (£0.466m)
- An increase in income for charges for services and facilities – (£0.495m)
- An increase in other income – (£0.130m)

- An increase in Interest received/amortised premia – (£0.106m)

Decreases to surplus:

- Non-dwelling Asset revaluation costs – (£0.117m)
- Budget transfer from reserves not utilised – (£1.440m)

Under self-financing, all the risks of managing housing rest with the Council. This means that the Council needs to maintain a higher level of HRA reserves in order to fund all expenditure relating to the management and maintenance of housing stock and mitigate any potential risks the Council now faces. These risks include the costs of impairment/revaluation of non-dwellings which is a real charge to the HRA and Welfare reform which brings additional risk of lower income collection and increased cost of collection.

2.2 Revenue Reserves

As set out in Note 37, the Council had total usable reserves of £163.43m at 31 March 2015.

Included within this balance are capital reserves of £44.231m which can only be used to finance capital expenditure or repay debt. They cannot be used to support revenue directly.

This leaves £119.199m of revenue reserves and balances. However, most of these are ring – fenced (HRA and school balances) or earmarked for specific purposes as illustrated in the table below.

	31 Mar 14 £m	31 Mar 15 £m
Total Revenue Reserves and balances (Note 37)	70.845	119.199
Less: Ring-Fenced		
HRA	16.698	20.728
Schools	6.456	5.053
Less: Earmarked		
PFI	15.161	13.918
Revenue Grants	7.818	9.966
Commutation Adjustment/Transformation	8.393	16.851
MRP Adjustment	0	34.783
Other	5.098	5.535
Earmarked Carry forwards within the General Fund balance	0.999	1.086
Uncommitted	10.222	11.279

The uncommitted General Fund balance of £11.279m offers financial resilience against unforeseen costs and contingencies. Representing 5.5% of the Council's 2015/16 Net Revenue Budget, this is considered a prudent level, which will allow the Council to safeguard itself against the potential financial risks in the 2015/16 financial plan.

Transformation Reserve

The Transformation Reserve was initially created by the release of the Commutation Adjustment Reserve of £8.39m which was no longer required due to the commitments it was set aside for being absorbed into the capital financing budget.

A further £8.457m has been added to the reserve in year. This has been possible through a combination of the use of capital resources to replace debt as a source of finance thereby reducing charges to revenue for the repayment of debt (£4.536m) and by capitalising, where appropriate, PFI lifecycle expenditure and recognising the difference between profiled lifecycle expenditure and amounts actually incurred to date (£3.921m).

The purpose of the reserve is to meet the likely significant additional costs and potential liabilities facing the Council in order to help bring about a “fit for purpose” Council, at the earliest opportunity.

MRP Adjustment Reserve

In 2014/15, the Council revised the profile of charges relating to pre 2007/08 debt to a fairer basis for current and future council tax payers. The revised profile reflects the useful economic life of the assets financed by pre 2007/08 debt and also takes into account the time value of money. This brings the basis for charging MRP on pre 2007/08 debt into line with that for post 2007/08 debt and will form the basis for future charges.

The change in profile of charges relating to pre 2007/08 debt has resulted in a correction of the amount previously charged over the period from 2007/08 to 2014/15 of £34.783m. This has been put into the MRP Adjustment Reserve at the end of 2014/15 to cover the future revenue impact of higher revenue charges that will arise under the revised MRP profile in later years.

3 Capital Spend and Borrowing in 2014/15

Capital spending is generally defined as expenditure on the purchase, improvement or enhancement of assets, the benefit of which impacts for longer than the year in which the expenditure was incurred.

Total capital expenditure in 2014/15 amounted to £73.001m.

(a) Analysis of capital expenditure by Directorate is as follows:

	2014/15 £m
Children & Young People Services	11.525
Neighbourhoods & Adult Services:	
- Housing Revenue Account	30.517
- Housing General Fund	3.361
- Adult Social Services	0.921
Environment & Development Services	23.507
Resources	3.170
Total	73.001

(b) Financing of this expenditure is analysed as follows:

	2014/15 £m
Borrowing need	11.480
Major Repairs Allowance (MRA)	20.392
Grants & Other Contributions	26.722
Capital Receipts	4.615
Internal Funds (e.g. Reserves, etc.)	9.792
Total	73.001

(c) Major items of capital expenditure incurred are as follows:

	2014/15 £m
Non Housing:	
- Carriageway Resurfacing	2.498
- A57 Road	1.345
- Street Lighting	1.137
- Old Flatts Bridge	1.449
- Pool Green Roundabout	3.531
- R-evolution Units 3 and 4	4.330
- Wath Primary - expansion (CofE School)	1.068
- Dalton Listerdale J&I	1.260
- New School (Eldon Road) - now Eastwood Village Community Primary	1.916
- PFI Lifecycle Replacement	1.741
Housing Investment Programme:	
- Physically Handicapped Conversions / Improvements (Public)	1.907
- Replacement of Central Heating Systems	3.748
- Voids Programme	2.944
- Refurbishment of Council Stock	12.878
- Housing Environmental Works	1.627
- Investment in Non-traditional Properties	1.535
- Physically Handicapped Adaptations (Private)	1.858
- District Heating Conversions	1.272
- New Build Provision - Barbers Ave, Rawmarsh	1.036
- Furnished Homes	1.042

(d) The Council's borrowing activities based upon principal amounts during 2014/15 are summarised as follows:

2013/14 £m		2014/15 £m
476.163	Balance as at 1 April	448.883
	Plus:	
0.000	New long-term borrowing	20.000
0.000	Long-term borrowing repaid	0.000
(27.280)	Re-classified as temporary borrowing (repayable in the following financial year)	(22.286)
448.883	Balance as at 31 March	446.597

The Council's operational boundary for external debt for the year was £601.489m and its Authorised Limit for External Debt, the statutory limit determined under section 3(i) of the Local Government Act 2003, was £774.798m.

Temporary Borrowing

2013/14 £m		2014/15 £m
12.273	Balance as at 1 April	27.279
	Plus:	
0.719	New temporary borrowing	5.771
27.280	Re-classified from long-term borrowing	22.286
40.272		55.336
(0.719)	Repayments in the year	(5.771)
(12.274)	Repayment of prior year's reclassified long-term borrowing	(27.279)
(12.993)		(33.050)
27.279	Balance as at 31 March	22.286

Further detail of the Council's long-term liabilities and short-term borrowing is provided in Note 24.

4 Private Finance Initiatives

Waste PFI

The Council reached Financial Close on a joint Waste PFI Contract, along with Barnsley and Doncaster Councils, with 3SE (Shanks, Scottish and Southern Energy) on 30 March 2012. The contract will provide residual waste facilities for the 3 boroughs. Commissioning of the facility commenced in February 2015, and is due to become operational in July 2015. The Councils have been jointly awarded £77.4m PFI credits for this project. The contract will assist the Councils in achieving their overall 50% recycling targets.

The BDR Joint Waste Board was constituted on 30 March 2012 to oversee the governance of this Contract. As a Joint Committee under Section 101 of the 1972 Local Government Act, there is a requirement to produce annual financial statements, which are subject to a limited assurance audit by an auditor appointed by the Audit Commission. For this purpose, BDO LLP have been appointed as auditors for a period of five years from 2012/13.

5 Pensions

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits through its participation in three separate pension schemes relating to Teachers, other local government employees and staff performing Public Health Functions who transferred to the Council on 1 April 2013.

Teachers employed by the Council are members of the Teachers' Pension Scheme (TPS), administered nationally by the Teachers' Pension Agency (TPA), eligible members of the Local Government Superannuation Scheme (LGSS) employed by the Council are members of the South Yorkshire Pension Fund administered by the South Yorkshire Pensions Authority, whilst transferring Public Health Staff have retained access to the National Health Service Pensions Scheme (NHSPS).

All three public sector pension schemes have converted from a final salary scheme to a career average scheme. The change came into effect from 1 April 2014 for the LGSS and from 1 April 2015 for the TPS and NHSPS.

At the same time all three schemes have been subject to an actuarial valuation. This has identified substantial deficits on all three schemes which need to be addressed by an increase in employer contributions.

Full details of the most recent actuarial valuations and future contribution rates are provided in Note 18.

In between the triennial actuarial valuations, the actuary also provides annually an estimate of the changes to the pensions deficit on the South Yorkshire Pensions Fund arising from changes to key financial and actuarial assumptions. The Council's share of the estimated deficit at 31 March 2015 is £369.8m which represents a substantial increase on the previous year's estimate of £264.2m and on the deficit of £186m at the most recent actuarial valuation at March 2013. No adjustment is made to contribution rates on the basis of the estimates but it serves to illustrate how volatile the deficit can be as a result of relatively small changes to key assumptions.

Further detail on the 2014/15 estimate and its sensitivity to small changes to key assumptions is provided in Note 18.

6 Major Changes and Statutory Functions

(a) Schools converting to academy

The Code has clarified in 2014/15 that, although schools can be regarded as separate reporting entities they should continue to be consolidated into the Council's accounts. When a school converts to an academy it is derecognised from the Council's accounts by removing the assets liabilities and reserves of the school from the Council's balance sheet.

Non Current Assets (school premises and other property, plant and equipment) are removed from the Council's balance sheet when the Council relinquishes control.

In 2014/15, there were 118 state funded schools in Rotherham of which 15 are secondary, 93 primary 1 an all through school (primary and secondary combined), 6 are special schools, and 3 nursery schools. By the end of 2014/15, 41 of these schools (10 secondary, 1 all through school and 30 primary) had converted to an academy of which 19 became an academy during the course of 2014/15.

This means that at the end of 2014/15, 77 schools remain under local authority control comprising 68 primary and secondary schools (further analysis of which is provided in the table below), 6 special schools, and 3 nursery schools.

A further 6 schools have applied to convert to academies in 2015/16 with a further 11 having expressed an interest of doing so.

The table below provides an analysis of the 68 primary and secondary schools which remain under local authority control at 31 March 2015:

School	Primary	Secondary	Total
Voluntary Aided	6	1	7
Voluntary Controlled	2	0	2
Foundation	3	2	5
Community	52	2	54
Total	63	5	68

The income and expenditure of these schools at summary level is as follows:

School	Income £m	Expenditure £m	Surplus / Deficit £m
Voluntary Aided (Primary)	6.402	6.054	0.348
Voluntary Aided (Secondary)	3.915	3.657	0.258
Voluntary Controlled (Primary)	1.487	1.396	0.091
Foundation (Primary)	3.673	3.505	0.168
Foundation (Secondary)	19.957	18.431	1.526
Community (Primary)	62.401	59.573	2.828
Community (Secondary)	12.951	13.614	(0.663)
TOTAL	110.786	106.230	4.556

The aggregate annual schools budget of the 19 schools which converted in 2014/15 was £25.9m. The income and expenditure of these schools whilst still under local authority control prior to conversion are included within the Comprehensive Income and Expenditure statement under Education and Children Services.

The impact on the Council's balance sheet of schools converting to an academy in 2014/15 has been to transfer out of the balance sheet:

- School balances with an aggregate value of £0.762m
- Property, plant and equipment with an aggregate value of £141.884m
- Finance leases with an aggregate value of £0.053m
- Unapplied devolved capital allocations £0.104m

The Council retained and will have to make good deficits for the following schools which converted to an academy under sponsorship:

- Rawmarsh Community School £0.550m
- Thrybergh Primary School £0.005m
- Swinton Brookfield School £0.047m

(b) Combined Authority

Sheffield City Region Combined Authority was established on 1 April 2014. It is composed of 9 local authorities (all 4 South Yorkshire Metropolitan Authorities and 5 from the North East Midlands).

The Combined Authority (CA) has inherited the Transport Functions of South Yorkshire Integrated Transport Authority and has responsibility for the Sheffield City Region's (SCR) economic development and regeneration activities. To this end, the CA is working closely with the private sector lead Local Enterprise Partnership (LEP) in seeking to attract inward investment into the SCR and transform the local economy over the ten year period 2015 to 2025. At the heart of this, is the SCR's Strategic Economic Plan (SEP) for which the CA / LEP has overall responsibility for delivering. The recent Local Growth Deal 2 announced in January 2015 and Devolution Deal announced in December 2014 has continued the process of devolving funding to the SCR to manage.

As a constituent member of the CA, the Council has a leading role to play in helping ensure that the SCR achieves its transformational goals.

(c) Better Care Fund and the Care Act 2014

Better Care Fund

The Better Care Fund (BCF) was originally announced as part of Spending Review 2013 to support the integration of health and social care through pooled budget arrangements. The stated intention of the BCF is for funding to be spent locally on health and care, "to drive closer integration and improve outcomes for patients and service users and carers". The BCF is made up of NHS funding, existing Carers' break funding, CCG reablement funding, capital funding (including Disabled Facilities Grant) and existing transfer from health to social care funding.

The main points identified in relation to the statutory framework for the BCF in 2015/16 are that:

- The Fund will be put into pooled budgets as part of Section 75 joint governance arrangements between CCGs and councils, with plans for spending the funds needing to be jointly agreed.
- NHS England will be instructed to ring-fence its contribution to the BCF.
- Additional conditions in Section 31 of the Local Government Act 2003 will allow for legislation to ring-fence national and local NHS contributions and allow Disabled Facilities Grant (DFG) to be included in the BCF.

- DFG will be paid to upper-tier authorities in 2015/16. However, the statutory duty on local housing authorities to provide DFG to those who qualify for it will remain. Therefore each area will have to allocate this funding to their housing authorities from the pooled budget to enable them to continue to meet their statutory duty to provide adaptations.

- Section 31 of the Local Government Act 2003 will be used to ensure that DH Adult Social Care capital grants are used in pooled budgets for the purposes of the BCF.

In 2014/15 Rotherham operated a shadow BCF pooled budget arrangement with an established governance framework ready for full implementation from April 2015. It has been agreed by the Health and Well Being Board that the section 75 will be managed by two separate pooled funds totalling £23.316m, one managed by RMBC and one by the CCG.

The Care Act 2014

The Care Act is being implemented in two phases. The first phase comes in with effect from April 2015 with the introduction of a universal deferred payments scheme and increased support for carers with phase two from April 2016 with the introduction of a cap on care costs and an extension of means tested support so that more people are eligible for local authority support with their care costs.

The council introduced the national deferred payments scheme from 1 June 2015 which is based on the principle that people should not be forced to sell their home in their lifetime to pay for care, allowing greater flexibility and paying for their care costs at a later date. This new scheme includes charging for administration of the scheme including interest. Specific grant funding has been made available to support the implementation of the Act in 2015/16 specifically around the increase in assessments, increased take up of deferred payments and additional support for carers including a new carers assessment.

From April 2016 the introduction of a cap on the cost of care will come into effect whereby no-one will pay more than £72,000 in care costs over their lifetime. The capital threshold will also be increased from £23,000 to £118,000; this will result in more people being funded by the Council when they reach the threshold. The Council continues to model the potential cost of the Care Act in preparation for April 2016.

7 Significant Changes to Accounting Policies

None of the new accounting standards adopted by the Code in 2014/15 or clarifications of existing standards has had any impact on the Council's financial position. In particular, the changes to accounting for local authority schools and group accounts has not led to any change to the way in which local authority maintained schools are reported in the Council's accounts

Two substantial new accounting standards are being adopted in the next two years.

The 2015/16 Code will adopt the new IFRS 13 Fair Value Measurement standard which will lead to a number of amendments to the definition of fair value throughout the Code including those applying to surplus assets, investment property, assets held for sale, debtors, creditors, revenue recognition and employee benefits. The new standard is being introduced prospectively so will not impact on the amounts reported in this year's accounts.

The 2016/17 Code will adopt the measurement requirements of the CIPFA Code of Practice on Transport Infrastructure Assets. This will require transport infrastructure assets to be restated from an historic cost basis to current cost using depreciated replacement cost. The change in accounting policy will be applied retrospectively requiring a restated balance sheet at 1 April 2015. This is likely to lead to a very material increase in the carrying value of highways assets reported in the Council's balance sheet. Further detail is provided in Note B on Page 124.

8 Outlook

The previous Coalition Government's austerity measures have meant that Council, along with other local authorities, has faced unprecedented reductions in Government funding since the 2010 General Election and subsequent Comprehensive Spending Reviews. In addition, service pressures and increasing demand for services particularly from the most vulnerable, have meant the Council has had to make significant budget savings. The position has also been exacerbated by the introduction of fundamental changes to the way local authorities are funded. The continuing requirement and scale of budget savings, coming on top of the £94m already delivered since 2010, with a further £23m in train to be delivered during the 2015/16 financial year presents an ever increasing challenge for the Council. It is also the case that there is greater financial uncertainty over the medium term. The last Government spending round covered the period to 2015/16 only. It is anticipated that clarity on these major financial issues will start to emerge now that the General Election result is known and the Chancellor has announced that his Budget Statement will be on the 8th July which is expected to be followed by a Comprehensive Spending Review which would report in autumn 2015.

The local government finance settlement and associated specific grants are classed as a non-protected area of public spending and although local government has already experienced significant reductions in funding over the past 5 years it must still be considered vulnerable. The consensus is that further spending reductions are likely for at least the next 3 financial years and that the period of austerity could run until 2020 and that the proposed cuts could be on a similar scale to those experienced since 2010. The Director of the Institute for Fiscal Studies think-tank suggests that the forthcoming reductions will be *"probably as difficult as those achieved over the last Parliament".*

In addition to the challenges facing all councils, Rotherham Council has, itself, had a very difficult year with the independent enquiry by Professor Jay into child sexual exploitation in Rotherham and subsequent inspections into Children's Services by OFSTED and Corporate Governance by the DCLG, identifying serious failings in children's social care and wider corporate failings in the way in which the Council is managed. In response, DCLG appointed a team of five Commissioners on 26 February 2015 to make a "fresh start" and to drive the improvements needed to restore public confidence in the Council and to rebuild Corporate Governance so that the Council can be returned to democratic control. The Commissioners have been appointed for a period of up to four years and could be in charge of the Council until March 2019. The Commissioners' remit includes all the Executive functions of the Authority with the Commissioners individually or as a group making all key decisions, about what services the Council provides, how these are delivered and how the Council's budget is spent.

The key improvements assessed by the Commissioners as being needed to make the Council "fit for purpose" again and improve children's social care are contained in a Rotherham Improvement Plan - entitled "A Fresh Start" – which was submitted to the Secretaries of State for Communities & Local Government and for Education in May 2015.

This Improvement Plan and the Young People's Service Improvement Board Action Plan together with the Council's revised strategic vision and planning and performance frameworks and proposals to develop the Council's Budget Processes will allow the Council to address the financial challenge in coming years.

Lead Commissioner Sir Derek Myers has set out a requirement for the Council to have set out by November 2015 the broad shape of its Medium Term Financial Strategy (MTFS), to address the financial challenge over the next three years. This MTFS will be subject to consultation and scrutiny before it is considered by Full Council in March 2016. Beyond articulating the levels of saving required across service areas to address the total budget challenge of around £41m over the period from April 2016 to March 2019, the MTFS needs to set out how services will be working – the key projects, initiatives, new ways of working and shifts to alternative delivery models etc. – in place to address it.

To achieve this will be a significant departure from the way that Rotherham's Budget has been planned and agreed in recent years with a requirement for longer-term and policy-led budget planning, which is corporately owned and can both challenge and support services to do things differently. **Policy Led" Budget Planning –** relates to the need for a process that is not dominated by short-term budget reductions, but is instead able to consider and explore all opportunities to modernise services, do things differently and ensure that the longer-term implications of both cutbacks and investments in the short-term are fully considered, across all services. Such an approach will demand a culture change across the organisation with regard to how budget and service-planning is conducted. In order to understand the full budget picture and how all parts of the Council are interconnected all of the Council's resources capital, revenue, grant, income from all sources etc. will be considered in the round.

Stuart Booth
Interim Strategic Director of Resources and Transformation

Main Financial Statements and Notes to the Core Financial Statements

Comprehensive Income and Expenditure Statement

This Statement shows the surplus or deficit on the provision of services and other gains and losses recognised in the year prior to any statutory adjustments for the differences between the way transactions are presented on a commercial accounting basis and the amounts which are statutorily required to be met under the Local Authority Accounting Framework from local taxpayers and housing rents to meet the cost of General Fund and HRA services. The amount to be met from local taxpayers and housing rents is shown in the Movement in Reserves Statement.

All of the Council's income and expenditure relates to continuing operations.

None of the items included within other comprehensive income and expenditure are reclassifiable within the surplus or deficit on provision of services.

Gross Expenditure £000	Gross Income £000	2013/14 Net Cost £000		Gross Expenditure £000	Gross Income £000	2014/15 Net Cost £000	Notes
			Continuing Operations				
110,236	(31,291)	78,945	Adult Social Care	101,557	(30,508)	71,049	
4,466	(2,740)	1,726	Central Services to the Public	5,591	(3,196)	2,395	
274,440	(208,881)	65,559	Education and Children Services	251,248	(179,914)	71,334	
19,230	(3,290)	15,940	Cultural and Related Services	16,136	(3,384)	12,752	
21,721	(5,129)	16,592	Environment and Regulatory Services	20,377	(5,178)	15,199	
6,143	(2,791)	3,350	Planning Services	7,099	(2,923)	4,176	
32,821	(3,112)	29,709	Highways and Transport Services	28,675	(3,171)	25,504	
65,987	(80,245)	(14,258)	Local Authority Housing (HRA)	68,072	(83,600)	(15,528)	
100,123	(93,055)	7,068	Other Housing Services	99,285	(95,514)	3,771	
13,454	(14,008)	(554)	Public Health	13,990	(14,663)	(673)	
4,769	(192)	4,577	Corporate and Democratic Core	4,704	(210)	4,494	
(6,961)	0	(6,961)	Non Distributed Costs	(7,439)	0	(7,439)	
646,427	(444,734)	201,693	(Surplus) or Deficit on Continuing Operations	609,295	(422,261)	187,034	
47,476	(44)	47,432	Other Operating Expenditure	143,307	(20)	143,287	4
61,455	(14,050)	47,405	Financing and Investment Income and Expenditure	59,262	(16,019)	43,243	5
0	(266,353)	(266,353)	Taxation & Non-Specific Grant Income	0	(252,827)	(252,827)	7
755,358	(725,181)	30,177	Deficit on Provision of Services	811,864	(691,127)	120,737	
		(12,518)	(Surplus) or Deficit on Revaluation of Non Current Assets			(6,151)	38b
		(1,070)	Write down of Met Debt			(1,177)	38a
		(116,095)	Remeasurements (liabilities and assets)			108,829	18
		(129,683)	Other Comprehensive Income & Expenditure			101,501	
		(99,506)	Total Comprehensive Income & Expenditure			222,238	

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves' (which are not available for use and are detailed in Note 38). The 'surplus or (deficit) on the provision of services' line shows the economic cost of providing the Council's services on a commercial accounting basis. The "adjustments between accounting basis and funding basis under regulations" line represents the statutory adjustments required to arrive at the amounts to be charged to the General Fund Balance for Local Tax purposes. The 'net increase /decrease before transfers to statutory and other reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from statutory and other reserves undertaken by the Council.

2013/14	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Council Reserves £000	Notes
Balance as at 1 Apr 13 as restated	18,155	30,221	15,128	1,840	14,888	2,877	21,884	104,993	61,476	166,469	37/38
Movement in reserves during the year:											
Surplus or (deficit) on the provision of services	(30,637)	0	460	0	0	0	0	(30,177)	0	(30,177)	
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	129,683	129,683	
Total Comprehensive Income and Expenditure	(30,637)	0	460	0	0	0	0	(30,177)	129,683	99,506	
Adjustments between accounting basis & funding basis under regulations	34,009	0	2,455	0	3,428	2,347	(1,749)	40,490	(40,490)	0	1
Net Increase / (Decrease) before Transfers to Statutory and Other Reserves	3,372	0	2,915	0	3,428	2,347	(1,749)	10,314	89,193	99,506	
Add: Transfers to/(from) Earmarked Reserves	(3,215)	3,215	(1,346)	1,346	0	0	0	0	0	0	2
Increase / (Decrease) in Year	157	3,215	1,569	1,346	3,428	2,347	(1,749)	10,314	89,193	99,506	
Increase / (Decrease) in Year consists of:											
Other transfers	*6*										
Outturn	*151*										
	18,312										
Schools Balances transferred out on conversion to academy	*(786)*							(786)		(786)	
At 31 Mar 14	17,526	33,436	16,697	3,186	18,316	5,224	20,135	114,520	150,669	265,189	

2014/15	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Council Reserves £000	Notes
Balance as at 1 Apr 14	17,526	33,436	16,697	3,186	18,316	5,224	20,135	114,520	150,669	265,189	37/38
Movement in reserves during the year:											
Surplus or (deficit) on the provision of services	(123,174)	0	2,437	0	0	0	0	(120,737)	0	(120,737)	
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(101,501)	(101,501)	
Total Comprehensive Income and Expenditure	(123,174)	0	2,437	0	0	0	0	(120,737)	(101,501)	(222,238)	
Adjustments between accounting basis & funding basis under regulations	168,259	0	1,594	0	5,404	(486)	(4,362)	170,409	(170,409)	0	1
Net Increase / (Decrease) before Transfers to Statutory and Other Reserves	45,085	0	4,031	0	5,404	(486)	(4,362)	49,672	(271,910)	(222,238)	
Add: Transfers to/(from) Earmarked Reserves	(44,565)	47,751	0	(3,186)	0	0	0	0	0	0	2
Increase / (Decrease) in Year	520	47,751	4,031	(3,186)	5,404	(486)	(4,362)	49,672	(271,910)	(222,238)	
Increase / (Decrease) in Year consists of:											
Outturn	520										
	520										
Schools Balances transferred out on conversion to academy	(762)							(762)		(762)	
At 31 Mar 15	17,284	81,187	20,728	(0)	23,720	4,738	15,773	163,430	(121,241)	42,189	

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 that 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".

2013/14 £000		2014/15 £000	Notes
1,134,006	Property, Plant and Equipment	989,404	19
6,952	Heritage Assets	6,952	23
29,356	Investment Property	31,427	20
1,509	Intangible Assets	2,803	21
192	Long Term Investments	190	30
10,370	Long Term Debtors	10,397	33
1,182,385	Long Term Assets	1,041,173	
19,749	Short Term Investments	18,668	24
689	Assets Held For Sale	1,458	22
794	Inventories (Stock)	748	31
36,119	Short Term Debtors	42,687	33
26,344	Cash and Cash Equivalents	25,916	34
83,695	Current Assets	89,477	
(38,497)	Bank Overdraft	(36,141)	34
(32,030)	Short Term Borrowing	(26,693)	24
(59,861)	Short Term Creditors	(59,214)	35
(11,649)	Short Term Provisions	(7,676)	36
(142,037)	Current Liabilities	(129,724)	
(5,387)	Long Term Provisions	(6,026)	36
(3,051)	Long Term Creditors	(716)	35
(448,883)	Long Term Borrowing	(446,597)	24
(399,968)	Other Long Term Liabilities	(502,560)	50
(1,566)	Capital Grants Receipts in Advance	(2,839)	8
(858,855)	Long Term Liabilities	(958,738)	
265,188	Net Assets	42,188	
(114,520)	Usable Reserves	(163,430)	37
(150,668)	Unusable Reserves	121,242	38
(265,188)	Total Reserves	(42,188)	

Cash Flow Statement

	2013/14 £000	2014/15 £000	Notes
Deficit on the provision of services	30,177	120,737	
Adjustments to net surplus or deficit on the provision of services for non-cash movements	(109,565)	(196,212)	
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	41,101	40,545	39
Net cash inflows from Operating Activities	(38,287)	(34,930)	
Investing Activities	32,580	24,677	40
Financing Activities	14,362	8,325	41
Net decrease in cash and cash equivalents	8,655	(1,928)	
Cash and cash equivalents at the beginning of the reporting period	(3,498)	(12,153)	34
Cash and cash equivalents at the end of the reporting period	(12,153)	(10,225)	34

NOTES TO THE CORE FINANCIAL STATEMENTS

Note 1 Adjustments between Accounting Basis and Funding Basis

This note details the statutory adjustments for the differences between the way transactions are presented on a commercial accounting basis and the amounts which are statutorily required to be met under the Local Authority Accounting Framework from local taxpayers and housing rents to meet the cost of General Fund and HRA services.

2013/14	Movements in Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movements in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:						
Charges for depreciation and impairment of non current assets	30,941	24,474	0	0	0	(55,415)
Amortisation of intangible assets	239	0	0	0	0	(239)
Revaluation losses on Property, Plant and Equipment	(6,909)	(6,493)	0	0	0	13,402
Capital grants and contributions applied	(33,203)	(474)	0	0	(1,749)	35,426
Revenue expenditure funded from capital under statute	3,764	0	0	0	0	(3,764)
Gain/loss on disposal of non current assets charged to the Comprehensive Income and Expenditure Statement	42,523	(1,015)	7,425	0	0	(48,933)
Statutory provision for the financing of capital investment	(12,533)	0	0	0	0	12,533
Capital expenditure charged against the General Fund and HRA balances	(1,323)	(8,437)	0	0	0	9,760
Adjustments primarily involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(2,332)	0	0	2,332
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	1,669	0	(1,669)	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	`	0	4	0	0	(4)
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	0	(5,894)	0	5,894	0	0
HRA depreciation to capital adjustment account	0	0	0	13,395	0	(13,395)
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(16,942)	0	16,942
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	(46)	6	0	0	0	40

Continued	Movements in Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movements in Unusable Reserves £000
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 18)	30,962	1,221	0	0	0	(32,183)
Employer's pension contributions and direct payments to pensioners payable in the year	(23,407)	(922)	0	0	0	24,329
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	3,002	0	0	0	0	(3,002)
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	(1,670)	(11)	0	0	0	1,681
Total Adjustments	34,009	2,455	3,428	2,347	(1,749)	(40,490)

2014/15	Movements in Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movements in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
Charges for depreciation and impairment of non current assets	17,415	27,546	0	0	0	(44,961)
Amortisation of intangible assets	601	0	0	0	0	(601)
Revaluation losses on Property, Plant and Equipment	11,797	(8,965)	0	0	0	(2,832)
Capital grants and contributions applied	(25,938)	(154)	0	0	(4,362)	30,454
Revenue expenditure funded from capital under statute	6,188	0	0	0	0	(6,188)
Gain/loss on disposal of non current assets charged to the Comprehensive Income and Expenditure Statement	138,704	(1,709)	14,253	0	0	(151,248)
Statutory provision for the financing of capital investment	25,501	0	0	0	0	(25,501)
Capital expenditure charged against the General Fund and HRA balances	(1,279)	(8,513)	0	0	0	9,792
Adjustments primarily involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(4,613)	0	0	4,613
Use of the Capital Receipts Reserve to repay debt	0	0	(2,531)	0	0	2,531
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	1,707	0	(1,707)	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	2	0	0	(2)
Adjustment primarily involving the Major Repairs Reserve:						
Transfer from HRA to Major Repairs Reserve re notional MRA	0	(6,585)	0	6,585	0	0
HRA depreciation to capital adjustment account	0	0	0	13,321	0	(13,321)
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(20,392)	0	20,392
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	(26)	90	0	0	0	(64)

Continued	Movements in Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movements in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 18)	22,470	814	0	0	0	(23,284)
Employer's pension contributions and direct payments to pensioners payable in the year	(25,612)	(929)	0	0	0	26,541
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income, non-domestic rate income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with Regulation	(2,952)	0	0	0	0	2,952
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	(317)	(1)	0	0	0	318
Total Adjustments	168,259	1,594	5,404	(486)	(4,362)	(170,409)

Note 2 Transfers to and from Earmarked Reserves

	Balance at 1 Apr 13 £000	Transfers out 2013/14 £000	Transfers in 2013/14 £000	Bal at 31 Mar 14 £000	Reclassified Reserves £000	Transfers out 2014/15 £000	Transfers in 2014/15 £000	Balalance at 31 Mar 15 £000
General Fund								
Insurance	355	(104)	0	251	0	0	0	251
Commutation Adjustment	8,394	0	0	8,394	(8,394)	0	0	0
Transformation Reserve	0	0	0	0	8,394	0	8,457	16,851
Revenue Grants Reserve	6,698	(2,794)	3,914	7,818	0	(2,619)	4,767	9,966
Local Authority Energy Fund (LAEF)	328	(240)	31	119	0	(109)	56	66
Museum	33	0	1	34	0	0	0	34
Rotherham Economic Regeneration (RERF)	60	(60)	53	53	0	(53)	75	75
Maintenance of Buildings	112	(139)	372	345	0	(84)	59	320
Managed Workspace Repairs & Renewals	96	0	54	150	0	(50)	86	186
PFI – Leisure	997	(255)	472	1,214	0	(308)	0	906
Schools Declared Savings	252	(101)	0	151	0	(16)	0	135
PFI - Schools	12,593	0	1,354	13,947	0	(2,240)	1,304	13,011
Housing Improvement Programme	10	0	0	10	0	0	0	10
Aston CSC Repair / Maintenance Fund	60	0	20	80	0	0	20	100
Kimberworth The Place Repairs / Maintenance Fund	10	0	10	20	0	(20)	5	5
Riverside House Repairs / Maintenance Fund	77	0	52	129	0	0	51	180
EMS Implementation Fund	146	(35)	38	149	0	(30)	38	157
EIC Partnership Reserve	0	0	572	572	0	(164)	0	408
Furnished Homes	0	0	0	0	3,186	0	557	3,743
MRP adjustment Reserve	0	0	0	0	0	0	34,783	34,783
Total	30,221	(3,728)	6,943	33,436	3,186	(5,693)	50,258	81,187
Housing Revenue Account								
Furnished Homes	1,840	0	1,346	3,186	(3,186)	0	0	0
Total	1,840	0	1,346	3,186	(3,186)	0	0	0
Total General Fund & HRA	32,061	(3,728)	8,289	36,622	0	(5,693)	50,258	81,187

Earmarked General Fund 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 the amounts posted back from earmarked reserves to meet expenditure in 2014/15. A brief description of the purpose of each reserve is provided as follows.

(i) Insurance

The majority of this reserve relates to insurance settlement money in respect of Museum and Art Collections, with a small residual balance in respect of Leisure and Green Spaces.

(ii) Transformation Reserve

The Transformation Reserve is to be used to meet the likely significant additional costs and potential liabilities facing the Council in order to help bring about a “fit for purpose” Council, at the earliest opportunity.

(iii) Revenue Grant Reserve

The Revenue Grant Reserve represents revenue grants which have been recognised within income as the grant’s terms and conditions have been met but yet to be applied. They will be used to meet future spending plans relevant to the grant.

(iv) Local Authority Energy Fund (LAEF)

This reserve has been set up to provide initial investment for energy conservation work. It is anticipated that such investment will generate long term savings. Money is advanced to spending services and is repaid over a predetermined period, the repayments generating resources for further investment.

(v) Museum

This reserve was created principally for the Rotherham Museum to enable the purchase of exhibits that come onto the market on an irregular basis.

(vi) Rotherham Economic Regeneration Fund (RERF)

Set up to defray the costs associated with supporting/funding externally funded schemes across several financial years and facilitating the economic regeneration of the borough, and to allow carry forward of funds on an annual basis.

(vii) Maintenance of Buildings

Set up to defray the cost of Maintenance of Buildings across the Council by focussing on a more corporate and strategic approach.

(viii) Managed Workspace Repairs and Renewals

Set up to defray the cost of a rolling programme of maintenance on the managed workspace buildings and a programme of equipment renewal. The nature of the initial grant funding of these buildings excludes them from the programme of maintenance for other council buildings, creating the necessity for a separate reserve.

(ix) PFI – Leisure

This PFI arrangement will last for 33 years and 3 months. The reserve recognises the fact that receipts and payments into the reserve are smoothed out over the life of the contract so that the balance on the reserve at the end of the contract is nil. This arises as only 50% of the Unitary Charge payment is indexed, the remaining 50% being fixed. As the PFI revenue grant support is fixed, the Council’s budgetary contributions as a proportion of income increase over time.

(x) Schools Declared Savings

Under the Authority’s Scheme for the Local Management of Schools, all Primary, Secondary and Special Schools are allowed to invest, internally with the Authority, sums set aside from their delegated budgets, for use in future years. Interest can be earned on such savings. These sums were initially allocated to schools as part of their formula-funded budgets and are, therefore, exclusively earmarked for use by those same schools in the future.

(xi) PFI – Schools

This PFI arrangement will last for 30 years. The reserve recognises the fact that funding received in the early years was in excess of expenditure, but that expenditure has risen significantly after all the schools have been completed.

(xii) Housing Improvement Programme (HIP)

This reserve has been created to support HIP's role in enabling decent affordable housing in the private sector. It covers the Works in Default Scheme.

Under the Works in Default scheme Environmental Health Officers may require private landlords to do improvements to their properties. An amount of £9,554 has been set aside in the event that landlords default in reimbursing the Council for the cost of the improvement works. This reserve has not been utilised in 2014/15.

(xiii) Aston CSC Maintenance Fund

This reserve has been created for agreed cyclical redecoration and major repair with NHS Rotherham.

(xiv) Kimberworth The Place Repairs & Maintenance Fund

This reserve has been created for agreed cyclical redecoration and major repair with NHS Rotherham.

(xv) Riverside Maintenance Fund

This reserve has been created for agreed cyclical lifecycle maintenance, major repair and redecoration of the building, in line with the Council's obligations in respect of the lease agreement.

(xvi) Environmental Management System (EMS) Implementation Fund

This reserve has been created to provide funding for a temporary post of Carbon Reduction Officer to work towards reducing CO2 emissions.

(xvii) EIC Partnership Reserve

This reserve has been created principally to provide funding to maximise the impact on teaching and learning through use of digital resources to promote creativity and innovation.

(xviii) Furnished Homes Reserve

The Rotherham Furnished Homes Scheme offers a range of furniture and other household goods to tenants to assist them in establishing and sustaining their home in exchange for an additional service charge. The scheme was transferred from the HRA to the General Fund on 1 April 2014 in order to maximise the Scheme's flexibility and capacity to respond to the changing circumstances brought about by welfare reform and the introduction in 2012/13 of HRA self-financing. The reserve is being used to provide financial resilience for the existing scheme, to support any future expansion of the service, and, to meet additional financing costs in future years following the capitalisation of furniture purchases with effect from 2014/15.

(xix) MRP Adjustment Reserve

The reserve has been created from the reprofiling of charges to revenue relating to pre 2007/08 debt. Its purpose is to cover the future revenue impact of higher revenue charges that will arise under the revised MRP profile in later years.

Note 3 Segmental Reporting

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet 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 within budget reports in relation to capital expenditure (whereas 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 pension contributions rather than current service cost of benefits accrued in the year).

Income and expenditure of the Council's Directorates reported in the budget reports for the year

	CYPS	Schools	EDS	Neighbourhood	Adults	Resources	Central	HRA	Public Health	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2013/14										
Fees, charges & other service income	(14,533)	(8,211)	(59,697)	(4,995)	(37,662)	(7,464)	(23,479)	(82,545)	(218)	(238,804)
Government Grants	(17,078)	(172,255)	(2,732)	(141)	(59)	(94,352)	(14,710)	(8)	(13,790)	(315,125)
Total Income	(31,611)	(180,466)	(62,429)	(5,136)	(37,721)	(101,816)	(38,189)	(82,553)	(14,008)	(553,929)
Employee Expenses	41,212	139,068	39,623	7,581	29,838	14,460	1,285	7,680	1,484	282,231
Other Operating expenses	37,340	37,803	57,806	3,516	81,405	98,414	71,145	70,791	12,143	470,363
Central Dept. & Tech. Support	180	4,479	15,100	87	0	9	(1,659)	2,512	381	21,089
Total Operating Expenses	78,732	181,350	112,529	11,184	111,243	112,883	70,771	80,983	14,008	773,683
Revenue outturn	47,121	884	50,100	6,048	73,522	11,067	32,582	(1,570)	0	219,754
2014/15										
Fees, charges & other service income	(15,803)	(6,420)	(50,828)	(8,125)	(37,020)	(13,861)	(40,140)	(86,240)	(487)	(258,924)
Government Grants	(17,803)	(145,773)	(2,795)	(50)	(130)	(94,056)	(16,339)	0	(14,176)	(291,122)
Total Income	(33,606)	(152,193)	(53,623)	(8,175)	(37,150)	(107,917)	(56,479)	(86,240)	(14,663)	(550,046)
Employee Expenses	42,574	115,684	34,583	7,476	25,654	18,047	2,050	7,151	1,483	254,702
Other Operating expenses	40,182	33,602	48,116	3,823	81,470	104,687	81,657	76,592	12,898	483,027
Central Dept. & Tech. Support	386	3,531	14,892	58	0	2	(966)	(1,533)	282	16,652
Total Operating Expenses	83,142	152,817	97,591	11,357	107,124	122,736	82,741	82,210	14,663	754,381
Revenue outturn	49,536	624	43,968	3,182	69,974	14,819	26,262	(4,030)	0	204,335

Included within schools employee expenses in 2014/15 is £26.115m relating to local authority maintained faith schools and foundation schools

Reconciliation of Directorate income and expenditure to Net Cost of Services reported in the Comprehensive Income and Expenditure Statement

	2013/14 £000	2014/15 £000
Net expenditure in the Directorate Analysis	219,754	204,335
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Directorate analysis	23,688	25,899
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(41,749)	(43,200)
Cost of Services in Comprehensive Income and Expenditure Statement	201,693	187,034

Reconciliation of Directorate income and expenditure to subjective analysis of the Surplus or Deficit on the Provision of Services reported in the Comprehensive Income and Expenditure Statement

2013/14	Directorate Analysis £000	Amounts Not reported to Management £000	Amounts not included in I&E as Cost of Service £000	Allocation of Recharges £000	Cost of Services £000	Items shown below Cost of Service on I&E £000	Total £000
Fees, charges & other service income	(238,208)	12,509	32,877	48,640	(144,182)	(76,340)	(220,522)
Surplus on Trading Activities	0	0	0	0	0	(493)	(493)
Interest & Investment Income	(596)	0	596	0	0	(596)	(596)
Income from Council Tax	0	0	0	0	0	(82,607)	(82,607)
Government Grants & Contributions	(315,125)	(2,490)	17,063	0	(300,552)	(120,411)	(420,963)
Total Income	(553,929)	10,019	50,536	48,640	(444,734)	(280,447)	(725,181)
Employee expenses	282,231	(14,867)	(44,956)	0	222,408	21,869	244,277
Other service expenses	454,435	11,937	(24,774)	(48,640)	392,958	1,750	394,708
Depreciation, amortisation and impairments	12,093	16,599	2,369	0	31,061	3,590	34,651
Interest payments	22,734	0	(22,734)	0	0	34,290	34,290
Precepts and levies	2,190	0	(2,190)	0	0	4,329	4,329
Payments to Housing Capital receipts pool	0	0	0	0	0	1,669	1,669
Gain or loss on disposal of Non Current Assets	0	0	0	0	0	41,409	41,409
Revaluation Loss Assets Held for Sale	0	0	0	0		25	25
Total Expenditure	773,683	13,669	(92,285)	(48,640)	646,427	108,931	755,358
(Surplus) or Deficit on the provision of services	219,754	23,688	(41,749)	0	201,693	(171,516)	30,177

Reconciliation of Directorate income and expenditure to subjective analysis of the Surplus or Deficit on the Provision of Services reported in the Comprehensive Income and Expenditure Statement

2014/15	Directorate Analysis £000	Amounts Not reported to Management £000	Amounts not included in I&E as Cost of Service £000	Allocation of Recharges £000	Cost of Services £000	Items shown below Cost of Service on I&E £000	Total £000
Fees, charges & other service income	(258,132)	14,420	49,110	46,791	(147,811)	(74,889)	(222,700)
Surplus on Trading Activities	0	0	0	0	0	(470)	(470)
Interest & Investment Income	(792)	0	792	0	(0)	(707)	(707)
Income from Council Tax	0	0	0	0	0	(85,931)	(85,931)
Government Grants & Contributions	(291,122)	(1,861)	18,533	0	(274,450)	(106,869)	(381,319)
Total Income	(550,046)	12,559	68,435	46,791	(422,261)	(268,866)	(691,127)
Employee expenses	254,702	(15,568)	(45,032)	0	194,102	7,142	201,244
Other service expenses	454,832	7,676	(44,636)	(46,791)	371,081	6,780	377,861
Depreciation, amortisation and impairments	22,010	21,232	870	0	44,112	11,430	55,542
Interest payments	20,539	0	(20,539)	0	0	33,930	33,930
Precepts and levies	2,298	0	(2,298)	0	(0)	4,411	4,411
Payments to Housing Capital receipts pool	0	0	0	0	0	1,707	1,707
Gain or loss on disposal of Non Current Assets	0	0	0	0	0	137,091	137,091
Revaluation Loss Assets Held for Sale	0	0	0	0	0	78	78
Total Expenditure	754,381	13,340	(111,635)	(46,791)	609,295	202,569	811,864
(Surplus) or Deficit on the provision of services	204,335	25,899	(43,200)	0	187,034	(66,297)	120,737

Note 4 Other Operating Expenditure

2013/14 £000		2014/15 £000	Notes
2,139	Parish Council precepts	2,113	
2,190	Levies payable	2,298	
1,669	Payments to the Government Housing Capital Receipts Pool	1,707	
41,409	(Gain)/loss on disposal of non current assets	137,091	49
25	Revaluation loss on disposal of Assets Held for Sale - current assets	78	22
47,432	Total	143,287	

Note 5 Financing and Investment Income and Expenditure

2013/14 £000		2014/15 £000	Notes
34,289	Interest payable and similar charges	33,930	26
15,256	Net interest on the net defined benefit liability (asset)	11,494	18
(595)	Interest receivable and similar income	(707)	26
(1,052)	Income and expenditure relating to Investment Properties and changes in their fair value	(1,004)	20
(493)	(Surplus) on Trading undertakings	(470)	6
47,405	Total	43,243	

Note 6 Surplus / Deficit on Trading Services, including dividends from companies

In accordance with the recommendations of CIPFA's Service Reporting Code of Practice (SERCOP) a number of trading accounts continue to be maintained by the Authority. The Council considers a trading operation exists where the service it provides is competitive i.e. the service user has the choice to use an alternative supplier than the Council and the Council charges the user on a basis other than a charge that equates to the costs of supplying the service.

The trading accounts operated by the Authority during the year are as follows:

2013/14				2014/15		
Expenditure £000	Income £000	(Surplus) / Deficit £000		Expenditure £000	Income £000	(Surplus) / Deficit £000
19,456	(19,508)	(52)	Construction, Street Cleansing and Landscaping	19,913	(19,589)	324
4,071	(4,003)	68	Vehicle Maintenance	2,565	(2,489)	76
3,414	(3,690)	(276)	Property Services – Fee-billing	2,152	(2,658)	(506)
803	(1,035)	(232)	Engineering – Fee-billing	751	(1,000)	(249)
5,147	(5,181)	(34)	Cleaning of buildings	5,093	(5,108)	(15)
863	(1,033)	(170)	Markets	911	(1,014)	(103)
371	(408)	(37)	Building Regulations Control	380	(396)	(16)
9,539	(9,292)	247	School Support Services	10,339	(10,323)	16
119	(126)	(7)	Dispersed & Furnished Units	77	(74)	3
43,783	(44,276)	(493)	(Surplus)	42,181	(42,651)	(470)

The net surplus for the year on traded services of £0.470m has not been allocated to specific services within the accounts, but forms part of the Council's Financing and Investment Income and Expenditure as disclosed in Note 5. The net surplus of £0.470m is after crediting £0.188m for IAS19 pension costs (2013/14 £0.757m debit). The Council's traded services include:

Construction, Street Cleansing and Landscaping

Streetpride maintains over 680 miles of highways in a clean and safe condition for pedestrians, motorists, other road users and local communities.

Vehicle Maintenance

Management and policy of the Council's vehicle fleet and ensuring legislative standards are maintained.

Property Services – Fee Billing

Quantity surveyors, project managers, architects, valuers involved in the valuation and construction of new and existing Council buildings.

Engineering

Streetpride provides a design, inspection, assessment service and carries out engineering works to buildings, bridges, structures and highways.

Cleaning of Buildings

Facilities Services provides a cleaning service for schools and other premises owned by RMBC. This service is also utilised by the NHS in certain buildings.

Markets

The Council operates regular markets in Wath and Rotherham town centre.

Building Control

Building Control service begins at preplanning application stage and continues throughout the entire planning and construction process. Ultimately the Council aims to provide a service that will achieve a fast and trouble-free Building Regulation approval and a rapid response inspection process that will assist a project to fully comply with the Building Regulations when complete. From 1st January 2010 a new scheme of Building Regulation charges made under the Building (Local Authority Charges) Regulations 2010 has been adopted by the Council.

School Support Services

School support services provides catering, Information Technology Support, Human Resources support, training facilities and the provision of supply staff to schools, teachers absence in-house insurance scheme and schools finance support team.

Dispersed and Furnished Units

To enable continued funding and improvements of emergency accommodation properties "crash pads". Income from the weekly charge from occupied units is used to contribute to replace fixtures, furniture and furnishings within the temporary units for the homeless.

Note 7 Taxation and Non Specific Grant Income

2013/14 £000		2014/15 £000	Notes
82,607	Council Tax Income	85,931	
32,072	Non Domestic Rates	36,940	
22,921	Business Rates grants	24,391	
97,242	Non Ring-fenced government grants	82,446	8
31,511	Capital Grants and Contributions	23,119	8
266,353	Total	252,827	

Note 8 Analysis of grant income credited to the CIES and capital grant received in advance

The Council receives certain government grants which are not attributable to specific services. The amount of General Revenue Grants Credited to Taxation and Non Specific Grant Income was as follows:

2013/14 £000		2014/15 £000
84,302	Revenue Support Grant	70,112
8,033	PFI Grant	8,033
4,907	Other Non Specific Revenue Grants	4,301
97,242	Total	82,446

Capital Grants Credited to Taxation and Non Specific Grant Income

2013/14 £000		2014/15 £000
15,405	Department for Transport	11,825
509	Environment Agency	145
0	European Regional Development Fund	615
159	Heritage Lottery Fund	0
3,341	Education Funding Agency: LA Maintained Maintenance Grant	1,901
1,116	Education Funding Agency: Basic Need Pupil Places	1,682
690	Education Funding Agency: LA Maintained Devolved Formula	661
2,125	Education Funding Agency: Targeted Basic Need	4,357
3,683	Education Funding Agency: Academies	0
0	Education Funding Agency: Universal Infant Free School Meals	598
723	Department of Health	738
698	Maltby Academy	0
1,124	S106 Contributions	0
132	Diocese of Sheffield	0
1,600	Department for Communities and Local Government	516
206	Other Local Authorities and Partners	81
31,511		23,119

Significant Revenue Grants attributable to specific services and which have therefore been credited to Cost of Services were as follows:

2013/14 £000		2014/15 £000
169,163	Dedicated Schools Grant (Note 16)	142,984
90,548	Housing and Council Tax Benefit: subsidy	89,807
5,882	Sixth Form Funding	3,995
1010	Troubled Families & Troubled Families Co-ordinator	748
9,430	Pupil Premium	10,479
1,992	Housing Benefit and Council Tax Benefit Administration	1,832
773	Social Fund (FFC)	773
4,699	Education Services Grant	3,831
36	Asylum Seekers	0
540	Youth Offending Teams Grant	540
152	NEETS (Not in Employment, Education or Training)	0
483	Rotherham Music Hub	329
969	Adoption Reform Grant	223
640	Adult Community Learning Grants	670
0	Universal Free School Meals	1,559
75	SEN Reform Grant	312
242	Year 7 Catch Up Premium	171
342	Enterprising Neighbourhoods / Future Jobs Fund	0
535	Local Sustainable Transport Fund	526
0	Care Act Implementation	125
0	Helping People Home Grant	120
4,815	Social Care Funding	6,166
2,702	Other NHS Funding	4,003
236	Local Reform & Community Voices Grant	243
59	Adult Social Care Zero Base Review	0
13,790	Public Health Funding	14,176
265	Police and Crime Commission	265
984	Disabled Facilities Grant	453

The Council has received a number of capital grants and contributions 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 funding body if they are not applied for their intended purpose. The balance of capital grant received in advance at the year-end was as follows:

31 Mar 14 £000		31 Mar 15 £000
1,566	Section 106 Developer Contributions	2,839
1,566	Total	2,839

Section 106 Developer Contributions

Section 106 Developer Contributions are monies paid to the Council by developers as a result of the grant of planning permission where works are required to be carried out or new facilities provided as a result of that permission. The sums are restricted to being spent only in accordance with the agreement concluded with the developer.

The major balances of Section 106 receipts held by the Council at the end of the year end are as follows:

Income £000	Expenditure £000	2013/14 £000		Income £000	Expenditure £000	2014/15 £000
(228)	39	451	Culture and Leisure – General Fund	(98)	42	507
(324)	1,268	982	Other – General Fund	(1,583)	366	2,199
0	0	133	HRA	0	0	133
(552)	1,307	1,566	Total	(1,681)	408	2,839

Note 9 Acquired and discontinued operations

The Council did not acquire any new operations in 2014/15.

All of the Council's income and expenditure relates to continuing operations.

Note 10 Agency Services

NHS Funded Nursing Care

The Council administers on behalf of Rotherham Clinical Commissioning Group (CCG) the financial process/procedures relating to the payment of NHS funded nursing fees to nursing care providers, under Health Act flexibilities (section 256 of the NHS Act 2006). The agreement covers the fees for NHS funded nursing care, cost of incontinence products, administration costs and nursing cost of assessments. Any overspend against the approved budget will be recharged by the Council to Rotherham CCG, any underspend will be reimbursed by the Council to Rotherham CCG.

The under spend in the current and previous year were as follows:

2013/14 £000		2014/15 £000
2,003	Gross income	(1,698)
(2,003)	Gross expenditure	1,697
0	(Under) / over spend	(1)

Note 11 Transport Act

Authorities are allowed to operate a road charging or workplace charging scheme under the Transport Act 2000. There is no such scheme in place in Rotherham.

Note 12 Pooled Budgets

The Council, through Adult Social Services, has two pooled budget arrangements with Rotherham Clinical Commissioning Group (CCG) (formerly, NHS Rotherham) to enable joint working under section 75 of the National Health Service Act 2006.

The first is for the provision of Intermediate Care services to provide a range of assessment, interim and nurse-led beds to facilitate earlier discharges from hospital. The Council acts as "host" for this arrangement. The second is the Integrated Community Equipment Service for which the CCG acts as "host".

A third pooled budget arrangement for Learning Disability Services ended in 2013/14. This is because the CCG took over from the Council as lead commissioner for these services.

From 2015/16, the existing pooled budgets will be managed through the Better Care Fund with the Council continuing to act as lead on Intermediate Care and the CCG on the Integrated Community Equipment Service.

The financing of these pooled budget arrangements is as follows:

2013/14 £000	Intermediate Care	2014/15 £000
(1,655)	Funding from Rotherham CCG	(2,075)
(1,095)	Funding from NHS England	(1,095)
(1,238)	RMBC (Adult Social Services) Contribution	(1,311)
(3,988)	Total Gross Income	(4,481)
2,750	NHS Expenditure	2,839
1,238	RMBC Expenditure	1,274
3,988	Total Gross Expenditure	4,113
0	Net (surplus) arising on the pooled budget during the year	(368)
0	RMBC share of the net (surplus) arising on the pooled budget	(184)

2013/14 £000	Learning Disability Services	2014/15 £000
(3,308)	Funding from Rotherham CCG	0
(29,888)	RMBC (Adult Social Services) Contribution	0
(33,196)	Total Gross Income	0
3,308	NHS Expenditure	0
30,020	RMBC Expenditure	0
33,328	Total Gross Expenditure	0
132	Net deficit arising on the pooled budget during the year	0
132	RMBC share of the net deficit arising on the pooled budget	0

2013/14 £000	Integrated Equipment Store	2014/15 £000
(1,227)	Funding from Rotherham CCG	(1,205)
(282)	RMBC (Adult Social Services) Contribution	(282)
(1,509)	Total Gross Income	(1,487)
1,227	NHS Expenditure	1,205
282	RMBC Expenditure	282
1,509	Total Gross Expenditure	1,487
0	Net (surplus) / deficit arising on the pooled budget during the year	0
0	RMBC share of the net (surplus) / deficit arising on the pooled budget	0

Note 13 Members' Allowances

Members' allowances and expenses during the year totalled £1,054,380 excluding Joint Authority allowances (2013/14 £1,121,174 excluding Joint Authority allowances). The employers' pension contributions associated with these allowances was £48,455 (2013/14 £78,617). In the light of the Professor Jay Report on 26 August 2014 and subsequent Corporate Governance Report, Members' allowances and Cabinet Member appointments have been subject to change up to and including the 26 February 2015, when Commissioners were appointed to perform certain functions and oversea actions which the Council would normally carryout. Detailed information about Members' Allowances can be obtained from the Interim Strategic Director of Resources and Transformation, Resources Directorate, Riverside House, Main Street, Rotherham, S60 1AE.

2013/14 £000		2014/15 £000
762	Basic allowance	757
358	Special responsibility allowances	298
1	Travel	0
0	Subsistence	0
1,121	Total Members' Allowances and Expenses	1,055
79	Employer Pension Costs	48
1,200	Total	1,103

Note 14 Staff Remuneration

The Accounts and Audit Regulations 2011 require the disclosure of certain information relating to officers' emoluments. Details of the number of employees who received remuneration of £50,000 or more based on 2014/15 payroll information, expressed in bands of £5,000 is as follows:

2013/14			2014/15	
Officers Total	Teachers Total		Officers Total	Teachers Total
43	37	£50,000 - £54,999	26	30
7	32	£55,000 - £59,999	15	18
5	20	£60,000 - £64,999	5	16
2	9	£65,000 - £69,999	4	6
3	3	£70,000 - £74,999	0	3
1	3	£75,000 - £79,999	1	4
8	2	£80,000 - £84,999	6	2
2	2	£85,000 - £89,999	0	4
0	4	£90,000 - £94,999	0	0
1	0	£95,000 - £99,999	0	0
0	0	£100,000 - £104,999	0	1
0	0	£105,000 - £109,999	0	1
0	0	£110,000 - £114,999	0	0
0	0	£115,000 - £119,999	0	0
0	0	£120,000 - £124,999	0	0
0	0	£125,000 - £129,999	0	0
0	0	£130,000 - £134,999	0	0
0	0	£135,000 - £139,999	0	0
0	0	£140,000 - £144,999	0	0
0	1	£145,000 - £149,999	0	0

The number of higher paid teachers has reduced as Schools convert to Academies or acquire trust status as they are no longer employees of the Council.

The number of employees whose remuneration was £50,000 or more includes a number of staff, who have been given approval to leave the Council under the terms of its Voluntary Severance arrangements (that is Voluntary Early Retirement, Voluntary Redundancy, Phased Retirement and Redeployment) that has resulted in these staff falling into higher banding brackets than would otherwise be the case. In 2014/15, the number of such employees was 5 (2 officers and 3 teachers).

The above table excludes the senior employees whose remuneration for 2013/14 and 2014/15 are shown in the Strategic Leadership Team note overleaf:

Job Title/Employee	Salary 2013/14 £	Additional Payments 2013/14 £	Compensation & Ex-gratia 2013/14 £	Total remuneration excluding employer pension contributions 2013/14 £	Pension employer contribution Refer to Note (viii) 2013/14 £
Strategic Leadership Team (who were Members during all or part of the year):					
Martin Kimber - Chief Executive	159,999.96	0.00	0.00	159,999.96	0.00
Strategic Director of Neighbourhoods and Adults Services - Refer to Note (vi)	113,384.04	0.00	0.00	113,384.04	13,606.07
Strategic Director of Environment and Development Services	113,384.04	0.00	0.00	113,384.04	13,606.07
Strategic Director of Children and Young Peoples Services - Refer to Note (vii)	113,384.04	0.00	0.00	113,384.04	13,606.07
Director of Human Resources	81,098.04	0.00	0.00	81,098.04	9,731.75
Director of Legal and Democratic Services - Refer to Note (i)	81,098.04	2,365.30	0.00	83,463.34	10,015.07
Director of Financial Services - Refer to Note (ii)	81,098.04	2,365.30	0.00	83,463.34	10,015.07
Director of Public Health - Refer to Note (iii)	101,367.25	30,144.13	0.00	131,511.38	17,336.63
Total	844,813.45	34,874.73	0.00	879,688.18	87,916.73

Job Title/Employee	Salary 2014/15 £	Additional Payments 2014/15 £	Compensation & Ex-gratia 2014/15 £	Total remuneration excluding employer pension contributions 2014/15 £	Pension employer contribution Refer to Note (viii) 2014/15 £
Strategic Leadership Team (who were Members during all or part of the year):					
Martin Kimber - Chief Executive - Refer to Notes (iv and vii)	92,978.62	0.00	26,666.66	119,645.28	0.00
Jan Ormondroyd - Interim Chief Executive - Refer to Note (v)	68,596.29	0.00	0.00	68,596.29	0.00
Strategic Director of Neighbourhoods and Adults Services - Refer to Note (vi)	84,714.93	0.00	0.00	84,714.93	10,419.94
Director of Health and Wellbeing - Refer to Note (vi)	22,314.43	0.00	0.00	22,314.43	2,744.67
Strategic Director of Environment and Development Services	112,953.24	0.00	0.00	112,953.24	13,893.25
Strategic Director of Children and Young Peoples Services - Refer to Note (vii)	56,476.62	0.00	40,000.00	96,476.62	6,946.62
Interim Strategic Director of Children and Young Peoples Services - Refer to Note (vii)	36,250.02	0.00	0.00	36,250.02	4,458.75
Director of Safeguarding Children and Families - Refer to Note (vii)	18,897.34	0.00	0.00	18,897.34	2,324.37
Interim Strategic Director of Resources and Transformation - Refer to Note (ii)	33,115.22	0.00	0.00	33,115.22	4,073.17
Director of Financial Services - Refer to Note (ii)	57,179.92	1,427.90	0.00	58,607.82	7,208.76
Director of Human Resources	81,193.82	0.00	0.00	81,193.82	9,986.84
Director of Legal and Democratic Services - Refer to Note (i)	81,186.77	2,027.40	0.00	83,214.17	10,235.34
Director of Public Health - Refer to Note (iii)	68,134.68	20,340.87	0.00	88,475.55	11,902.83
Total	813,991.90	23,796.17	66,666.66	904,454.73	84,194.54

The disclosure for Senior Officers Remuneration includes Senior Officers who are a Member of the Senior Leadership Team and in Statutory and Non-Statutory Chief Officers roles and any other officer whose salary details are required to be disclosed by the Accounts and Audit Regulations 2011, including any other employees whose salary exceeds £150,000.

Notes:

(i) The Director of Legal and Democratic Services receives an additional payment in recompense for fulfilling the statutory role of Monitoring Officer.

(ii) The Director of Financial Services received an additional payment in recompense for fulfilling the statutory role of Section 151 Officer. This ceased on 14 December 2014 when the Director of Financial Services was appointed to the role of Interim Strategic Director of Resources and Transformation with effect from 15 December 2014, which includes recompense for Section 151 responsibilities.

(iii) The additional payments made to the Director of Public Health represent various allowances to which they are contractually entitled under their TUPE transfer from the NHS on 1 April 2013. The Director of Public Health left the Authority on 3 December 2014. The statutory role was filled by the Director of Public Health for Doncaster MBC until 31 March 2015. Details of his remuneration are disclosed in Doncaster MBC's Financial Statement of Accounts.

(iv) The Chief Executive, Martin Kimber, left the Authority on 31 October 2014.

(v) Jan Ormondroyd commenced her employment as Interim Chief Executive with effect from 3 November 2014 and left the Authority on 31 March 2015. The post of Chief Executive is being held vacant following the appointment of the Commissioners on 26 February 2015.

(vi) The Strategic Director of Neighbourhoods and Adults Services left the Authority on 31 December 2014. The Director of Health and Well Being took on responsibility for discharging the statutory role of Director of Adults Social Services with effect from 1 January 2015.

(vii) The Strategic Director of Children and Young People Services left the Authority on 30 September 2014. From 1 October until 31 October the statutory role of Director of Children Services was held by Chief Executive, Martin Kimber. From 1 November until 31 December the Director of Safeguarding Children and Families acted as the Strategic Director of Children and Young Peoples Services, until the appointment of the Interim Strategic Director of Children and Young People Services on 1 January 2015.

(viii) The LGPS Employer Pension contributions disclosed in 2013/14 and 2014/15 are based on the common rate of contribution set by the Actuary of 12 percent and 12.3 percent respectively. Also contained in the disclosure is the former Director of Public Health Employer Pension contributions that are based on the common rate of contribution set by the NHS Actuary of 14 percent.

<u>Commissioners</u>

A team of Commissioners was appointed by the Secretary of State for Communities and Local Government on 26 February 2015 to take over responsibility for discharging the Executive and Licensing functions of the Council. The Commissioners perform certain functions and oversee actions which the Council is to perform but are not employees of the Council. They are instead accountable to the Secretary of State. The team comprises:

Sir Derek Myers (Lead Commissioner)

Stella Manzie CBE (Managing Director Commissioner)

Malcolm Newsam (Children's Social Care Commissioner)

Mary Ney (Supporting Commissioner)

Julie Kenny CBE (Supporting Commissioner)

The Commissioners other than the Managing Director Commissioner are nominated for the period beginning on 26 February 2015 and ending on 31 March 2019 or such earlier time as the Secretary of State for Communities and Local Government determines. The Managing Director Commissioner is nominated for the period beginning on 26 February 2015 and ending on 25 February 2016 or such later time as the Secretary of State determines.

The fees payable by the Council to the Commissioners for discharging their duties has been determined by the Secretary of State for Communities and Local Government. The agreed fees are £800 a day for the Lead Commissioner and £700 a day for other Commissioners except the Managing Director Commissioner. He has determined for the Managing Director Commissioner a fee of £160,000 per annum is to be paid.

(ix) Further disclosure for exit packages

In order to bring about a structured approach to reducing staff numbers to achieve necessary budget savings, the Council has operated a voluntary severance scheme during 2014/15. The table below shows the cost to the Authority of staff who have left under the voluntary scheme, together with other departures and those who have been made compulsorily redundant. These costs include, where appropriate, the full pension strain cost arising from early retirement, for which the Council is required to make an additional payment to the Pensions Authority. It should be noted that whilst the full amount payable has been included, under an agreement with the Pensions Authority, this is settled and charged to revenue over a three year period.

The costs tabulated below are comprised of actual severance payments paid during the year less severance payments already accrued in 2013/14.

In 2013/14, a provision of £0.4m in respect of severance costs associated with the major restructuring of services was made, based on an average estimated cost of departure. It was not possible to ascribe the group of staff to specific cost bandings. No provision for severance costs was made in 2014/15.

These changes are reflected in the total cost of termination benefits shown in Note (x) below.

Exit package cost band (including special payments)	Number of compulsory redundancies		Total number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
Non Schools	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14 £000	2014/15 £000
£0 - £20,000	10	24	197	119	207	143	1,452	909
£20,001 - £40,000	1	0	39	23	40	23	1,091	604
£40,001 - £60,000	0	2	8	5	8	7	409	349
£60,001 - £80,000	0	0	7	5	7	5	491	348
£80,001 - £100,000	0	0	1	2	1	2	91	173
Total	11	26	252	154	263	180	3,534	2383

Exit package cost band (including special payments)	Number of compulsory redundancies		Total number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
Schools	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14 £000	2014/15 £000
£0 - £20,000	6	7	56	63	62	70	403	412
£20,001 - £40,000	1	2	7	2	8	4	224	124
£40,001 - £60,000	0	0	1	1	1	1	50	50
£60,001 - £80,000	0	0	0	1	0	1	0	71
Total	7	9	64	67	71	76	677	657

N.B. The figures on the previous page include 15 settlement agreements entered into to terminate the employment relationship with the School/Council.

(x) Termination Benefits

As part of the rationalisation of Council services during 2014/15, 256 employees (2013/14 334) from across the whole of the Council including schools have been given approval to leave the Council with an exit package (that is, compulsory redundancies, Voluntary Early Retirement, and Voluntary Redundancy etc.).

The liabilities incurred as a result of the early termination of employees both in schools and non-schools in 2014/15 totalled £3.04m (2013/14 £4.2m) - composed of severance payments of £1.93m (2013/14 £3.0m) and £0.37m (2013/14 £0.4m) in pensions strain costs. A further £0.74m of these pension strain costs will be paid over to the South Yorkshire Local Government Pension Scheme in 2015/16 and 2016/17 as they fall due and become chargeable to revenue (2013/14 £0.8m).

Note 15 External Audit Fees

The Authority incurred the following fees relating to external audit and inspection:

2013/14 £000		2014/15 £000
186	Fees payable to KPMG with regard to external audit services carried out by the appointed auditor	186
24	Fees payable to KPMG for the certification of grant claims and returns	16
0	Other - independent Review of South Yorkshire Digital Region	8
210	Total	210

Note 16 Dedicated Schools Grant

The Council receives a specific grant from the Department for Children, Schools and Families – the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget as defined in the School Finance (England) Regulations (2011). The Schools Budget includes a range of educational services provided on an authority (wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Over and under-spends on the two elements are required to be accounted for separately.

Details of the deployment of DSG are as follows:

2013/14				2014/15		
Central Expenditure £000	ISB £000	Total £000		Central Expenditure £000	ISB £000	Total £000
		213,680	Final DSG before Academy recoupment			216,640
		(44,445)	Less Academy figure recouped			(73,914)
		169,235	Total DSG after Academy recoupment			142,726
		1,146	Brought forward from previous year			1
15,797	154,584	170,381	Agreed initial Budgeted Distribution	16,919	125,808	142,727
(72)	0	(72)	In Year Adjustments	258	0	258
15,725	154,584	170,309	Final Budgeted Distribution	17,177	125,808	142,985
(15,724)		(15,724)	Less actual Central expenditure	(18,109)		(18,109)
	(154,584)	(154,584)	Less actual ISB deployed to schools		(123,840)	(123,840)
1	0	1	Carry forward to next year	(932)	1,968	1,036

Note 17 Related Party Transactions

A person or close family member is a related party of the Council if they have the potential to control or significantly influence the Council’s operating or financial decisions or are key management personnel. Close family member is more narrowly defined as a child, spouse or domestic partner, and children and dependants of spouses or domestic partners.

Another body is a related party of the Council if it is a subsidiary, associate or joint venture of the Council or otherwise related, or has the ability to control or significantly influence the Council’s operating or financial decisions.

The potential to control or significantly influence may come about due to member or management representation on other organisations, central government influence, relationships with other public bodies or assisted organisations to whom financial assistance is provided on terms which enable the Council to direct how the other party’s financial and operating policies should be administered and applied. The fact that a voluntary organisation might be economically dependent on the Council does not in itself create a related party relationship.

Disclosure of related party transactions is made when material to either party to the extent that they are not disclosed elsewhere in the accounts.

Joint Ventures and Associates

(i) Digital Region Ltd

Digital Region Ltd (“DRL”) is a joint venture whose members comprise Rotherham Metropolitan Borough Council, Sheffield City Council, Barnsley Metropolitan Borough Council, Doncaster Metropolitan Borough Council and the Secretary of State for Business, Innovation and Skills (BIS) who inherited Yorkshire Forward’s interests on 30 March 2012 following the abolition of the Regional Development Agencies.

The company was set up to manage and procure a high speed broadband network in the South Yorkshire region and to undertake the promotion of the network to the service provider market. Under the original business model, achievement of this objective was dependent on the company generating sufficient revenue sales in the early years of operation. Due to a range of factors, the target level of sales was not achieved. As a consequence, the shareholders took a decision in August 2013 to commence an orderly and managed closure of DRL to enable services to be migrated without interruption of business and to enable the company to meet its debts as they fell due. A funding agreement was signed by all shareholders to ensure that sufficient funds would be made available to meet this objective. This has not involved the shareholders having to provide any additional funding to that already committed. In the Council's case this comprises £2m of capital loans as the Council's contribution towards deployment of the network and up to a further £7.58m of support of which £6.28m is covered by a capitalisation direction received from DCLG in 2011/12. The actual amount advanced to date against the £7.58m up to and including 2014/15 was £5.340m.

In order to achieve a solvent liquidation of the company, the company's balance sheet needs to be restructured. To achieve this aim, the company has agreed with its shareholders that loans will be converted into a new class of C shares. A first tranche of loans was converted on 30 June 2014 and the company is now taking the steps for a second tranche of £12.257m to be converted by 30 June 2015. Thereafter, a liquidator will be appointed to complete the closure of the company.

Following the conversion of loans into share capital, the Council's shareholding in the equity of the company will comprise:

- 10% of the company's 'A' shares and 8.57% of the company's 'B' shares. The share capital of the company comprises 1,500 class A shares of £1 each and 70 class B shares of £1 each. The A shares are non equity shares which determine voting rights. The B shares confer entitlement to profits and losses

- 6,328,988 of the new class of C shares of £1 each

The company's latest available accounts are for the period ended 30 September 2014. These show the company has net liabilities of £10.89m. However, this is before the second loan conversion of £12.257m.

31 Mar 13 £000		30 Sep 14 £000
2,288	Turnover	2,924
(9,954)	Operating (loss) / profit	2,359
(12,702)	(Loss) / profit before taxation	28,692
(12,702)	(Loss) / profit after taxation	28,692
(101,110)	Net Liabilities	(10,891)

A copy of the accounts can be obtained from the company's registered office, the address for which up to 30 June 2015 is: Electric Works, Sheffield Digital Campus, Sheffield S1 2B, and, thereafter is: Benson House, 33 Wellington Street, Leeds, LS1 4JP.

(ii) BDR Property Limited (formerly Arpley Gas Limited)

With effect from 16 March 2008 Arpley Gas Ltd became BDR Property Ltd., a company set up under the Environment Protection Act 1990 by Rotherham, Barnsley and Doncaster Metropolitan Borough Councils and the Waste Recycling Group Ltd. Waste Recycling Group was subsequently acquired by the FCC group in January 2014 with the company's immediate parent being FCC Environment (UK) Limited.

The company was set up for the purpose of carrying out waste disposal work and civic amenity site management. Its principal activity is management of the Thurcroft landfill site. It operates under a management agency agreement with FCC Recycling (UK) Limited.

The share capital of the company is as follows:

Authorised and fully paid up Share Capital £1.850 million

Council's Shareholding:

a) For voting purposes – the Company's shares are divided into 'A' shares and 'B' Shares. The 1,998 'A' shares comprise 20% of the total voting shares. One third of these 'A' shares are held by the Council (666 shares costing £6.66). Barnsley and Doncaster Metropolitan Borough

Councils have similar share holdings, so that collectively the Councils hold 20% of the total voting shares. These are non-equity shares.

b) For dividend purposes – the Council holds 3.5% (63,421 shares) of the company's £1 class 'C' shares – no voting rights are attached to these shares.

c) For winding up purposes – the Council holds 12,500 £1 deferred shares which is one third of the total. These shares are ranked after the other 3 classes of shares (A, B and C) and payment will only be made should funds remain available for distribution after meeting the entitlements of the other groups of shareholders. No voting rights are attached to these shares.

At the time of publication of this Statement, accounts for the company for the year ending 31 December 2013 were available and the details are as follows:

31 Dec 12 £000		31 Dec 13 £000
5	Turnover	125
35	Profit / (Loss) before taxation	37
35	Profit / (Loss) after taxation	37
4,906	Net Assets	4,943

No contributions to running costs were made by Rotherham MBC to BDR Property Limited during the financial year ended 31 March 2015.

(iii) Groundwork Cresswell, Ashfield and Mansfield Trust

Groundwork Cresswell, Ashfield and Mansfield Trust is a charity and a company limited by guarantee. The members of the company, whose liability is limited to £1, are Ashfield District Council, Bassetlaw District Council, Bolsover District Council, Chesterfield Borough Council, Derbyshire County Council, Mansfield District Council, Newark and Sherwood District Council, North East Derbyshire District Council, Nottinghamshire County Council, the Federation of Groundwork Trusts, and Rotherham Metropolitan Borough Council.

The company's principal activities are the promotion of conservation, protection and improvement of the physical and natural environment, to provide facilities in the interests of social welfare and to advance public education.

At the time of publication of this Statement, accounts for the company for the year ending 31 March 2014 were available and the details are as follows:

31 Mar 13 £000		31 Mar 14 £000
2,609	Turnover	2,884
45	Surplus for the year	54
1,158	Net Assets	1,213

Rotherham Metropolitan Borough Council's made no contribution to the company during 2014/15 (2013/14 £300).

During the financial year ended 31 March 2015, Creswell Groundwork Trust provided no services to the Council (2013/14 £2,854) and incurred no charges from the Council (2013/14 nil).

A copy of the accounts of the company may be obtained from Mr TM Witts, 96 Creswell Road, Clowne, Chesterfield S43 4NA.

(iv) Groundwork Dearne Valley Limited

Groundwork Dearne Valley (GDV) is a company limited by guarantee. The members of the company, whose liability is limited to £1, are the Federation of Groundwork Trusts, Barnsley

Metropolitan Borough Council, Doncaster Metropolitan Borough Council and Rotherham Metropolitan Borough Council.

The board comprises of five directors appointed by members, with the Council able to nominate one, and up to six co-opted directors.

The principal activity of the company is to complement the work of the three Local Authority members in carrying out environmental regeneration by involving local residents in the long-term management of their environment, attracting funding in the area to carry out the work, and developing innovative approaches to regeneration. At the time of publication of this Statement, accounts for the company for the year ending 31 March 2014 were available and the details are as follows:

31 Mar 13 £000		31 Mar 14 £000
817	Turnover	423
(187)	Surplus / (Deficit) for the year	71
(672)	Net Assets	(600)

Rotherham Metropolitan Borough Council provided no contribution to the company during 2014/15 (2013/14 nil).

During the financial year ended 31 March 2015, the company provided no services to the Council (2013/14 nil) and incurred no charges from the Council (2013/14 nil).

In 2013/14 GDV spent 7 months to November 2013 in financial administration. The company continued to trade whilst the administrator, BDO LLP, prepared a recovery plan with a view to securing the company's future as a going concern. Following the company's release from administration management of GDV will be carried out by Groundwork Sheffield who continue to work closely with officers of the Groundwork Dearne Valley Board to improve the financial sustainability of GDV.

A copy of the accounts of the company may be obtained from the Borough Secretary, Barnsley MBC Legal Department, Westgate Plaza 1, Barnsley S70 2DR.

(v) Inspire Rotherham Limited

Inspire Rotherham Limited was established as a not for profit social enterprise company to take on responsibility for commissioning a range of innovative literacy services across Rotherham when the Council's contract with Yorkshire Forward for delivering such services ceased in May 2011.

The company is run by a Board of Trustees whose membership includes the Council, Voluntary Action Rotherham, the National Institute for Adult Continuing Education, GROW and the University of Sheffield.

During the period ended 30 September 2014 the company ceased operating and priority elements of its work, assets and research findings were transferred to a new charity established to continue the "Inspire Rotherham" legacy. The Council has no influence over the governance of the new charity.

The final set of accounts for the company provides the following details:

31 Mar 13 £000		30 Sep 14 £000
48	Turnover	117
(27)	Surplus / (Deficit) for the year	(36)
36	Net Assets	0

Rotherham Metropolitan Borough Council's made no contribution to the company during 2014/15 (2013/14 nil).

During the financial year ended 31 March 2015, the company provided no services to the Council to (2013/14 £6,654). Inspire Rotherham incurred no charges from the Council (2013/14 £50).

A copy of the accounts can be obtained from Mrs D Bullivant, Rockingham Professional Development Centre, Roughwood Road, Rotherham, S61 4HY.

(vi) Learners First Schools Partnership Ltd

Learners First Partnership Ltd is a school company limited by guarantee established under sections 11 and 12 of the Education Act 2002 and associated School Companies Regulations 2002 and School Companies (Private Finance Initiative) Regulations 2002. The company was incorporated on 16 August 2012 and commenced trading on 1 September 2012. It is a not for profit company with any surpluses being applied to the furtherance of the objects of the company.

Wickersley School and Sports College's was the sole member of the company for the year ended 31 August 2013. The Council acted as supervising authority for the company until Wickersley school converted to an academy on 1 March 2014.

The company's principal activity is to support school improvement and leadership development. The company's trading performance for the year to 31 August 2014 is summarised in the table below:

As Restated 31 Aug 13 £000		31 Aug 14 £000
592	Turnover	1,491
279	Surplus for the year	358
279	Net Assets	637

At 31 August 2013, the Council held £361,200 of Dedicated Schools Grant which had still to be vired to local authority maintained schools and paid over to the company pending the completion of a review into the adequacy of the arrangements for commissioning and procurement of services from the company. The review was completed and sum released in July 2014, most of which will be used to fund services to Rotherham schools with effect from 1 September 2014.

Devolved DSG funding relating to 2014/15 was paid over to the schools by the Council in January 2015. That element of the funding that relates to services provided to schools over the 5 month period from 1 April 2014 to 31 August 2014 of £290,640 has been recognised in the company's accounts for the year ended 31 August 2014 as a debtor.

A copy of the accounts of the company may be obtained from Wickersley School & Sports College, Bawtry Road, Wickersley, Rotherham S66 1 JL.

(vii) Magna Trust

Magna Trust is a company limited by guarantee. The members of the company are Rotherham MBC, The Stadium Group and Rotherham Chamber of Commerce. Its principal objects are to advance education of science and technology, provide facilities for recreational and other leisure time occupation for the public at large in the interests of social welfare, and, to preserve buildings of historical importance to British industry.

At the time of publication of this Statement, accounts for the company for the year ending 29 March 2014 were available and the details are as follows:

29 Mar 13 £000		29 Mar 14 £000
2,192	Turnover	1,972
(1,257)	(Deficit) for the year	(1,261)
14,242	Net Assets	12,981

During the financial year ended 31 March 2015, the company provided services to the Council to the value of £75,284 (2013/14 £39,906). Magna incurred charges from the Council of £2,815 (2013/14 £11,657).

A loan for £300,000 was issued to the Magna Trust in 2006/07 and of this £190,000 was still outstanding as at 31 March 2015. The Council issued to Magna a short term loan of £250,000 during 2014/15. This was outstanding as at the 31 March 2015. Magna were provided with an additional £100,000 loan facility in January 2015. £75,000 was drawn down in respect of this facility, which was repaid in full in March 2015. In addition, an amount of £78,081 drawn down from the £80,000 facility made available within 2013/14, was also repaid in full in March 2015.

A copy of the accounts can be obtained from Mr J Smith, Magna, Sheffield Road, Templeborough, Rotherham, S60 1DX.

(viii) Ministry of Food Rotherham Limited

Ministry of Food Rotherham Limited is a not for profit social enterprise Company Limited by guarantee incorporated on 1 November 2010. Its principal objectives are to promote and advance the education of health and well-being through healthy diet and eating.

The activities of the Ministry of Food Centre set up in Rotherham in 2008 were transferred to the company with effect from 1 April 2011.

The operations of the company are supported by the Council and NHS Rotherham particularly in the areas of accountancy and procurement. The company temporarily closed its business premises in June 2013. Following refurbishment, business resumed in September 2014 as a partnership between the Council, Zest Health for Life charity and the Jamie Oliver Foundation. As a consequence, the company has now ceased trading. The final set of accounts for the period ended 31 March 2015 provides the following details:

31 Mar 14 £000		31 Mar 15 £000
122	Turnover	13
6	Surplus for the year	0
6	Net Assets	0

The Council provided £3,645 of financial support during 2014/15 (2013/14 £79,634) and recharged £12,696 of staff costs and goods and services purchased by the Council on behalf of the company (2013/14 £112,631). The company did not provide any services to the Council.

A copy of the accounts can be obtained from Voluntary Action Rotherham, The Spectrum, Coke Hill, Rotherham, S60 2HX.

(ix) The Northern College for Residential Adult Education Limited

The Northern College for Residential Adult Education Limited was set up in 1978, by a consortium of local authorities and trade unions to provide long term residential education for adults. The company previously comprised six full members, the local authorities of Barnsley, Doncaster, Rotherham, Sheffield and Leeds, and the trade union UNISON. Bradford City Council and Kirklees MDC were associate members.

The College Company was reconstructed and from 1 April 2001 all members of the Board of Governors of the College constitute the Company. As at 31 July 2014 there were 16 members of which 3 were local authority nominated.

The mission of the company is: ‘To provide outstanding residential and community education for the empowerment and transformation of individuals and communities.’

At the time of publication of this Statement, accounts for the company for the year ending 31 July 2014 were available and the details are as follows:

31 Jul 13 £000		31 Jul 14 £000
5,616	Turnover	5,854
145	Surplus for the year	236
2,050	Net Assets	2,260

Rotherham MBC made no contribution towards the running costs of the company during 2014/15 (2013/14 nil).

During the financial year ended 31 March 2015, the company provided services to the Council of £7,510 (2013/14 £2,078) and incurred no charges from the Council (2013/14 nil).

A copy of the accounts can be obtained from The Principal, The Northern College for Residential Adult Education Limited, Wentworth Castle, Stainborough, Barnsley S75 3ET.

(x) Phoenix Enterprises (Rotherham) Ltd

This company commenced trading on 1 June 1998 and its principal activity is providing “Advice and Guidance to unemployed clients, including specialist support and wage subsidies.” It is a social enterprise, not for profit organisation limited by guarantee.

At the time of publication of this Statement, accounts for the company and its subsidiary undertakings for the year ending 31 March 2014 were available and the details are as follows:

31 Mar 13 £000		31 Mar 14 £000
1,719	Turnover	1,956
(82)	Profit / (Loss) before taxation	60
(83)	Profit / (Loss) after taxation	51
1,491	Net Assets	1,542

Rotherham Borough Council’s grants to and payments for services provided by the company during 2014/15 was £7,500 (2013/14 £11,992), and incurred charges from the Council to the value of £2,492 (2013/14 £3,224).
A copy of the accounts of the company may be obtained from the company at the Head Office, Old Vicarage Lane, All Saints Church Yard, Vicarage Lane, Rotherham, S65 1AA.

Rotherham United Community Sports Trust

Rotherham United Community Sports Trust is a company limited by guarantee governed by a board of trustees in accordance with its Memorandum and Articles of Association dated 11th December 2007. It is registered as a charity with the Charity Commission. The liability of the members is limited to an amount not exceeding £10.

Its principal activities are to promote community participation in healthy recreation, provide and assist in providing facilities for sport and recreation in the interests of social welfare, and, to advance the education of children and young people.

At the time of publication of this Statement, accounts for the company for the year ending 31 August 2014 were available and the details are as follows:

31 Aug 13 £000		31 Aug 14 £000
872	Gross incoming resources for the year	811
11	Net incoming resources for the year	10
283	Net Assets	293

During 2014/15, the Council paid a grant of £1,250 to the trust (2013/14 £2,500) and payments for services provided by the company of £36,943 (2013/14 £37,446) and it incurred charges from the Council to the value of £38,060 (2013/14 £59,050).

A copy of the accounts of the company may be obtained from the company at Mangham House, Mangham Road, Barbot Hall Industrial Estate, Rotherham, S61 4RJ.

(iii) YHGfL Foundation

YHGfL Foundation is a not for profit company limited by guarantee. Its membership comprises Rotherham MBC, Calderdale MBC, Doncaster MBC, East Riding of Yorkshire Council, Kingston upon Hull CC, Kirklees MBC, Leeds CC, North East Lincolnshire Council, North Lincolnshire Council, North Yorkshire County Council, Sheffield CC, Wakefield City MDC. In the summer of 2014, the local authorities members' took a decision to disband the Consortium by April 2015 and work has started in each of the local authorities to enable this to happen.

The company's principal activity is to advance education and learning through the use of information and communications technology for the benefit of schools, teachers and learners in the Yorkshire and Humberside Region.

YHGfL established a new commercial trading arm which commenced trading on 1 January 2014. The purpose of the new trading company is to refocus YHGfL activities on dealing directly with its customer base rather than through its partnerships with the local authority members as their ability to fund YHfGL activity reduces due to budget cuts.

At the time of publication of this Statement, accounts for the company for the year ending 31 March 2014 were available and the details are as follows:

31 Mar 13 £000		31 Mar 14 £000
2,013	Turnover	2,066
36	Profit before taxation	1
29	Profit / (Loss) after taxation	(11)
(347)	Net Liabilities	(274)

Rotherham MBC did not make a direct contribution to the running costs of this company during 2014/15 (2013/14 nil).

During the financial year ended 31 March 2015, the company provided services to the Authority to the value of £85,311 (2013/14 £120,320) and incurred no charges from the Council (2013/14 nil).

A copy of the accounts of the company may be obtained from the company at Normanby Gateway, Normanby Enterprise Park, Lysaghts Way, Scunthorpe, North Lincolnshire, DN15 9YG.

(iv) Yorkshire Purchasing Organisation

The Yorkshire Purchasing Organisation (YPO) was established in 1974 to fulfil the supplies requirements of a number of local authorities. Rotherham was one of thirteen local authority founder members. A further 31 associate members have since joined.

The principal activity of the organisation is to deliver effective, efficient and economical arrangements for the supply of goods, materials and services by securing the best terms for purchasing, storing and distributing items in common use.

In July 2014, the member authorities agreed to form YPO Procurement Holdings Limited, a separate limited company. Its first trading subsidiary, YPO Supplies Ltd, was launched in September 2014 to enable customers outside the public sector to buy goods and services from YPO. The Council, along with the other 12 founder members, acquired a single ordinary share of £1 in YPO Procurement Holdings Limited in August 2014. The Council's shareholding represents a 7.7% interest in the company.

At the time of publication of this Statement, accounts for the YPO for the year ending 31 December 2014 were available and the details are as follows:

As restated 31 Dec 13 £000		31 Dec 14 £000
121,855	Turnover	120,985
7,388	Surplus for the year before dividend	8,385
(8,210)	Dividend declared	(7,879)
(822)	Surplus / (Deficit) for the year	406
23,034	Net Assets	23,905

Rotherham MBC did not make a direct contribution to the running costs of the YPO during 2014/15 (2013/14 nil).

During the year ended 31 December 2014, the Council purchased goods from the YPO to the value of £4.16m (2013/14 £4.339m).

The Council's share of the proposed dividend for the year ended 31 December 2014 is £468,016 (2013/14 £435,945) of which £34,740 is in the form of a redeemable customer loyalty voucher.

A copy of the accounts of the company may be obtained from Unit 41, Industrial Park, Wakefield, WF2 0XE.

Other

The following table discloses material transactions between the Council and other related parties.

2013/14 £	Related Parties	Nature of Transactions	2014/15 £
	Assisted Organisations:		
22,900	Dinnington Resource Centre	Fees	22,208
29,188	Full Life Christian Centre	Grants	44,260
21,788	Get Sorted Academy of Music	Fees	20,850
93,353	Rotherham Advocacy Partnerships	Grants and Fees	118,984
20,294	Rotherham Diversity Forum	Grants and Fees	9,522
3,599	Rotherham Ethnic Minority Alliance Ltd	Fees	29,130
25,732	Tassibee Project	Grants, Fees and Charges	37,976
19,011	United Multicultural Centre Ltd	Fees	18,630
	Member Related:		
448,622	Rotherham and Barnsley Mind	Grants and Fees	398,936
310,108	Rotherham Women's Refuge	Fees	355,674
14,470	Safe At Last	Fees and Charges	0
56,544	Swinton Lock Activity Centre	Grants and Fees	26,217
318,474	Voluntary Action Rotherham	Grants and Fees	258,312
	Officer Related Organisations:		
60,478	GROW	Grants and Fees	125,364
33,198	Kiveton Park Independent Advice	Grants and Fees	29,698
	Other Related Organisations:		
16,443,908	Sheffield City Region Combined Authority	Transport Levy	14,485,261

Note 18 Pensions

The Council participates in three separate pension schemes relating to: Teachers, Local Government employees and staff performing Public Health Functions who transferred to the authority on 1 April

2013. All three schemes require contributions from both the employer and the employee, and provide members with benefits calculated by reference to pay levels and length of service.

(a) Teachers

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pension Agency (TPA). It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. Scheme benefits are underwritten by the Government.

Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employer's contribution rate paid by Local Education Authorities (LEAs). However it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme.

During 2014/15 the Council paid employer's contributions calculated at 14.1% amounting in total to £8.061m (2013/14 £10.16m). Contributions have reduced due to a number of schools converting to academies during 2014/15.

The total of contributions expected to be made to the Teachers' Pension Scheme by the Council in the year to 31 March 2016 is £6.6m.

A new Teacher's Pension Scheme came into effect in April 2015. Most members of the existing scheme transferred to the new scheme on that date but transitional arrangements have been put in place to provide protection to those nearest retirement age. The main features of the new scheme are that it is a career average scheme rather than a final salary scheme and the normal retirement age is now the same as that for the State Pension.

Coupled with the introduction of the new scheme, the Government Actuary's Department (GAD) has carried out an actuarial valuation of the scheme as at 31 March 2012. It shows there to be an overall deficit against the notional fund of £15bn compared to a deficit of £1.8bn at the time of the last actuarial valuation at 31 March 2004.

The GAD has determined that the employers' contribution over the 4 years commencing 2015/16 should be 16.4% (this compares to 14.1% under the existing scheme). The rate of 16.4% comprises 5.6% to recover the projected deficit at 31 March 2015 over a 15 year period and 10.8% to meet the ongoing benefits accrued by members under the new scheme from 1 April 2015 onwards. This has been capped at 10.9% over the years commencing 2015/16. Members will be expected to pay an average contribute of 9.6%. Implementation of the new rate has been deferred until 1 September 2015 in recognition of the fact that schools and other teaching establishments work on an academic and not financial year

(b) Public Health Staff

Under the provisions of the Health and Social Care Act 2012, Public Health functions and the staff performing these duties were transferred from the National Health Service to Local Authorities on 1 April 2013. The majority of staff transferring have the eligibility to continue membership of the National Health Service Pension Scheme (NHSPS).

The NHSPS is an unfunded scheme operated on a "pay as you go" basis which provides defined benefits to its members. The NHS Business service (NHSBS) which administers the scheme uses a notional fund as a basis for calculating the employer's contribution rate paid by Local Authorities. However, it is not possible for the Council to identify its share of the underlying assets and liabilities relating to the and it is therefore accounted for as if it were a defined contribution scheme with the amount charged to revenue being the employer contributions payable in the year. Employee contributions in 2014/15 are tiered from 5% to 14.5% based on salary.

During 2014/15 the Council paid employer's contributions calculated at 14% amounting in total to £0.157m.

A new NHS Pension Scheme came into effect in April 2015, the main features of the new scheme are that it is a career average scheme rather than a final salary scheme and the normal retirement age is now the same as that for the State Pension.

An actuarial valuation of the NHS Pension Scheme was carried out as at 31 March 2012 to replace the previous actuarial valuation at 31 March 2004. The primary purpose of the 2012 actuarial valuation was to set the employer contribution rate payable from April 2015 under the new NHS Pension scheme. This determined that employee contribution rates continue to be tiered from 5% to 14.5% based on salary over the 4 years commencing 2015/16 and employer contributions at 14.3% over the same period. The total of contributions expected to be made to the new NHS Pension Scheme by the Council in the year to 31 March 2016 is £0.177m.

(c) Other Local Government Employees

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits through its participation in the Local Government Pension Scheme, administered by the South Yorkshire Pensions Authority. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments and this needs to be disclosed at the time that employees earn their future entitlement.

The Authority is able to identify a share of the underlying liabilities in the scheme attributable to its own employees and accordingly accounts for post-employment benefits as a defined benefit scheme in accordance with the requirements of IAS19. Consequently, the Authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge the Authority is required to make against Council Tax is based on the cash payable in the year, so the IAS 19 cost of retirement benefits is reversed out through the Movement in Reserves Statement and replaced by the actual contributions payable in the year. The IAS 19 figures provided by the actuary in 2014/15 make allowance for the reduction in liabilities falling on the Council as a result of schools acquiring academy status during the year which are shown as gains / losses on settlements.

During 2014/15 the Council paid employer’s superannuation contributions calculated at 19.5% amounting to £24.023m (2013/14 £22.070m at 17.9%).

Total contributions of £24.0m are expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2016 based on a contribution rate of 20.7%.

The contribution rates take account of changes to the Local Government Pensions Scheme which came into effect from April 2014. The main changes were the introduction of a career average scheme rather than a final salary scheme and a “50:50 Scheme Option” whereby members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution for a period of up to 3 years.

They also reflect the most recent triennial actuarial valuation in March 2013 which the South Yorkshire Pensions Authority, on behalf of its member Authorities, commissioned from the actuary, Mercer Human Resource Consulting Ltd. This showed a worsening of the fund’s position with the overall deficit on the scheme increasing from £1.085 billion at the previous actuarial valuation in 2010 to £1.330 billion in March 2013 (a funding level of 80% of scheme liabilities compared to 79% in 2010).

The funding plan, in accordance with the Funding Strategy Statement (FSS), is to make good the shortfall and achieve a funding level of 100% over a maximum period of 22 years (25 years at 2010 valuation).

With this funding objective in mind, over the course of the 3 years 2014/15 there will be stepped annual increases of 0.3% p.a to bring the normal contribution rate for employers from 12% under the 2010 Triennial Valuation up to 12.9% required under the 2013 Valuation. There will also be stepped increases in the contributions made towards recovering Rotherham’s share of the deficit on the pensions fund over the 22 years from 2014/15. The deficit recovery contribution in 2014/15 amounted to £9.0m and is due to increase to £9.3m in 2015/16 and £10.2m in 2016/17 after taking account of schools converting to Academy status.

The funding position and employers’ contributions will be reviewed again at the next actuarial valuation as at 31 March 2016.

The funding level of the Pensions Fund is subject to a range of potentially material risks. The impact of small changes to key assumptions (inflation, pay awards, life expectancy, discounting of future pension liabilities) is set out in the sensitivity analysis later in this note. In assessing the potential level of liabilities the funds actuary has estimated the weighted average maturity profile of the defined benefit obligation to be 19 years.

The Pensions Authority invests the funds held by the scheme with the aim of achieving a return on these funds to pay the benefits due. If actual investment returns do not in future match the assumptions then the value of the assets will be lower and a funding shortfall could arise. To address this South Yorkshire Pensions Authority has processes in place to monitor investment performance and the actuaries produce an annual review of the fund's performance including a comparison to other local authority funds. The Pension Fund's investment strategy is reviewed alongside each triennial valuation.

In the event that an employer is unable to pay contributions or make good deficits, the Pension Authority's focus is to ensure as far as possible that any liability can be recovered should an employer exit the Pension Fund. Where an authority acts as guarantor for an employer that defaults the authority is responsible for meeting the liability, otherwise it falls on all employers in the Fund in relation to their size. Rotherham Council does not act as guarantor for other employers. Council contractors with access to the LGPS are required to have bonds in place (which are subject to regular review) to cover unpaid liabilities should their business fail before the end of their contract with the Council. In addition, contractors' contributions are subject to smoothing arrangements which are intended to ensure that they are fully funded by the end of the contract period.

An exception to this is regulation 64 of the Local Government Pensions Regulations which require, in some circumstances, that the Council makes Exit Payments in respect of employers leaving the Fund.

Further information in relation to the Local Government Superannuation Scheme can be found in the South Yorkshire Pension Fund Annual Report which is available upon request from the Superannuation Manager, South Yorkshire Joint Secretariat, Regent Street, Barnsley

Transactions relating to Post-employment Benefits

The amounts included in the Comprehensive Income and Expenditure statement in relation to post retirement benefit costs under IAS 19 are shown in the table overleaf. It also shows the adjustment made through the Movement in Reserves Statement to bring the amount charged to the General Fund back to the employer contributions payable to the LGPS during the year.

Total Funded & Unfunded Local Government Pension Scheme 2013/14 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2013/14 £000		Total Funded & Unfunded Local Government Pension Scheme 2014/15 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2014/15 £000
		Net Cost of Services		
(25,969)	0	- Current Service Cost	(19,700)	0
(1,216)	0	- Past Service	(1,231)	0
13,401	0	- Gain / (loss) from settlements	12,251	0
		Financing and Investment Income and Expenditure		
(3,143)	0	- Current Service Cost - Trading Services	(3,110)	0
(15,256)	(846)	- Net Interest Expense	(11,494)	(908)
(32,183)	(846)	Total Post-employment Benefits charged to the Surplus or Deficit on the Provisions of Service	(23,284)	(908)
		Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
		Remeasurement of the net defined benefit liability comprising:		
12,114	(1,038)	- Experience gain / (loss) on liabilities	0	0
26,950	0	- Return on plan assets (excluding the amount included in the net interest expense)	75,938	0
(16,711)	(206)	- Actuarial gains and (losses) arising on changes in demographic assumptions	0	0
93,742	686	- Actuarial gains and (losses) arising on changes to financial assumptions	(184,767)	(1,936)
116,095	(558)	Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	(108,829)	(1,936)
		Movement in Reserves Statement		
7,854	(48)	- Reversal of net charges made to the Surplus or Deficit on the Provision of Services for Post-employment benefits in accordance with the code	(3,257)	(1,468)
		Actual amount charged against General Fund:		
		Balance for pensions in year:		
(24,329)		- Employer's contributions payable to Scheme	(26,541)	
	(1,356)	- Rechargeable Pensions		(1,376)

The Unfunded liabilities represent Compensatory Added Years' benefits which are not a liability of the LGPS and are therefore recharged to the employer. They have been included in the liabilities figure for the purpose of IAS 19 calculations, as unfunded discretionary benefits arrangements.

Net interest expense above includes £0.488m Administrative expenses in relation to investments during 2014/15 (2013/14 £0499m).

In addition to the recognised gains and losses included in the CIES in arriving at the surplus / deficit on services, actuarial loss of £108.829m (£116.095m gains in 2013/14), has been included in other comprehensive income and expenditure in the CIES.

Pension Assets and Liabilities recognised on the Balance Sheet

The amount included in the balance sheet from the authority's obligation in respect of its defined benefit plans is as follows:

	Total Funded & Unfunded Local Government Pension Scheme 31 Mar 14 £000	Total Funded & Unfunded Local Government Pension Scheme 31 Mar 15 £000
Fair Value of Scheme Assets	813,202	915,439
Present value of Funded Liabilities	(1,056,567)	(1,262,908)
Net (under) funding in Funded Plans	(243,365)	(347,469)
Present Value of Unfunded Discretionary Liabilities	(20,863)	(22,331)
	(264,228)	(369,800)
Amount in the Balance sheet:		
Liabilities - funded and unfunded	(1,077,430)	(1,285,239)
Assets - funded and unfunded	813,202	915,439
Net Assets / Liabilities	(264,228)	(369,800)

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

Total Funded & Unfunded Local Government Pension Scheme 2013/14 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2013/14 £000		Total Funded & Unfunded Local Government Pension Scheme 2014/15 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2014/15 £000
760,597	0	Fair Value of Plan Assets at beginning of period	813,202	0
31,791	0	Interest on plan assets	36,374	0
		Remeasurement gain / (loss):		
26,950	0	- The return on plan assets, excluding the amount included in interest expense	75,938	0
(499)	0	- Administrative expenses	(488)	0
(5,094)	0	- Settlements	(5,761)	0
24,329	1,356	- Employer contributions	26,541	1,376
7,700	0	- Member contributions	7,600	0
(32,572)	(1,356)	- Benefits/transfers paid	(37,967)	(1,376)
813,202	0	Fair Value of Scheme Assets at end of period	915,439	0

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Total Funded & Unfunded Local Government Pension Scheme 2013/14 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2013/14 £000		Total Funded & Unfunded Local Government Pension Scheme 2014/15 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2014/15 £000
(1,133,066)	(20,815)	Benefit Obligation at beginning of period	(1,077,430)	(20,863)
(25,969)	0	Current Service Cost	(20,398)	0
(3,143)	0	Trading Services	(2,412)	0
(46,548)	(846)	Interest Cost	(47,380)	(908)
(7,700)	0	Member Contributions	(7,600)	0
		Remeasurement gains and (losses):		
12,114	(1,038)	- Experience gain / (loss)	0	0
(16,711)	(206)	- Actuarial Gain / (loss) arising from changes in demographic assumptions	0	0
93,742	686	- Actuarial Gain / (loss) arising from changes in financial assumptions	(184,767)	(1,936)
(67)	0	- Past Service Cost	(53)	0
(1,149)	0	- (Loss) / gain on Curtailments	(1,178)	0
18,495	0	- Liabilities extinguished on Settlements	18,012	0
32,572	1,356	- Benefits/Transfers paid	37,967	1,376
(1,077,430)	(20,863)	Benefit Obligation at end of period	(1,285,239)	(22,331)

Analysis of the Fair Value of Plan Assets:

	Quoted (Y/N)	Total Funded & Unfunded Local Government Pension Scheme 31 Mar 14 £000	Total Funded & Unfunded Local Government Pension Scheme 31 Mar 15 £000
Cash & cash equivalents:		16,492	14,922
Equity Investments:			
- UK quoted	Y	176,766	176,680
- Overseas quoted	Y	325,305	368,464
Bonds:			
- UK Government fixed	Y	0	7,049
- UK Government indexed	Y	84,630	109,853
- Overseas Government fixed	Y	21,322	23,344
- Overseas other	Y	3,261	5,859
- UK other	Y	50,703	47,145
Property:			
- UK direct	Y	68,126	86,143
-Property Funds	Y	11,698	13,732
Alternatvies:			
- Pooled Investment Vehicles	N	54,899	62,250
		813,202	915,441

The above asset values are at bid value as required by IAS19.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis discounted to present value terms using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rate, salary levels, etc. The Council Fund liabilities have been assessed by Mercer Human Resources Ltd, an independent firm of actuaries, estimates for the Council Fund being based on the latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

Local Government Pension Scheme 2013/14	Discretionary Benefits 2013/14		Local Government Pension Scheme 2014/15	Discretionary Benefits 2014/15
		Mortality assumptions:		
		Longevity at 65 for current pensioners:		
22.9 years	22.9 years	Men	25.3 years	25.3 years
25.5 years	25.5 years	Women	28.4 years	28.4 years
		Longevity at 65 for future pensioners:		
25.2 years	25.2 years	Men (in 20 years time)	23 years	23 years
28.3 years	28.3 years	Women (in 20 years time)	25.6 years	25.6 years
2.4%	2.4%	Rate of CPI inflation	2.4%	2.4%
4.15%	-	Rate of increase in salaries	4.15%	-
2.4%	2.4%	Rate of increase in pensions	2.0%	2.0%
4.5%	4.5%	Rate for discounting scheme liabilities	3.3%	3.3%

Assets in the South Yorkshire Pension Fund are valued at fair value, which in line with the requirement of the Code is principally realisable or bid value for investments, and consist of the following categories, by proportion of the total assets held by the Fund.

Sensitivity Analysis

Significant actuarial assumptions for the determination of the defined obligation are longevity, rate of inflation, expected salary increase and discount rate. The sensitivity analysis below indicates the effect on the defined benefit obligation of changes to these assumptions.

- If there were to be one year increase in the life expectancy for both men and women, the defined benefit obligation would increase by £24.8m if all other assumptions were held constant.

- If the rate of inflation were to be 0.1% higher, the defined benefit obligation would increase by £24.9m if all other assumptions were held constant.

- If the expected salary growth were to be 0.1% higher, the defined benefit obligation would increase by £5.7m if all other assumptions were held constant.

- If the discount rate used to discount future pension liabilities were to be 0.1% higher, the defined benefit obligation would decrease by £24.4m if all other assumptions were held constant.

In reality interrelationships exist between some of these assumptions, especially between discount rate and expected salary increases that both depends to a certain extent on expected inflation rates. The analysis above does not take account of any interdependence between the assumptions.

Note 19 Property, Plant and Equipment

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation								
At 1 Apr 13 as restated	527,969	558,273	59,827	124,645	6,735	27,620	22,191	1,327,260
Additions	25,742	12,451	3,851	3,841	0	21,042	179	67,106
Accumulated Depreciation and Impairment written out to gross cost/valuation	(31,335)	(38,069)	0	0	0	(1,095)	(669)	(71,168)
Revaluation increases/decreases to Revaluation Reserve - as restated	2,166	16,627	0	0	0	0	(3,091)	15,702
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	6,493	8,363	0	0	0	0	(1,187)	13,669
Derecognition - Disposals as restated	(2,606)	(40,672)	(6,621)	0	0	0	(173)	(50,072)
Derecognition - Other	0	0	(149)	0	0	0	0	(149)
Reclassified to/from Held for Sale	0	0	0	0	0	0	(3,737)	(3,737)
Reclassified to/from Investment Properties	0	0	0	0	0	0	1,380	1,380
Other Movements in cost valuation as restated	48	(3,833)	3,820	1,566	81	(8,097)	5,992	(423)
At 31 Mar 14	528,477	513,140	60,728	130,052	6,816	39,470	20,885	1,299,568
Depreciation and Impairment								
At 1 Apr 13 as restated	(30,924)	(81,739)	(22,054)	(26,081)	(6,115)	(640)	(1,920)	(169,473)
Accumulated Depreciation and Impairment written out to gross cost/valuation	31,335	38,069	0	0	0	1,095	669	71,168
Depreciation Charge	(12,919)	(11,296)	(5,088)	(2,972)	(3)	0	(114)	(32,392)
Impairment losses/reversals to Revaluation Reserve	(577)	(2,380)	0	0	0	0	(226)	(3,183)
Impairment losses/reversals to Surplus or Deficit on the Provision of Services - as restated	(24,475)	(9,470)	(3)	(1,494)	(250)	(454)	(744)	(36,890)
Derecognition - Disposals	70	3,446	1,390	0	0	0	3	4,909
Derecognition - Other	0	0	21	0	0	0	0	21
Reclassification to / from Held for Sale	0	0	0	0	0	0	278	278
Other movements in depreciation and impairment - as restated	(1)	367	(55)	0	0	0	(311)	0
At 31 Mar 14	(37,491)	(63,003)	(25,789)	(30,547)	(6,368)	1	(2,365)	(165,562)
Net Book Value								
At 31 Mar 14	490,986	450,137	34,939	99,505	448	39,471	18,520	1,134,006
At 31 Mar 13 as restated	497,045	476,534	37,773	98,564	620	26,980	20,271	1,157,787

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation								
At 1 Apr 14	528,477	513,140	60,728	130,052	6,816	39,470	20,885	1,299,568
Additions	29,113	6,475	4,383	6,477	24	14,272	358	61,102
Accumulated Depreciation and Impairment written out to gross cost/valuation	(37,719)	(10,045)	0	0	0	0	(288)	(48,052)
Revaluation increases/decreases to Revaluation Reserve	1,913	5,882	0	0	8	0	81	7,885
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	8,965	(11,862)	0	0	0	0	(49)	(2,946)
Derecognition - Disposals	(2,899)	(146,299)	(9,342)	0	(48)	0	(3,367)	(161,955)
Derecognition - Other	0	0	0	0	0	0	0	0
Reclassified to/from Held for Sale	0	0	0	0	0	0	(1,342)	(1,342)
Reclassified to/from Investment Properties	0	(46)	0	0	0	(217)	0	(263)
Other Movements in cost valuation	175	11,371	0	17,544	(19)	(30,148)	235	(842)
At 31 Mar 15	528,025	368,616	55,770	154,073	6,781	23,377	16,513	1,153,155
Depreciation and Impairment								
At 1 Apr 14	(37,491)	(63,003)	(25,789)	(30,547)	(6,368)	1	(2,365)	(165,562)
Accumulated Depreciation and Impairment written out to gross cost/valuation	37,719	10,045	0	0	0	0	288	48,052
Depreciation Charge	(12,639)	(7,890)	(4,569)	(3,069)	(3)	0	(63)	(28,233)
Impairment losses/reversals to Revaluation Reserve	(1,121)	(638)	0	0	0	0	(5)	(1,764)
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	(27,546)	(2,194)	0	(28)	(24)	0	(229)	(30,021)
Derecognition - Disposals	104	10,590	2,660	0	0	0	418	13,772
Derecognition - Other	0	0	0	0	0	0	0	0
Reclassification to / from Held for Sale	0	0	0	0	0	0	0	0
Reclassified to/from Investment Properties	0	6	0	0	0	0	0	6
Other movements in depreciation and impairment	(14)	12	0	0	0	0	1	(1)
At 31 Mar 15	(40,989)	(53,070)	(27,699)	(33,644)	(6,395)	1	(1,955)	(163,751)
Net Book Value								
At 31 Mar 15	487,036	315,546	28,071	120,429	386	23,378	14,558	989,404
At 31 Mar 14	490,986	450,137	34,939	99,505	448	39,471	18,520	1,134,006

(a) Carrying Value of PFI Assets

Included within Property, Plant and Equipment are PFI assets with the following carrying value:

2013/14 £000		2014/15 £000
	Cost or Valuation:	
142,875	At 1 April	112,965
(377)	Accumulated Depreciation and Impairment written out to gross cost/valuation	(1,627)
1,256	Additions	1,115
334	Revaluation Increases / (Decreases) taken to Revaluation Reserve	929
1,132	Revaluation Increases / (Decreases) taken to (Surplus) or Deficit on the Provision of Services	(4,908)
(32,255)	Derecognition - Disposals	(36,453)
112,965	Cost or Valuation at 31 March	72,021
	Depreciation & Impairment:	
11,290	At 1 April	11,964
(377)	Adjustments between cost / value & depreciation/impairment	(1,627)
2,827	Depreciation Charge	1,626
0	Depreciation written out on Revaluation Reserve	22
0	Depreciation written out on Revaluation taken to (Surplus) or Deficit on the Provision of Services	67
316	Impairment Losses Recognised in the Revaluation Reserve	2
939	Impairment Losses taken to (Surplus) or Deficit on the Provision of Services	145
(3,031)	Derecognitions - Disposals	(2,713)
11,964	Depreciation and impairment at 31 March	9,486
	Net Book Value	
101,001	At 31 March	62,535

2013/14 £000		2014/15 £000
89,891	Land and buildings	54,419
9,107	Vehicles, Plant, Furniture and Equipment	6,113
2,003	Assets under Construction	2,003
101,001	Total	62,535

The carrying value of PFI Assets has come down by £33.7m due to PFI schools converting to academies.

Effects of change in estimates

There were no material changes in accounting estimates during the financial year.

Valuations

Capital assets are revalued on the basis of a five year rolling programme in accordance with RICS Guidance, and in the case of council dwellings in accordance with revised guidance on housing stock valuations. In 2014/15 the assets were revalued by Jonathan R Marriott BSc(Hons), MRICS, Principal Estates Surveyor, acting as Internal Valuer within the Council's Economic and Development Services. The Statement of Accounting Policies provide further information on revaluation and depreciation policies. The table below provides an analysis between the carrying value of assets carried in the balance sheet at historical cost and those carried in the balance sheet at fair value together with, in the case of the latter, when assets were revalued.

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Carried at historical cost	26,330	36,090	55,770	154,073	6,781	2,864	23,377	305,285
Valued at fair value as at:								
31 Mar 15	501,695	52,241	0	0	0	13,649	0	567,585
31 Mar 14	0	89,044	0	0	0	0	0	89,044
31 Mar 13	0	58,789	0	0	0		0	58,789
31 Mar 12	0	49,884	0	0	0	0	0	49,884
31 Mar 11	0	82,568	0	0	0	0	0	82,568
Total Cost or Valuation	528,025	368,616	55,770	154,073	6,781	16,513	23,377	1,153,155

Downward Revaluations and Impairment

Of the net valuation decrease of £33m charged to the CIES in 2014/15, £31.372m relates to capital expenditure which did not enhance asset carrying values. There has also been a reduction in the value of the Council’s school buildings of £7.566m, this being offset by an increase in other property values of £4.619m.

Capital commitments

At 31 March 2015 the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15. The Council had significant commitments of £1 million or more budgeted to cost £16.674m (£18.985 million at 31 March 2014).

	Cost £m
Neighbourhood and Adult Services:	
Refurbishment of Dwellings	13.506
Children and Young People's Services:	
Eldon Road Primary School	3.168
Total	16.674

The projects above are included in the Council’s Medium Term Capital Programme and appropriate funding has been committed.

Note 20 Investment Property

Income and expenditure from investment property included within Financing and Investment Income and Expenditure (Note 5) was as follows:

2013/14 £000		2014/15 £000
(1,367)	Rental income from investment property	(1,264)
456	Direct operating expenses arising from investment property	432
(911)	Net income	(832)
(239)	Net (surplus) / losses from fair value adjustments	(77)
98	(Profit) /Loss on disposal	(95)
(1,052)	Total included in Finance & Investment Income	(1,004)

The following table summarises the movement in the fair value of investment properties over the year:

2013/14 £000		2014/15 £000
31,098	Balance at 1 April	29,356
6	Subsequent expenditure	4,330
(607)	Disposals	(2,624)
239	Net gain / (loss) from fair value adjustments	77
0	Net gain / (loss) through Revaluation Reserve	31
(1,380)	Transfers (to) / from Property, Plant & Equipment	257
29,356	Balance 31 March	31,427

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

The Council has no major contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

Note 21 Intangible Assets

The Council has purchased software licences that it accounts for as intangible assets, the licences are valued at cost. The Council has no internally generated intangible assets. The software licences have a finite useful life of 3 years during which period they are being amortised using the straight line method.

2013/14 £000		2014/15 £000
	Balance at 1 April:	
2,078	- Gross carrying amount	3,186
(1,438)	- Accumulated amortisation	(1,677)
640	Net carrying amount at 1 April	1,509
	Additions:	
710	- Purchases	1,054
398	- Reclassified from PP&E under Construction	840
(239)	Amortisation	(601)
1,509	Net carrying amount at 31 March	2,802
	Comprising:	
3,186	Gross carrying amounts	5,080
(1,677)	Accumulated amortisation	(2,277)
1,509	Balance at 31 March	2,803

Note 22 Assets Held for Sale

	Assets Held for Sale-Current		Assets Held for Sale-Non-current	
	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000
Balance at 1 April	288	689	0	0
Assets newly classified as held for sale:				
- Property, Plant and Equipment	3,459	1,342	0	0
- Newly Acquired Assets	0	0	0	0
Revaluation (losses)	(25)	(78)	0	0
Assets declassified as held for sale:				
Assets sold	(3,033)	(495)	0	0
Balance at 31 March	689	1,458	0	0

Note 23 Heritage Assets

Nature and scale of heritage assets held by the Council:

Museum Exhibit

The Museum Exhibit collections hold over 90,000 items. Approximately 10% of these are on display at Clifton Park Museum in Rotherham. The remainder are held in off-site locations within the Borough. Access to the collections can be obtained during the main museum opening times. The collections can be divided into the following main categories:

a) Social & Industrial History (around 11,000 items) - Contains objects and ephemera illustrating themes of domestic, personal and community life within the Borough from 1660 to the present day.

b) Archaeology (around 36,000 items) - Includes large collections excavated from the Roman Fort at Templeborough, Roche Abbey and Jesus College (Rotherham).

c) World Cultures (around 300 items) - Consists of objects originating from Africa, Asia, the Americas and Oceania. In 1981 the collection was transferred on loan to Leeds Museum.

d) Numismatics & Philately (over 3,000 items) - Includes items dating from the 4th century BC to the 20th century AD.

e) Fine Art (around 3,000 items) - Consists of oil paintings, water-colours, prints and a good collection of sculpture items.

f) Decorative Art (around 5,500 items) - Predominated by ceramic items including a large collection from Yorkshire potteries, the most significant being items from the Swinton Pottery/Rockingham Works.

g) Natural Sciences (over 30,000 items) – Including botanical and geological specimens from Yorkshire and Great Britain.

These assets are carried at valuation, using the insurance valuation as a proxy for market value or the sale of similar items as a basis, with the exception of the addition in 2012/13 which is currently shown at cost.

Civic Regalia & Plate

The Council's collection of Civic Regalia includes the Mayor and Mayoress' Chain of Office, the Diamond Pendant, the Mace and the Empire Cup. The chains and pendants are held in a safe in the Town Hall until required for civic ceremonies whilst all other items are kept in display cases and can be seen as part of a tour of the building.

These assets are carried at valuation rather than cost, using the insurance valuation as a proxy for market value.

Archives

The Council holds over 900 archive collections in secure, environmentally controlled, strong rooms and a secure, environmentally monitored store at Bailey House. These documents cover the history of the whole of Rotherham Borough from 1328 to the present day. The collection includes local authority materials, maps, plans, title deeds and family records. Access to the documents can be obtained by contacting the Archives and Local Studies Service.

These assets are carried at valuation rather than cost, using the insurance valuation as a proxy for market value.

Historic Buildings

Two historic buildings are in the ownership of the Council: Keppel's Column, a 35.5 metre high free standing Tuscan order column listed grade II, and Catcliffe Glassworks Cone a listed grade I conical structure dating from 1740, the earliest surviving example of its type in Western Europe. These buildings are closed to the public on safety grounds.

These assets are carried at valuation rather than cost, both of them being valued on the 1st April 2012 by by Jonathan R Marriott BSc(Hons), MRICS, Principal Estates Surveyor, acting as Internal Valuer. Both were regarded as having nil value as they are listed building with restrictions on their disposal, which gives them no commercial value.

Council policies for the acquisition, preservation, management and disposal of heritage assets

The Council's policies are contained in the "Collections Management policy" and the "Acquisition and Disposals policy", both of which are available on request from Heritage Services.

Heritage Assets

	Museum Exhibits	Civic Regalia & Plate	Archives	Historic Buildings	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 Apr 13 as restated	4,946	1,746	258	0	6950
31 Mar 14	4948	1746	258	0	6952

	Museum Exhibits	Civic Regalia & Plate	Archives	Historic Buildings	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
1 Apr 14	4,948	1,746	258	0	6,952
Additions	0	0	0	26	26
Impairment Losses/Reversals Recognised in Surplus or Deficit on the Provision of Services	0	0	0	(28)	(28)
Other Movements	0	0	0	2	2
31 Mar 15	4,948	1,746	258	0	6,952

Heritage Asset Values

The table below provides an analysis between the carrying value of assets carried in the balance sheet at historical cost and those carried at fair value.

	Museum Exhibits £000	Civic Regalia & Plate £000	Archives £000	Historic Buildings £000	Total £000
Historic Cost	2	0	0	0	2
Valuation	4,946	1,746	258	0	6,950
Total Value	4,948	1,746	258	0	6,952

Additions

	Museum Exhibits £000	Civic Regalia & Plate £000	Archives £000	Historic Buildings £000	Total £000
2012/13	2	0	0	0	2
2013/14	0	0	0	0	0
2014/15	0	0	0	26	26
Total Value	2	0	0	26	28

It is not practicable to present additions for years prior to 2010/11 as detailed information is not available.

Disposal of Heritage Assets

There have been no Heritage Asset disposals in 2014/15.

Note 24 Financial Instruments – Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term		Short Term	
	31 Mar 14 £000	31 Mar 15 £000	31 Mar 14 £000	31 Mar 15 £000
Financial Liabilities (principal amount)	448,884	446,597	27,280	22,286
Plus Accrued Interest	0	0	4,750	4,407
Plus(+)/Less(-) Other accounting adjustments	0	0	0	0
Financial liabilities at amortised cost	448,884	446,597	32,030	26,693
Financial liabilities at fair value through the I & E	0	0	0	0
Total Borrowings	448,884	446,597	32,030	26,693
Loans and receivables (principal amount)	0	0	19,754	18,674
Plus Accrued Interest	0	0	1	0
Plus(+)/Less(-) Other accounting adjustments	0	0	(6)	(6)
Loans and receivables at amortised cost	0	0	19,749	18,668
Unquoted equity investments at cost	192	190	0	0
Total Investments	192	190	19,749	18,668

No financial instruments have been reclassified during the year. The Council also did not transfer any financial assets which have not been derecognised or retained a continuing involvement in a transferred asset.

Note 25 Financial Instruments – Risk

The Council's activities necessarily expose it to a variety of financial risks. The key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might have to renew a financial instrument on maturity at less advantageous interest rates or terms.
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.
- **Overall Procedures for Managing Risk**

The Council's overall risk management procedures focus on the uncertainties of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice 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 Code of Practice;
- by approving annually in advance prudential 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 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 the Council's annual Council Tax and Budget setting meeting. 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 semi-annually to Members.

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

Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet minimum credit criteria. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Details of the Investment Strategy can be found on the Council's website.

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Council's experience of its customer collection levels, adjusted to reflect current market conditions.

	Amount at	Historical experience of default	Adjustment for market conditions at	Estimated maximum exposure to defaults
	31 Mar 15		31 Mar 15	
	£000	%	%	£000
	(a)	(b)	(c)	(a*c)
Deposits with banks and financial institutions – excluding Icelandic Banks				
AAA rated counterparties	18,570	0.000%	0.000%	0
AA rated counterparties	0	0.030%	0.030%	0
A rated counterparties	0	0.080%	0.080%	0
Bonds	0	0.000%	0.000%	0
Total	18,570			0
Debtors				
Long Term Debtors	10,823	3.945%	3.945%	427
Sundry Debtors	8,678	11.143%	11.143%	967
Council Tax	7,955	26.310%	26.310%	2,093
NNDR	859	27.590%	27.590%	237
Community Charge	43	95.349%	95.349%	41
Housing Benefits	3,491	40.275%	40.275%	1,406
Housing Tenants	6,336	58.933%	58.933%	3,734
Other Short-Term Debtors	24,741	3.791%	3.791%	938
Debtors	62,926			9,843

Except as disclosed later at Note 29 the Council has no exposure to losses from non-performance by any of its counterparties in relation to deposits and bonds.

Whilst the current credit crisis in international markets has raised the overall possibility of default the Council maintains strict credit criteria for investment counterparties. As a result of these high credit criteria, we have maintained historical default rates as a good indicator under these current conditions.

The Council also uses non credit rated institutions (for instance smaller building societies or bank subsidiaries where the parent has a satisfactory rating). In these circumstances these investments would be classified as other counterparties.

The estimated maximum exposure to defaults of £9.843m represents the Council's provision for bad debts as disclosed within the Balance Sheet. In calculating these provisions reference is made to historical collection rates and these rates are applied to the debt raised rather than the percentages shown above.

The Council does not generally allow credit for its sundry debtors, such that all of the balance is past its due date for repayment. The past due amount can be analysed as follows:

31 Mar 14		31 Mar 15
£000		£000
6,875	Less than three months	6,318
333	Three to six months	188
756	Six months to one year	821
1,808	More than one year	1,351
9,772		8,678

Collateral

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2015 was £1.041m (£0.931m as at 31 March 2014).

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 through cash flow management procedures required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the PWLB, which provides access to longer term funds, also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced Budget by 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.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. 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.

Limits on the maturity structure of debt and the limits on investments placed for longer than one year are the key controls used to address this risk. The treasury team address the operational risks within the Council approved parameters by:

- Monitoring the maturity profile of financial liabilities and amending the profile by either new borrowing or rescheduling 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 longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

31 Mar 14 £000		31 Mar 15 £000
32,030	Less than one year	26,693
22,286	Between one and two years	17,292
71,529	Between two and seven years	54,565
50,824	Between seven and fifteen years	50,768
304,245	More than fifteen years	323,973
480,914		473,291

The maturity analysis of financial assets is as follows:

31 Mar 14 £000		31 Mar 15 £000
19,749	Less than one year	18,668
0	Between one and two years	0
0	Between two and three years	0
0	More than three years	0
19,749		18,668

All trade debtors and other payables are due to be paid in less than one year and trade debtors of £8.678m are not shown in the above table. Interest accruals are disclosed as less than one year although associated with both short and long-term financial liabilities and assets.

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 liability 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).

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations. It includes a statement about expectations regarding interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The treasury team 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 long term returns.

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:

2013/14 £000		2014/15 £000
241	Impact on Surplus or Deficit on the Provision of Services	134
0	Increase in Government grant receivable for financing costs	0
117	Share of overall impact debited to the HRA	65
0	Decrease in the fair value of fixed rate investment assets	0
0	Impact on Other Comprehensive Income and Expenditure	0
(64,536)	Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(95,481)

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 Note 27 Fair Value of Assets and Liabilities carried at amortised cost.

Price Risk – The Council does not generally invest in equity shares but does have a number of small shareholdings in its related companies. The Council is therefore not exposed to any significant risks arising from movements in the price of these shares and the shares are not classified as Available-for-Sale.

Foreign Exchange Risk – The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to risk arising from movements in exchange rates.

Note 26 Financial Instruments – Gains/Losses

Gains/Losses charged to the Income and Expenditure Account and the STRGL for the year to 31 March 2015 are as follows:

2013/14		Financial Liabilities	Financial Assets			2014/15
Total		Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Fair value through the CIES	Total
£000		£000	£000	£000	£000	£000
22,848	Interest expense	22,492	0	0	0	22,492
(184)	Impairment (gain)	0	0	0	0	0
0	Premium/discounts	0	0	0	0	0
11,625	Finance Lease Interest	11,438	0	0	0	11,438
34,289	Interest payable and similar Charges	33,930	0	0	0	33,930
(595)	Interest income	0	(707)	0	0	(707)
33,694	Net gain (-) / loss (+) for the year	33,930	(707)	0	0	33,223

Note 27 Financial Instruments – Fair Value of Assets carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are shown in the balance sheet at amortised cost. 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:

- The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date. The fair values for non-PWLB debt have also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments.

- For loans receivable prevailing benchmark market rates have been used to provide the fair value;

- No early payment 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 principal outstanding or the billed amount.

The fair value is calculated as follows:

31 Mar 14			31 Mar 15	
Carrying amount £000	Fair Value £000		Carrying amount £000	Fair Value £000
		Long and Short-term		
285,840	331,253	PWLB debt	257,926	345,757
195,074	196,096	Non-PWLB debt	215,365	282,109
0	0	Temporary	0	0
480,914	527,349	Total Debt	473,291	627,866
62,912	62,912	Trade Creditors	(59,877)	(59,877)
543,826	590,261	Total Financial Liabilities	413,414	567,989
19,749	19,749	Money Market loans less than one year	18,668	18,668
0	0	Money Market loans more than one year	0	0
0	0	Bonds	0	0
192	192	Equity	190	190
10,528	10,528	Long-term Debtors	10,823	10,823
9,772	9,772	Sundry Debtors	8,678	8,678
6,213	6,213	Council Tax	7,955	7,955
1,263	1,263	NNDR	859	859
43	43	Community Charge	43	43
3,231	3,231	Housing Benefits	3,491	3,491
5,314	5,314	Housing Rents	6,336	6,336
		Other Short-Term :		
19,713	19,713	Debtors	24,741	24,741
(9,588)	(9,588)	Bad Debts Provision	(9,843)	(9,843)
66,430	66,430	Total Loans and Receivables	71,941	71,941

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

Note 28 Financial Instruments – Soft Loans and Financial Guarantees

Soft Loans – Loans granted by the Authority at below market rates are accounted for on a fair value basis. This is the present value of all future cash receipts discounted using the prevailing market interest rate for a similar instrument for an organisation with a similar credit rating.

Government Regulations permit the removal of this charge through the Movement in Reserves Statement to the Financial Instruments Adjustment Account. The balance is then amortised from this account over the remaining life of the loans. At 31 March 2015 a £0.003m balance was held within the account.

Financial Guarantees – Under the revised Regulations the Council is required to record in its balance sheet any financial guarantees that it has provided based on the likelihood of the guarantee being called.

The initial recognition of the guarantee is measured at fair value based on the probability of the guarantee being called together with the likely amount payable under the guarantee.

At 31 March 2015 the Council had no material financial guarantees requiring disclosure within the Balance Sheet.

Note 29 Impairment adjustment – Heritable Bank

Early in October 2008, the Icelandic bank Landsbanki collapsed and the UK subsidiary of the bank, Heritable, went into administration. The authority had £1.800m deposited in this institution, with a maturity date and interest rate as follows:

Bank	Date invested	Maturity Date	Amount Invested £m	Interest Rate	Carrying Amount £m	Impairment £m
Heritable	24/09/2008	24/10/2008	1.800	5.95%	0.098	0.006

All monies within the institution has been subject to an administration process. The amounts and timing of payments to depositors such as the authority have been determined by the administrators.

Recognition in the CIES

The total impairment recognised in the Comprehensive Income and Expenditure Statement amounting to £0.006m has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered.

Interest credited to the Comprehensive Income and Expenditure Statement in respect of the investments is as follows:

Bank	Credited 2013/14 £	Received 2013/14 £	Credited 2014/15 £	Received 2014/15 £
Heritable	2,259	638	0	0

Note 30 Long-Term Investments

2013/14 £000		2014/15 £000
0	Icelandic investments	0
	Investments in Associates and Joint Ventures:	
2	Investment in RBT (Connect) Ltd	0
190	Investment in BDR Property Limited (formerly Arpley Gas Ltd)	190
192	Balance at 31 March	190

Note 31 Inventories

2013/14 £000		2014/15 £000
518	Balance at 1 April	794
6,893	Purchases	6,380
(6,590)	Recognised in year as an expense	(6,261)
(27)	Written on / (off) in year	(165)
794	Balance at 31 March	748

Note 32 Construction contracts

The Council has not recognised any significant contract revenue in respect of construction contracts with third parties during the year, and there are no significant construction contracts in progress at 31 March 2015 (Nil 2013/14).

Note 33 Debtors

	Short Term		Long Term	
	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000
Central Government Bodies	8,586	11,855	0	0
Other Local Authorities	684	1,798	0	0
NHS Bodies	3,143	1,924	0	0
Public corporations and trading funds	26	0	0	0
Other Entities and Individuals	23,680	27,110	10,370	10,397
Total	36,119	42,687	10,370	10,397

Note 34 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

Cash and cash equivalents as shown in the statement of cash flows can be reconciled to the related items in the Balance Sheet as follows:

31 Mar 14 £000		31 Mar 15 £000
26,344	Cash and Bank balances	25,916
(38,497)	Bank Overdraft	(36,141)
(12,153)	Total Cash and Cash Equivalents	(10,225)

Note 35 Creditors

	Short Term		Long Term	
	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000
Central Government Bodies	(10,855)	(6,331)	0	0
Other Local Authorities	(3,254)	(912)	0	0
NHS Bodies	(2,554)	(1,583)	0	0
Public corporations and trading funds	0	0	0	0
Other Entities and Individuals	(43,198)	(50,388)	(3,051)	(716)
Total	(59,861)	(59,214)	(3,051)	(716)

Note 36 Provisions

Current Year	Balance as at 01 Apr 14 £000	Increase in provision during year £000	Utilised during year £000	Unused Amounts Reversed £000	Balance as at 31 Mar 15 £000
Insurance Claims	(5,364)	(4,344)	3,679	0	(6,029)
Compensation Payments	(55)	0	8	47	0
Carbon Reduction Commitment	(431)	0	431	0	0
Severance Costs	(288)	0	192	0	(96)
Business Rates Appeals	(3,416)	(2,007)	1,549	0	(3,874)
Vehicle Repairs Costs	(50)	0	0	0	(50)
Other	(7,433)	(96)	3,830	45	(3,654)
Total	(17,037)	(6,447)	9,689	92	(13,703)
Current Provisions	(11,650)	(2,103)	6,010	67	(7,676)
Long Term Provisions	(5,387)	(4,344)	3,679	25	(6,027)
Total	(17,037)	(6,447)	9,689	92	(13,703)

Comparative Year	Balance as at 1 Apr 13 £000	provision during year £000	Utilised during year £000	Amounts Reversed £000	Balance as at 31 Mar 14 £000
Insurance Claims	(5,594)	(3,706)	3,936	0	(5,364)
Compensation Payments	(25)	(30)	0	0	(55)
Carbon Reduction Commitment	(417)	(431)	385	32	(431)
Severance Costs	(70)	(288)	70	0	(288)
Business Rates Appeals	0	(3,416)	0	0	(3,416)
Vehicle Repairs Costs	0	(50)	0	0	(50)
Other	(8,157)	(199)	592	331	(7,433)
Total	(14,263)	(8,120)	4,983	363	(17,037)
Current Provisions	(8,646)	(4,414)	1,047	363	(11,650)
Long Term Provisions	(5,617)	(3,706)	3,936	0	(5,387)
Total	(14,263)	(8,120)	4,983	363	(17,037)

Insurance claims

The Council carried out a complete re-tender of its insurance arrangements in 2013, with new policies commencing 28 February 2013. The liability risk is insured by QBE (via RMP) whilst the property risk is insured by Zurich Municipal. The contracts are for three years with a two year optional extension.

In balancing the cost of insurance against the risk of a liability arising, the Council has elected to meet the policy excess in respect of certain types of claim (Employers Liability and Public Liability) and to co-insure or self-insure itself against other types of claim by operating an Insurance Fund. Details of the different types of claim covered by this arrangement are set out below.

The Council keeps under review the best estimate of the likely liability falling on the Insurance Fund by reference to recent claims history, repudiation rates and other relevant factors and the expert advice of the Council's legal representatives on larger more complex claims.

The provision in this year's accounts covers the estimated residual liability relating to claims settled by Municipal Mutual Insurance (MMI) which, under the terms of MMI's Scheme of Arrangement, can no longer be met in full and therefore require a proportion to be repaid by the local authorities who were members of MMI when it went into solvent liquidation in 1992. This includes the Council.

The Council is currently liaising with its insurers to ascertain the extent to which the Council's insurance policies can be used to meet any liabilities arising from any legal claims that are brought in relation to child sexual exploitation cases.

(a) Employers Liability and Public Liability

Since the demise of Municipal Mutual Insurance (MMI) in 1992, many authorities have been retaining and funding their liability losses, third party, highways third party and employers' liability, up to an agreed threshold per claim. For several years, this remained static at £100,000, however, with effect from 28 February 2015, the Authority now meets the first £250,000 of every settlement. In effect the Insurance Fund meets the majority of settlements determined by the insurers.

(b) Fire

The Fund acts as a co-insurer, up to a stop-loss limit of £350,000 in any one period of insurance.

The Fund bears the first £50,000 of all claims involving education, municipal and housing property.

(c) Motor

All accidental damage to our own vehicles is self-funded. The Fund recoups the cost from user departments/services via a charge per vehicle. There is an excess of £500 on all claims (£1,000 for thefts) which is met initially by the Fund and recharged to owning departments. There is an excess of £500 on all underground plant claims. Third party risks remain with the external insurer.

(d) Council House Fires

The Fund bears all costs to repair fire damage on a full reinstatement basis. Blocks of flats above three storeys remain with the external insurer.

(e) Council Flats – Added Perils

The Fund insures blocks of flats for added perils where one or more flats have been sold under the right to buy arrangements.

(f) ICT Equipment

Where requested, schools ICT equipment is insured on the Fund on an 'All-Risks' basis. Responsibility for insurance of departmental ICT equipment also rests with the Fund.

(g) Other Equipment

Where requested, schools' musical instruments, televisual and video equipment, Youth & Community equipment and office equipment are insured on the Fund on an 'All-Risks' basis. In addition schools can insure many other items if desired.

In addition to the above there are many smaller risks which are self-insured including:

Schools PABX Equipment
'Time on Risk' Cover
The York and Lancaster Exhibition

Severance Costs

Provision is made for the estimated severance costs associated with reductions in staff numbers arising from the restructuring of services when there are detailed formal plans in place, a valid expectation is raised amongst those staff who are affected that the plans will be implemented, significant changes to the plans are unlikely, and, the costs can be identified. The expectation is that the outstanding liability at 31 March 2015 will be settled in 2015/16.

Rating appeals

Under the business rates retention regulations which came into effect on 1 April 2013, an allowance is made for the amount of business rate income it is estimated will have to be refunded to business ratepayers as a result of appeal. The provision represents the Council's share of the overall estimated liability for refunding business ratepayers income recognised up to and including the end of the financial year. The government has directed the Valuation Office to clear the backlog of outstanding appeals by July 2015 and has introduced new regulations which prevent appeals lodged on or after 1 April 2015 being back-dated prior to this date. Accordingly, we anticipate the majority of refunds provided for at 31 March 2015 will be made during 2015/16 and the provision has therefore been classified as a current provision.

Vehicle Repairs Costs

A provision has been made for the estimated cost of repairs which are likely at the end of lease return arrangement for the waste fleet, to ensure vehicles meet the required condition.

Other

Other provisions comprise commercially or politically sensitive items disclosure of which would prejudice the Council's position.

Note 37 Usable Reserves

The Council's usable reserves are summarised in the table below into capital and revenue followed by a brief description of the nature and purpose of each reserve. Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement on Page 14 and Notes 1 and 2.

31 Mar 14 £000		31 Mar 15 £000
	CAPITAL RESERVES	
(18,316)	Capital Receipts Reserve	(23,721)
(5,224)	Major Repairs Reserve	(4,737)
(20,135)	Capital Grants Unapplied Account	(15,773)
	REVENUE RESERVES	
(6,305)	General Fund - Schools	(4,918)
(11,221)	General Fund - Non Schools	(12,365)
(33,436)	Earmarked Reserves	(81,187)
(16,697)	HRA	(20,728)
(3,186)	Earmarked HRA Reserves	0
(114,519)	TOTAL USABLE RESERVES	(163,429)

(a) Capital Receipts Reserve

Income from the disposal of non current assets is credited to the Capital Receipts Reserve. The amount credited in respect of housing capital receipts is reduced by the amount the Council is required to pay over to central government under the national pooling arrangements. The Capital Receipts Reserve can only be applied to finance new capital expenditure, repay debt or meet liabilities under credit arrangements.

(b) Major Repairs Reserve

The Council is required by regulation to establish a Major Repairs Reserve. The main credit to the account comprises the total depreciation charge for all HRA assets. This can only be used to finance new capital expenditure, repay debt or meet liabilities under credit arrangements. The arrangements ensure that subsequent funding of capital expenditure does not affect the Housing Revenue Account.

(c) Capital Grants Unapplied Account

Where a capital grant or contribution (or part thereof) has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Account within usable reserves reflecting its status as a capital resource available to finance future capital expenditure.

(d) General Fund

The General Fund balance represents uncommitted revenue balances held to safeguard the Council against potential financial risks, unforeseen costs and contingencies. The balance to be held is risk assessed annually as part of the budget setting process to ensure a prudent level of resources is retained.

(e) Earmarked Reserves

Details of the earmarked reserves the Council has set aside to meet specific needs or which are ring-fenced to particular services are contained in Note 2.

(f) HRA

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to an authority's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Consequently, the HRA is a statutory account, ringfenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa).

Note 38 Unusable Reserves

The Council's unusable reserves are summarised in the table below into capital and revenue followed by a brief description of the nature and purpose of each reserve and movements thereon during the year.

31 Mar 14 £000		31 Mar 15 £000
	CAPITAL RESERVES	
(320,262)	Capital Adjustment Account	(173,109)
(99,371)	Revaluation Reserve	(76,980)
(104)	Deferred Capital Receipts	(103)
	REVENUE RESERVES	
264,228	Pensions Reserve	369,800
5,209	Short term accumulating absences account	4,890
(71)	Financial instruments adjustment account	(7)
(298)	Collection Fund adjustment account	(3,249)
(150,669)	TOTAL UNUSABLE RESERVES	121,242

(a) Capital Adjustment Account

The Capital Adjustment Account absorbs timing differences arising from the different arrangements for accounting for the consumption of non current assets under normal accounting practices and statutory requirements for financing capital expenditure applicable to local authorities. Hence, it is debited with capital charges (depreciation, impairment, revaluation losses and amortisation) that have been made in the Comprehensive Income and Expenditure statement but which are reversed out as they are not proper charge to revenue for council tax purposes and credited with the amount which is set aside from capital resources or from revenue to finance capital expenditure under the statutory provisions (the accounting policies set out the Council's approach for determining a prudent charge to revenue for debt repayment and PFI liabilities). The Capital Adjustment Account also contains accumulated gains and losses on investment properties and on Property Plant and Equipment before 1 April 2007, the date on which the Revaluation Reserve was created.

2013/14 £000		2014/15 £000
(345,775)	Balance 1 April	(320,262)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
239	Amortisation of Intangible Assets	601
42,013	Charges for depreciation and impairment of non-current assets	47,793
3,764	Revenue expenditure funded from capital under statute	6,188
48,933	Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	151,248
13,395	Depreciation - Major Repairs Reserve	13,321
(1,070)	Write down of Met Debt deferred Liability	(1,177)
	Adjusting amounts written out to Revaluation Reserve:	
(2,995)	Disposal	(27,103)
(1,773)	Excess of current cost depreciation over historic cost depreciation	(1,438)
	Capital Financing Applied in the year:	
(2,332)	Use of Capital Receipts Reserve to finance capital expenditure	(4,613)
0	Use of Capital Receipts Reserve to repay debt	(2,531)
(16,942)	Use of Major Repairs Reserve to finance capital expenditure	(20,392)
	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing:	
(35,426)	Application of grants to capital financing from the Capital Grants Unapplied Account	(30,454)
(12,533)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(9,282)
0	Adjustment to prior years statutory provision for the financing of capital investment charges against the General Fund and HRA Balances	34,783
(9,760)	Capital expenditure charged against the General Fund and HRA balances	(9,792)
(320,262)	TOTAL	(173,110)

(b) <u>Revaluation Reserve</u>

The Revaluation Reserve represents the cumulative unrealised revaluation gains and losses on the Council's Property, Plant and Equipment since the reserve was created on 1 April 2007.

2013/14 £000		2014/15 £000
(91,621)	Balance 1 April	(99,371)
(15,702)	Net revaluation gains/losses not charged to the Surplus /(Deficit) on Provision of Services	(7,915)
3,184	Impairment losses and reversals thereof not charged to the Surplus / (Deficit) on Provision of Services	1,765
(12,518)	Sub total - net revaluation and impairment gains / losses not posted to the Surplus / Deficit on provision of Services	(6,150)
2,995	Accumulated Gains on assets sold or scrapped	27,103
1,773	Excess of fair value depreciation over historic cost depreciation transferred to Capital Adjustment Account	1,438
(99,371)	Balance at 31 March	(76,980)

(c) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve represents amounts due from the sale of non current assets that have still to be realised. Under statutory arrangements, this only becomes available for financing on receipt of cash at which point a transfer is made to the Capital Receipts Reserve. The balance is mainly represented by mortgages on council houses sold to (former) tenants.

.

2013/14 £000		2014/15 £000
(108)	Balance 1 April	(104)
4	Transfer to the Capital Receipts Reserve of cash received	2
(104)	Balance at 31 March	(102)

(d) Movements in Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

At 31 March 2015 the Council held no financial assets classified as available-for-sale.

(e) Pensions Reserve

The Pensions Reserve absorbs timing differences arising from the different arrangements for accounting for post employment benefits under normal accounting practices and statutory requirements for funding benefits applicable to local authorities. The amount recognised as post employment benefits under normal accounting practice reflects the benefits accrued by employees from their reckonable service, and changes to the assumptions about the liabilities that will fall on the scheme when benefits are paid out and the value of scheme assets to cover those liabilities. The amount charged under statutory provision is the amount due to be paid over by the Council as employer contributions under local government pension scheme rules.

The Pensions Reserve represents the Council's share of the underlying assets and liabilities for post-employment benefits attributable to the Council at the balance sheet date. The deficit represents the amount by which benefits earned by past and current employees currently exceeds the resources set aside by the Council to meet them.

Further details of the Authority's participation in the Local Government Pension Scheme (administered by South Yorkshire Pensions Authority) are detailed in Note 18.

2013/14 £000		2014/15 £000
372,469	Balance 1 April	264,228
(116,095)	Remeasurements of the net defined benefit liability/(asset)	108,829
32,183	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	23,284
(24,329)	Employer's pensions contributions and direct payments to pensioners payable in the year	(26,541)
264,228	Balance 31 March	369,800

(f) Short-term Accumulated Absences Account

The Accumulating Absences Accounts absorbs the timing differences arising from the different arrangements for accounting for short term compensated absences under normal accounting practices and statutory requirements for charging such absences applicable to local authorities. Under normal accounting practice, an accrual is made to charge compensated absences, for example, annual leave entitlement not yet paid, in the year in which they are earned. However, under statutory provision, these are charged to revenue in the year in which they are payable. The balance on the Accumulating Absences Account therefore represents the amount of compensated absences earned which will fall as a charge on the General Fund in the future.

2013/14			2014/15	
£000	£000		£000	£000
	6,890	Balance 1 April		5,209
(6,890)		Settlement or cancellation of accrual made at the end of the preceding year	(5,209)	
5,209		Amounts accrued at the end of the current year	4,890	
	(1,681)	Net amount charged to Comprehensive Income and Expenditure Statement in the year reversed out under regulation chargeable to revenue in the future when payments fall due		(318)
	5,209	Balance at 31 March		4,890

(g) Financial Instruments Adjustment Account

This reserve has been created to hold the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with Regulations to be charged to the General Fund Balance.

General Transactions

The Code requires that unless directly attributable to a loan held at 31 March 2007 then all premium and discounts carried on the Balance Sheet at that date are to be written off to the General Fund Balance as at 1 April 2007. Government Regulations allow for the impact to be neutralised through a transfer to the Financial Instruments Adjustment Account. The balance of premium and discounts will be amortised to revenue in line with the provisions set down in the Council's accounting policies.

The Code also requires that where the Council has provided loans at less than market rates then these should be accounted for on a fair value basis. The difference between the fair value and loan amount is accounted for as an immediate charge to the Income and Expenditure Account. Government Regulations allow for the impact to be neutralised through a transfer to the Financial Instruments Adjustment Account. The fair value increases over the period of the loan and the annual impact will be neutralised in the Income and Expenditure Account by the writing down of the balance on the Financial Instruments Adjustment Account.

2013/14		2014/15
£000		£000
(31)	Balance at 1 April	(71)
	Movement in year:	
(41)	Premium and discounts	65
1	Soft Loans	(1)
(71)	Balance carried forward at 31 March	(7)

(h) Collection Fund Adjustment Account

The Collection Fund Adjustment Account absorbs differences between the amount of council tax income recognised under normal accounting practice as it falls due from council tax payers and the amount due to the General Fund and preceptors under statutory provisions. The balance on the

Collection Fund Adjustment Account therefore represents the amount still to be distributed to the General Fund and precepting authorities.

2013/14 NNDR £000	2013/14 CTAX £000	2013/14 Total £000		2014/15 NNDR £000	2014/15 CTAX £000	2014/15 Total £000
0	(3,300)	(3,300)	Balance 1 April	3,788	(4,086)	(298)
3,788	(786)	3,002	Difference between amount receivable in the Comprehensive Income and Expenditure Statement for the year and General Fund balance	(1,075)	(1,876)	(2,951)
3,788	(4,086)	(298)	Balance at 31 March	2,713	(5,962)	(3,249)

Note 39 Cash Flow – Analysis of adjustments to (Surplus) / Deficit on the Provisions of Service

2013/14 £000		2014/15 £000
	Items included in the net surplus or deficit on the provision of services that are investing and financing activities:	
33,676	Capital Grants credited to surplus or deficit on the provison of services	26,092
0	Net adjustment from sale of long term investments	2
7,425	Proceeds from the sale of property plant and equipment, investment property and intangible assets	14,451
41,101		40,545
(595)	Interest received	(707)
34,302	Interest paid	33,930

Note 40 Cash Flow – from Investing Activities

2013/14 £000		2014/15 £000
68,376	Purchase of property, plant and equipment, investment property and intangible assets	66,508
206	Long term loans granted	300
4,336	Purchase of short term investments	(1,081)
(7,429)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(14,453)
(32,631)	Capital Grants and Contributions Received	(26,282)
(278)	Other receipts from investing activities	(315)
32,580	Net cash outflow from Investing Activities	24,677

Note 41 Cash Flow – from Financing Activities

2013/14 £000		2014/15 £000
(719)	Cash receipts of short- and long-term borrowing	(25,771)
1,934	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,820
12,992	Repayments of short- and long-term borrowing	33,051
155	Other payments for financing activities	(775)
14,362	Net cash outflow from Financing Activities	8,325

Note 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 contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2013/14 as restated £000		2014/15 £000
755,036	Opening Capital Financing Requirement Capital Investment	749,450
66,941	Property, Plant and Equipment	61,102
165	Property, Plant and Equipment – Increase in finance lease Liability	0
6	Investment Properties	4,330
(1,095)	Adjustment for Prior Year Abortive Costs	0
710	Intangible Assets	1,054
0	Heritage Asset	26
206	Long Term Debtors (Capital Expenditure Loans)	300
3,741	Revenue Expenditure funded from Capital under Statute	6,188
825,710		822,450
	Sources of finance:	
(2,332)	Capital receipts to finance new capital expenditure	(4,613)
0	Capital receipts to repay debt	(2,531)
(35,426)	Government grants and other contributions	(26,722)
(16,942)	Major Repairs Allowance	(20,392)
	Sums set aside from revenue	
	Direct revenue contributions:	
(1,323)	General Fund	(1,279)
(8,437)	Housing Revenue Account	(8,513)
(9,865)	Minimum Revenue Provision	(9,696)
0	Adjustment to prior years statutory provision for the financing of capital investment charges against the General Fund and HRA Balances	34,783
0	Transfer of Finance Lease Liability to Academy	(53)
(1,935)	Write down of finance lease liability	(1,820)
(76,260)		(40,836)
749,450	Closing Capital Finance Requirement	781,614

2013/14 £000	Explanation of movements in year	2014/15 £000
186	Increase in underlying need to borrowing (supported by government financial assistance)	0
(5,937)	Increase in underlying need to borrowing (unsupported by government financial assistance)	32,164
165	Assets acquired under finance leases	0
(5,586)	Increase/(decrease) in Capital Financing Requirement	32,164

Note 43 Leases

The classification of all types of lease including land is assessed on who has the risks and rewards of ownership as for all other types of lease.

Contingent rents are expensed in the year in which they are incurred.

(a) Finance leases – Council as Lessee

The movements in Finance Lease liabilities during the year are as follows:

	31 Mar 14 £000	31 Mar 15 £000
Finance Lease Liability outstanding at start of year	(29,057)	(29,046)
Principal repaid in year	176	224
Less: Schools converting to Academies Finance Lease Liability written off	0	53
New Liabilities arising in year	(165)	0
Balance outstanding at year end	(29,046)	(28,769)
Short Term Creditors	(224)	(188)
Long Term Liabilities	(28,822)	(28,581)

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 Mar 14 £000	31 Mar 15 £000	31 Mar 14 £000	31 Mar 15 £000
Not later than one year	(2,896)	(2,837)	(224)	(188)
Later than one year and not later than five years	(12,325)	(12,585)	(875)	(847)
Later than five years	(123,654)	(120,497)	(27,947)	(27,734)

The assets acquired under the leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

2013/14 £000		2014/15 £000
29,171	Land and buildings	28,346
308	Vehicles, Plant, Furniture and Equipment	178
29,479	Total	28,524

(b) Operating leases – Council as Lessee

The Council has the right of use over a range of assets by virtue of operating leases that it has entered into. The future minimum lease payments due under these non-cancellable leases in future years are:

2013/14 £000		2014/15 £000
2,100	Within one year	1,496
2,789	Between one year and five years	2,703
5,689	After more than five years	5,558

The expenditure charged to service in 2014/15 in the Comprehensive Income and Expenditure statement in relation to these leases was £2.115m (£3.328m 2013/14).

(c) Finance leases – Council as Lessor

The Council has leased out property to Thurcroft Junior School and land on which the Council's former Civic buildings were situated. The former is being leased out on a peppercorn rent. The minimum leased payments in respect of the latter were received in full as a premia. As a consequence, there is no net investment in finance lease receivable to bring onto the balance sheet.

(d) Operating leases – Council as Lessor

Most of the property and equipment leased out by the Council meets the definition of investment property. The rental income earned from leasing out these investment properties is disclosed in Note 20.

Note 44 Private Finance Initiative and Similar Contracts

As at 31 March 2015 the Council has in place two long-term contracts under Private Finance Initiative (PFI) arrangements and has reached financial close on one other. In addition, it has in place one partnership agreement.

As a result of a change to the way in which PFI Schemes and Similar Contracts were accounted for in 2009/10 on transition to IFRS, assets within the PFI Schemes or Similar Contracts were brought on Balance Sheet. The movement in the carrying value of these assets is disclosed in the Property Plant and Equipment note (Note 19a).

The note below provides a brief description of each scheme and outstanding obligations.

(a) Private Finance Initiatives - Schools PFI

The contract for the provision of 8 primary and 6 secondary schools commenced on 1 April 2004 with an end date of 31 March 2034, and a capital value of £96m. All the schools were completed in line with the original programme. At the expiry of the contract the schools transfer back to the Council for nil consideration, with the exception of 5 PFI schools, 2 primary and 3 secondary schools which converted to academy trusts during 2013/14 and therefore transfer to the individual trusts under 125 lease arrangements with the Council. The agreed government funding is being received and the Authority has established a fund to manage income and expenditure over the rest of the 30 years of these arrangements. Payments during the year totalled £15.138m and are subject to availability and performance-related deductions and contractually agreed inflation adjustments. In the same period the Council received £6,222,509 of PFI grant in support of this project.

(b) Private Finance Initiatives – Sports and Leisure PFI

The Sport and Leisure Facilities Regeneration Programme and Maltby Joint Service Centre PFI involves the construction of 3 new combined swimming pools and dry leisure centres, one stand alone swimming pool and a joint service centre. The contract with DC Projects (Rotherham) Ltd became operational in August 2008 and has a capital value of £38m. The contract expires on 31st October 2041, when all the assets transfer back to the Council for nil consideration. £24.954m of PFI Credits have been awarded to support the scheme. All 5 facilities are operational. Payments during the year totalled £4.588m. In the same period the Council received £1,810,796 of PFI grant in support of this project.

(c) Bereavement Services Partnership - Dignity

The Council signed a partnership agreement with Dignity Funerals Limited in July 2008, who now manage the Borough's bereavement services on the Council's behalf. The contract commenced in August 2008 and operates for a period of 35 years at which point all the Assets revert back to the Council for nil consideration. This is a partnership that will improve the provision of bereavement services to the Rotherham public, with significant investment having taken place on the crematorium facility and the wider East Herringthorpe site.

(d) Waste Management PFI

The Council reached Financial Close on a joint Waste PFI Contract, along with Barnsley and Doncaster Councils, with 3SE (Shanks, Scottish and Southern Energy) on 30 March 2012. The contract will provide residual waste facilities for the 3 boroughs, and is due to become operational in July 2015, when payments will commence. The facility is currently being commissioned. The Councils have been jointly awarded £77.4m PFI credits for this project. The contract will assist the Councils in achieving their overall 50% recycling targets.

(e) Movements in Finance Liabilities

The Table below shows the movements in the Finance Liabilities during 2014/15:

	31 Mar 14 £000	31 Mar 15 £000
Balance outstanding at start of year	(100,282)	(98,524)
Principal repaid in year	1,758	1,596
Finance Lease Liability written off	0	0
Balance outstanding at year end	(98,524)	(96,928)
Short Term Creditors	(1,596)	(1,444)
Long Term Liabilities	(96,928)	(95,484)

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

	Payment for Services £000	Finance Lease Liability £000	Interest £000	Total £000
Not later than one year	10,185	1,444	8,600	20,229
Two to five years	40,307	9,428	34,568	84,303
Six to ten years	58,611	16,060	39,325	113,996
Eleven to Fifteen years	66,962	24,177	34,186	125,325
Sixteen to twenty years	62,338	31,487	25,873	119,698
Twenty one to twenty five years	35,998	8,836	10,718	55,552
Twenty six to thirty years	20,098	5,495	5,414	31,007

Note 45 Capitalised borrowing costs

The Council capitalised £30,038 of borrowing costs during 2014/15 (£13,349 in 2013/14) the capitalisation rate used was 4.69% (4.67% in 2013/14).

Note 46 Contingent Liabilities

Highfields Nursing Home

The owner of Highfields Nursing Home has issued legal proceedings in respect of alleged breach of contract between the Council and the nursing home. The Council denies these allegations and is defending the claim.

Note 47 Contingent Assets

Claims for recovery of tax

Protective VAT claims have been submitted to HMRC to recover VAT on Postal Services, Disabled Facilities Grants, Sports Activities and Off Street Car Parking as well as Landfill Tax and Compound Interest. The quantity and strength of the claims have yet to be determined.

Note 48 Trust Funds

The Council acts as sole trustee for various legacies relating to the provision of educational supplies to specific local schools. Each fund holds investments and may use the interest derived from those investments to fund the purchase of supplies.

Accumulated interest balances and the respective balance sheets are as follows:

	Balance as at 01 Apr 14 £	Income £	Expenditure £	Balance as at 31 Mar 15 £
Treeton Council School War Memorial	660	26	0	686
EJ Butland, Treeton Infants	567	27	0	594
Whiston Two Wars Memorial	384	106	0	490
Total	1,611	160	0	1,771

Trust Funds – Balance Sheet

2013/14 £		2014/15 £
	Assets	
	Investments	
58	- Treeton Council School War Memorial	58
59	- EJ Butland, Treeton Infants	59
233	- Whiston Two Wars Memorial	233
350	Total Investments	350
51	- Debtors	48
1,560	- Cash	1,723
1,961	Total Assets	2,121
	Financed by:	
350	- Fund Balance	350
1,611	- Accumulated Investment Interest	1,771
1,961	Total Equity	2,121

The investments referred to above relate to War Loan Stock.

Note 49 Material items of income and expenditure

This note is used to draw attention to material items of income and expenditure not disclosed separately on the face of the CIES which need to be taken into consideration to gain a full understanding of the Council's financial performance in the year.

MRP

The change in MRP policy to produce a fairer charge to revenue in respect of pre 2007/08 debt has led to £34.783m of MRP that had been charged to revenue over the period 2007/08 to 2014/15 being credited back to revenue. This has then been transferred in full to an MRP Adjustment Reserve at the end of 2014/15 to be released at a future date to meet the higher MRP charges that arise under the revised profile in later years.

Loss on disposal of non current assets

The loss on disposal of non current assets reported in Note 4 includes £141.884m of school property, plant and equipment transferred from the Council's balance sheet as a result of schools converting to an academy.

Note 50 Other Long-term Liabilities

31 Mar 14 £000		31 Mar 15 £000	Notes
(96,928)	PFI Liability	(95,483)	44
(28,822)	Finance Lease Liability	(28,581)	43
(264,228)	Pension Liability	(369,800)	18
(9,991)	Deferred Liabilities	(8,696)	50
(399,968)	Total	(502,560)	

Deferred Liabilities

The Authority has a proportionate share in the interests of the Metropolitan (former South Yorkshire County Council) Debt (Page 102 of this Statement refers). As at 31 March 2015 the deferred liabilities of Rotherham MBC arising out of the Metropolitan Debt Administration amounted to £9,990,829 comprising £1,294,882 maturing within one year and £8,695,947 after that date.

Note 51 Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Interim Strategic Director of Resources and Transformation on 29 June 2015. Events taking place after this date are not reflected in the Financial Statements or Notes.

Where events taking place before this date provided information about conditions existing at 31 March 2015, the figures in the Financial Statements and Notes have been adjusted in all material respects to reflect the impact of this information.

Other Financial Statements and Notes to the Other Financial Statements

Housing Revenue Account (HRA)

The Collection Fund Income and Expenditure Account

Metropolitan Debt Administration

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

The Housing Revenue Account (HRA) shows the economic cost in the year of providing housing services in accordance with generally accepted accounting principles, 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.

2013/14 £000		2014/15 £000	Notes
	Expenditure		
17,130	Repairs and maintenance	17,031	
16,276	Supervision and management	17,785	
210	Rents, rates, taxes and other charges	194	
31,320	Depreciation and impairment of Non Current Assets	31,985	
212	Debt management costs	174	
839	Provision for bad or doubtful debts	903	9
65,987	Total Expenditure	68,072	
	Income		
74,612	Dwelling rents	77,944	
740	Non-dwelling rents	755	
4,893	Charges for services and facilities	4,901	
0	HRA subsidy receivable	0	
80,245	Total Income	83,600	
(14,258)	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	(15,528)	
265	HRA services share of Corporate and Democratic Core	259	
202	HRA share of other amounts included in whole Authority Cost of Services but not allocated to specific services	(13)	
(13,791)	Net Cost of HRA Services	(15,282)	
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(1,015)	Gain on sale of HRA Non Current Assets	(1,709)	
14,312	Interest Payable and similar charges	14,392	10
(71)	Interest receivable	(86)	
579	Pensions interest cost and expected return on pension assets	402	11
(474)	Capital grants and contributions receivable	(154)	
(460)	(Surplus) / Deficit for the year on HRA services	(2,437)	

Movement on the Housing Revenue Account Statement

This statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit or the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

	2013/14			2014/15
£000	£000		£000	£000
	(15,128)	Balance on the HRA at the end of the previous year		(16,697)
(460)		(Surplus) / Deficit for the year on HRA Income and Expenditure Account	(2,437)	
(2,455)		Adjustments between accounting basis and funding basis under statute	(1,594)	
(2,915)		Net increase before transfers to or from reserves	(4,031)	
1,346		Transfers to reserves	0	
	(1,569)	Increase in year on the HRA		(4,031)
	(16,697)	Balance on the HRA at the end of the current year		(20,728)

Notes to the Housing Revenue Account

Note 1 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.

2013/14	Usable Reserves		
	Housing Revenue Account £000	Major Repairs Reserve £000	Movement in Usable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:			
Charges for impairment of non current assets (Council dwellings only)	17,981	0	17,981
Capital grants and contributions applied	(474)	0	(474)
Gain/Loss on disposal on non current assets charged to the Comprehensive Income and Expenditure Statement	(1,015)	0	(1,015)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			
Capital expenditure charged against the General Fund and HRA balances	(8,437)	0	(8,437)
Adjustments primarily involving the Major Repairs Reserve:			
Reversal of Major Repairs Allowance credited to the HRA	(5,894)	5,894	0
HRA Depreciation to the Capital Adjustment Account	0	13,395	13,395
Use of the Major Repairs Reserve to finance new capital expenditure	0	(16,942)	(16,942)
Adjustment primarily involving the Financial Instruments Adjustment Account:			
Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	6	0	6
Adjustments primarily involving the Pensions Reserve:			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	1,221	0	1,221
Employer's pension contributions and direct payments to pensioners payable in the year	(922)	0	(922)
Short-term Accumulated Absences Account	(11)	0	(11)
Total Adjustments	2,455	2,347	4,802

2014/15	Usable Reserves		
	Housing Revenue Account	Major Repairs Reserve	Movement in Usable Reserves
	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:			
Charges for impairment of non current assets (Council dwellings only)	18,581	0	18,581
Capital grants and contributions applied	(154)	0	(154)
Gain/Loss on disposal on non current assets charged to the Comprehensive Income and Expenditure Statement	(1,709)	0	(1,709)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			
Capital expenditure charged against the General Fund and HRA balances	(8,513)	0	(8,513)
Adjustments primarily involving the Major Repairs Reserve:			
Transfer from HRA to Major Repairs Reserve re notional MRA	(6,585)	6,585	0
HRA Depreciation to the Capital Adjustment Account	0	13,321	13,321
Use of the Major Repairs Reserve to finance new capital expenditure	0	(20,392)	(20,392)
Adjustment primarily involving the Financial Instruments Adjustment Account:			
Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	90	0	90
Adjustments primarily involving the Pensions Reserve:			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	814	0	814
Employer's pension contributions and direct payments to pensioners payable in the year	(929)	0	(929)
Short-term Accumulated Absences Account	(1)	0	(1)
Total Adjustments	1,594	(486)	1,108

Note 2 Transfers to or from Earmarked Reserves

2013/14	Balance as at 1 Apr 13	between HRA & GF Earmarked Reserves	Transfers in and Contributions to Reserves	Transfers out and Contributions from Reserves	Balance as at 31 Mar 14
	£000	£000	£000	£000	£000
Furnished Homes	1,840	0	1,346	0	3,186
Total	1,840	0	1,346	0	3,186

2014/15	Balance as at 1 Apr 14	between HRA & GF Earmarked Reserves	Transfers in and Contributions to Reserves	Transfers out and Contributions from Reserves	Balance as at 31 Mar 15
	£000	£000	£000	£000	£000
Furnished Homes	3,186	(3,186)	0	0	0
Total	3,186	(3,186)	0	0	0

The Furnished Homes service provision and the earmarked reserve balance were transferred to the General Fund in 2014/15.

Note 3 Housing Stock at 31 March 2015

	Houses	Flats	Bungalows	Total
1 Bedroom	4	2,781	2,204	4,989
2 Bedroom	1,958	1,915	2,819	6,692
3 Bedroom	8,455	45	307	8,807
4+ Bedroom	265	1	9	275
Total	10,682	4,742	5,339	20,763

Note 4 Housing Stock Valuations

(a) Property, Plant and Equipment

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation						
At 1 Apr 13	527,969	8,142	475	1	4,241	540,828
Additions	25,742	798	0	52	0	26,592
Accumulated Depreciation and Impairment written out to gross cost/valuation	(31,335)	(678)	0	0	(56)	(32,069)
Revaluation increases/decreases to Revaluation Reserve	2,166	847	0	0	(122)	2,891
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	6,493	69	0	0	413	6,975
Derecognition	(2,605)	0	0	0	(174)	(2,779)
Assets reclassified (to) / from Investment Property	0	0	0	0	0	0
Other Movements in cost valuation	47	(46)	0	(1)	0	0
At 31 Mar 14	528,477	9,132	475	52	4,302	542,438
Depreciation and Impairment						
At 1 Apr 13	(30,924)	(676)	0	0	(56)	(31,656)
Accumulated Depreciation written out to gross cost/valuation	12,530	368	0	0	6	12,904
Accumulated Impairment written out to gross cost/valuation - as restated	18,805	310	0	0	50	19,165
Depreciation Charge	(12,919)	(405)	(68)	0	(4)	(13,396)
Impairment losses/reversals to Revaluation Reserve	(577)	(782)	0	0	0	(1,359)
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	(24,474)	(16)	0	0	0	(24,490)
Derecognition - Disposals	70	0	0	0	3	73
Other movements in depreciation and impairment	(1)	1	0	0	0	0
At 31 Mar 14	(37,490)	(1,200)	(68)	0	(1)	(38,759)
Net Book Value						
At 31 Mar 14	490,987	7,932	407	52	4,301	503,679
At 31 March 13 as restated	497,045	7,466	475	1	4,185	509,172

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation						
At 1 Apr 14	528,477	9,132	475	52	4,302	542,438
Additions	29,113	74	12	1,326	0	30,525
Accumulated Depreciation and Impairment written out to gross cost/valuation	(37,719)	(1,708)	0	0	(1)	(39,428)
Revaluation increases/decreases to Revaluation Reserve	1,913	1,491	0	0	5	3,409
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	8,965	(83)	0	0	(14)	8,868
Derecognition - Disposals	(2,899)	0	0	0	0	(2,899)
Assets reclassified (to) / from Investment Property	0	0	0	0	(268)	(268)
Other Movements in cost valuation	175	6,414	0	(1)	0	6,588
At 31 Mar 15	528,025	15,320	487	1,377	4,024	549,233
Depreciation and Impairment						
At 1 Apr 14	(37,490)	(1,200)	(68)	0	(1)	(38,759)
Accumulated Depreciation written out to gross cost/valuation	12,707	910	0	0	1	13,618
Accumulated Impairment written out to gross cost/valuation	25,011	798	0	0	0	25,809
Depreciation Charge	(12,639)	(612)	(68)	0	(2)	(13,321)
Impairment losses/reversals to Revaluation Reserve	(1,121)	(73)	0	0	0	(1,194)
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	(27,546)	(2)	0	0	0	(27,548)
Derecognition - Disposals	104	0	0	0	0	104
Other movements in depreciation and impairment	(14)	(503)	0	0	0	(517)
At 31 Mar 15	(40,988)	(682)	(136)	0	(2)	(41,808)
Net Book Value						
At 31 Mar 15	487,037	14,638	351	1,377	4,023	507,425
At 31 Mar 14	490,987	7,932	407	52	4,301	503,679

Other assets including district boiler houses have been classified as intrinsic to the day to day operation of the housing estates in which they are located and as such have no asset value in their own right. Garage structures are valued based upon capitalised income streams.

Other operational property plant and equipment such as estate shops and area housing offices are held within the General Fund Asset Register.

(b) Vacant possession

	£m
Value as at 1 Apr 14	1,618

The difference between the Balance Sheet valuation of dwellings shown at (a) above and the vacant Possession value reflects the economic cost to Government of providing Council Houses at less than open market rents.

Note 5 Major Repairs Reserve

The Council is required by regulation to establish a Major Repairs Reserve. The main credit to the account comprises the total depreciation charge for all Housing Revenue Account assets. Capital expenditure is then funded from the reserve without being charged to the Housing Revenue Account.

2013/14 £000		2014/15 £000
2,877	Balance as at 1 April	5,224
13,395	Depreciation in the year	13,321
5,894	Transfer to MRR	6,585
(16,942)	Financing of Capital Expenditure	(20,392)
5,224	Balance as at 31 March	4,738

Note 6 Financing of Capital Expenditure

Capital expenditure on Land, Houses and Other Property within the HRA was financed as follows:

	2014/15 £000
Borrowing Need	
Capital Receipts	1,482
Revenue Contributions	8,513
Government Grants / Other Capital Income	130
Major Repairs Reserve	20,392
Total	30,517

During the year total capital receipts of £4.652m were received by the HRA, of which £2.802m was available to support capital expenditure within the Council.

Note 7 Depreciation

A depreciation charge has been included in respect of dwelling houses within the Housing Revenue Account. This charge is based upon the value of the dwelling stock at the 1 April 2014 excluding the value of land. Depreciation has been calculated using the ‘straight line’ method over 30 years.

An additional depreciation charge has been included in the total charged to the Housing Revenue Account in respect of garages. This charge is based upon the value at 1 April 2014 and has been calculated using the ‘straight line’ method over 15 years.

Note 8 Impairment

A net impairment charge of £18.699m has been included in the HRA Income and Expenditure Account (£17.556m in 2013/14). This charge is reflected in the HRA Income and Expenditure Account in arriving at the deficit on the provision of HRA Services but the Council has taken advantage of transitional protection arrangements following the introduction of self – financing which allows the impairment relating to dwellings of £18.581m to be reversed out in determining the movement on the HRA Balance. Under Self-Financing legislation the impairment charges on non-dwellings cannot be reversed out and are a real charge to the HRA.

Note 9 Rent Arrears & Other Provisions for Bad and Doubtful Debts

2013/14 £000	Rent Arrears	2014/15 £000
1,985	Current Tenants	2,678
3,329	Former Tenants	3,658
5,314	As at 31 March	6,336

As at 31 March 2015, the level of rent arrears for current tenants as a proportion of gross rent income was 3.12% (2013/14 2.41%).

2013/14 £000	Bad Debt Provision in respect of rent income	2014/15 £000
2,864	As at 1 April	3,371
595	Increase in Provision	774
(88)	Utilised in year	(411)
3,371	As at 31 March	3,734

Provision has also been made in the accounts for write-offs in respect of tenants' and former tenants' rechargeable repairs are as follows:

2013/14 £000	Bad Debt Provision in respect of the rechargeable repairs	2014/15 £000
494	As at 1 April	583
244	Increase in Provision	130
(155)	Utilised in year	(173)
583	As at 31 March	540

Note 10 Interest Payable and Other Charges

This is the cost of external interest payable together with the cost of debt redemption premium.

Note 11 Contributions to and from the Pensions Reserve

Local authorities are required to account for their pension costs on an IAS 19 basis, but to reverse the impact of IAS 19 based accounting to the Pensions Reserve to ensure that it does not impact on housing rents.

THE COLLECTION FUND

By statute, billing Authorities are required to maintain a separate Collection Fund which shows the level of National Non Domestic Rates (NNDR), Council Tax and the residual Community Charge received by the Authority during the accounting period and the distribution of these funds.

REVENUE ACCOUNT FOR YEAR ENDED 31 MARCH 2015

2013/14				2014/15			
Council Tax £000	Non Domestic Rates £000	Total £000		Council Tax £000	Non Domestic Rates £000	Total £000	Note
96,593		96,593	Council Tax Receivable	100,309		100,309	
	73,172	73,172	National Non-Domestic Rates (excluding write-offs)		73,925	73,925	2
	0	0	Release of creditor re 2012/13 deferrals		402	402	
	(672)	(672)	NNDR Transitional Payments		(668)	(668)	
96,593	**72,500**	**169,093**	**Total Income**	**100,309**	**73,659**	**173,968**	
			Precepts:				
80,408	35,368	115,776	Rotherham Metropolitan Borough Council	82,551	35,669	118,220	
0	36,089	36,089	Central Government	0	35,463	35,463	
9,071		9,071	- South Yorkshire Police and Crime Commissioner	9,327		9,327	
4,058	722	4,780	South Yorkshire Fire & Civil Defence	4,174	719	4,893	
93,537	72,179	165,716		96,052	71,851	167,903	
			Distribution of previous years surplus - Council Tax:				
1,413	0	1,413	Rotherham Metropolitan Borough Council	1,504	(1,532)	(28)	
0	0	0	Central Government	0	(1,501)	(1,501)	
206	0	206	- South Yorkshire Police and Crime Commissioner	270	0	270	
94	0	94	South Yorkshire Fire & Civil Defence Authority	121	(31)	90	
1,713	0	1,713		1,895	(3,064)	(1,169)	
			Charges to Collection Fund:				
224	474	698	Write off of uncollectable amounts	550	1,050	1,600	
274	271	545	Increase in bad debt provision	(227)	(488)	(715)	
0	6,970	6,970	Increase in provision for appeals	0	935	935	
0	310	310	Cost of Collection	0	307	307	
0	116	116	Disregarded amounts	0	152	152	
498	8,141	8,639		323	1,956	2,279	
95,748	**80,320**	**176,068**	**Total amounts charged to the Collection Fund**	**98,270**	**70,743**	**169,013**	
845	(7,820)	(6,975)	Surplus / (Deficit) arising during the year	2,039	2,916	4,955	
			Collection Fund Balance				
845	(7,820)	(6,975)	Surplus / (Deficit) arising during the year	2,039	2,916	4,955	
3,616	0	3,616	Surplus brought forward	4,461	(7,820)	(3,359)	
4,461	(7,820)	(3,359)	Surplus / (Deficit) carried forward	6,500	(4,904)	1,596	5

Notes to the Collection Fund Statement

Note 1 Council Tax

The Council Tax system involves the categorisation of properties into bands (A-H) dependent upon their value. It is a requirement of the Local Government Finance Act 1992 that the basis on which the Council Tax is calculated should be expressed as a ratio of the Band D equivalent. Totals of properties falling into bands other than Band D therefore have to be adjusted to reflect their relationship to this band. The effect of this for 2014/15 is shown below.

Adjustments to the Council Tax base to reflect the estimated collection rate of Council Tax are also set out below:

Band	Number of Band D Equivalents properties	Ratio to Band D	Collection Rate @ 97%
A	24,470	6/9	23,736
B	13,458	7/9	13,054
C	10,923	8/9	10,595
D	7,452	9/9	7,229
E	4,733	11/09	4,591
F	2,115	13/09	2,052
G	966	15/09	937
H	62	18/09	60
	64,179		62,254

Note 2 National Non-Domestic Rates (NNDR) – Business Rates

Business Rates are levied on non-domestic premises at a rate in the pound determined by Central Government which is applied nationally (the national multiplier). The national multiplier in 2014/15 was 48.2 pence in the pound and a small business rating multiplier of 47.1 pence in the pound (47.1 pence and 46.2 pence respectively in 2013/14).

The NNDR income in 2014/15 after allowing for mandatory and discretionary reliefs of £73.925m (2013/14 £73.172m) was based on a total rateable value of £187.5m as at 31 March 2015 (£185.6m as at 31 March 2014).

Note 3 Community Charge

Although the Community Charge system was replaced by the Council Tax on 1 April 1993, the Council continues to account for cash collected in relation to the Community Charges raised in previous years in the Collection Fund.

Note 4 Discounts

The Council does not operate a discount scheme for the early payment of Council Tax.

Note 5 Collection Fund Balance

The balance on the Collection Fund at 31 March 2015 is a surplus of £1.596m (£3.359m deficit 2013/14) and consists of a £4.904m deficit (£7.820m deficit 2013/14) relating to business rates to be recovered from the billing Authority (Rotherham MBC), Central Government and South Yorkshire Fire and Civil Defence Authority, and a £6.500m surplus (£4.461m surplus 2013/14) in relation to Council Tax to be distributed to the billing Authority (Rotherham MBC), South Yorkshire Police and Crime Commissioner and South Yorkshire Fire and Civil Defence Authority as follows:

2013/14 Council Tax £000	2013/14 NNDR £000	2013/14 Total £000		2014/15 Council Tax	2014/15 NNDR	2014/15 Total £000
4,086	(3,832)	254	Billing Authority – Rotherham MBC	5,962	(2,403)	3,559
0	(3,910)	(3,910)	Central Government	0	(2,452)	(2,452)
			Major Precepting Authorities:			
259	0	259	- South Yorkshire Police and Crime Commissioner	372	0	372
116	(78)	38	- South Yorkshire Fire and Civil Defence Authority	166	(49)	117
4,461	(7,820)	(3,359)	Total	6,500	(4,904)	1,596

Note 6 Parish Precepts

Precept demands are issued by the parishes on the Council as Billing Authority. In turn the Council issues a precept on the Collection Fund for the year inclusive of the parish precepts payable. The payment of the parish precepts appears as a charge in the Comprehensive Income and Expenditure Account (see Note 4 Other Operating Expenditure).

METROPOLITAN DEBT ADMINISTRATION

The Council became responsible for the administration of the former South Yorkshire County Council Debt from 1 April 1986. The following statements account for the administration of the Metropolitan Debt.

2013/14 £000	Capital Account	2014/15 £000
(23,069)	Cash at bank 1 April	(29,658)
(58)	Transfer (from) Financial Instruments Adjustments Account	(35)
0	Adjustment to loans outstanding for interest accruals	0
0	Add: Expenditure in the year – Loans repaid	0
(23,127)		(29,693)
	Less Income:	
0	Loans raised	0
6,531	Repayments by Relevant Authorities	7,184
(29,658)	Cash at bank 31 March	(36,877)

2013/14 £000	Revenue Account	2014/15 £000
5,692	Interest Paid on Outstanding Loans	5,692
73	Management and other expenses	50
5,765		5,742
	Less Income:	
121	Notional Interest	152
5,644		5,590
5,644	Recharge to Relevant Authorities	5,590
0		0

2013/14 £000	Balance Sheet as at 31 March	2014/15 £000
	Capital Liabilities	
97,956	Loans Outstanding	97,956
(29,658)	Cash at bank	(36,877)
68,298		61,079
	Capital Assets	
68,157	Advances Outstanding	60,973
	Reserves	
141	Financial Instruments Adjustments Account (FIAA)	106
68,298		61,079

Note 1 Financial Instruments – Balances

The borrowings disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term		Short Term	
	31 Mar 14 £000	31 Mar 15 £000	31 Mar 14 £000	31 Mar 15 £000
Financial liabilities (principal amount) - PWLB	96,121	86,709	0	9,412
Financial liabilities at amortised cost - PWLB	96,121	86,709	1,835	11,247
Loans and receivables (principal amount)	0	0	0	0
Loans and receivables at amortised cost	0	0	0	0

Note 2 Financial Instruments – Maturity Analysis

The maturity analysis of financial liabilities is as follows:

31 Mar 14 £000		31 Mar 15 £000
1,835	Less than one year	11,247
9,412	Between one and two years	10,000
86,709	Between two and seven years	76,709
0	Between seven and nine years	0
97,956		97,956

Note 3 Financial Instruments – Fair Values

The fair values of the financial instruments are as follows:

31 Mar 14			31 Mar 15	
Carrying amount £000	Fair Value £000		Carrying amount £000	Fair Value £000
97,956	113,043	Financial Liabilities – Debt	97,956	111,755
0	0	Loans and Receivables	0	0

The fair value for financial liabilities is greater than the carrying value because the 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.

Note 4 Financial Instruments Adjustment Account

This reserve has been opened to hold the accumulated difference between the financing costs included in the Revenue Account and the accumulated financing costs required in accordance with regulations to be charged to the Metropolitan Debt Administration Account.

The SORP requires that unless directly attributable to a loan held at 31 March 2007 then all premiums and discounts carried on the Balance Sheet at that date are to be written off as at 1 April 2007. Government regulations allow for this impact to be neutralised through transfer to a new account, the Financial Instruments Adjustment Account. The balance of premium and discounts is amortised to the Revenue Account in line with the provisions set down in the Council's accounting policies.

2013/14 £000		2014/15 £000
199	Balance at 1 April	141
	Movement in year	
(58)	Premium and discounts	(35)
141	Balance carried forward at 31 March	106

Note 5 Authorised Limit and Operational Boundary

The Council’s operational boundary for external debt for the year was £96.121m and its Authorised Limit for External Debt, the statutory limit determined under section 3(i) of the Local Government Act 2003, was £96.121m.

Accounting Policies

A) Statement of Accounting Policies

B) Accounting Standards issued but not yet adopted

C) Critical Judgements in applying Accounting Policies

D) Assumptions made about the future and other major sources of estimation

A Statement of Accounting Concepts and Policies

1 General

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2014/15 ("the Code") and the Service Reporting Code of Practice 2014/15 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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.

The International Accounting Standards Board Framework sets out the concepts that underlie the preparation and presentation of financial statements. The Framework requires that in presenting information in its financial statements regard is had to:

The objective of financial statements which is to provide information about the Council's financial performance, financial position and cash flows that is useful to a wide range of stakeholders in assessing the Council's stewardship of its resources

The underlying assumptions that financial performance is reported on an accruals basis and the financial statements are prepared on a going concern basis

The qualitative characteristics of useful information are observed by ensuring that it is relevant, material, and faithfully represented (ie is complete, unbiased and properly determined in accordance with the Code, SeRCOP, the Council's accounting policies and by using appropriate estimation techniques)

In addition to being relevant, material and faithfully represented, the quality of information has been enhanced wherever possible by making it:

- Comparable with previous periods and with other authorities accounts;
- Verifiable;
- Timely; and
- Understandable to stakeholders and other users of the accounts having a reasonable knowledge of the business and economic activities of the Council.

The accounting policies are the principle bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the financial statements. Consistent policies will be applied both within the year and between years. Where policies have changed the reason and effect is disclosed. The policies are presented to the Council's Audit Committee for approval.

2 Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied unless the Code specifies that the change should be applied prospectively.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change.

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

The Code has adopted several amendments to accounting standards relating to group accounts:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements (as amended in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)

The Code has provided clarification on the principles to be applied to accounting for local authority maintained schools in the light of these amendments.

The Code has also provided further clarification on Offsetting Financial assets and Financial Liabilities under IAS 32 Financial Instruments.

None of the amendments has had any impact on the Council's financial position. In particular, the changes to accounting for local authority schools and group accounts has not led to any change to the way in which local authority maintained schools are reported in the Council's accounts.

The financial impact of changing the profiling of MRP relating to pre 2007/08 debt to a fairer basis which reflects the useful economic life of the assets financed by pre 2007/08 debt and the time value of money has been explained in section 2.2 of the Explanatory Foreword.

Two substantial new accounting standards are being adopted in the next two years: IFRS 13 Fair Value measurement in 2015/16 and measuring highways infrastructure assets in accordance with the CIPFA Code of Practice on Transport Infrastructure Assets in 2016/17. Further detail is provided in Note B on Page 124.

3 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made.

- Interest payable on borrowings (other than that capitalised on qualifying assets) and receivable on investments is accounted for 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 there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Where the Council acts as an agent for another party, income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

4 Overheads and Support Services

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

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation, and

- Non Distributed Costs – the pension cost of past service and any depreciation and impairment losses chargeable on surplus assets in Property, Plant and Equipment.

Corporate and Democratic Core and Non Distributed costs are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

5 Debtors

Debtors are recognised when the Council has delivered or tendered a supply of goods or services. They are usually recognised and measured at fair value when revenue has been recognised, except for a financial asset where they form part of the asset's carrying value (see accounting policy note 22). Amounts paid in advance of the receipt of goods/services are recognised as a prepayment.

6 Creditors

Creditors are recognised when the Council receives a supply of goods or services. They are recognised and measured at fair value of the consideration payable except for a financial liability where they form part of the liability's carrying value (see accounting policy note 22). If consideration is received but the revenue does not meet the revenue recognition criteria, a receipt in advance is recognised.

7 Tax Income (Council Tax, Residual Community Charge, National Non-Domestic Rates and Rates)

Council Tax

Council tax collection is an agency arrangement. Income shown within the Comprehensive Income & Expenditure Statement is the Council's share of the year's accrued income. The difference between this and the amount transferred to the General Fund under statute (representing the demand on the Collection Fund for the year together with the Council's share of the previous year's surplus or deficit which is distributed or recovered) is taken to the Collection Fund Adjustment Account. Debtors are shown exclusive of the proportions attributable to major preceptors.

National Non-Domestic Rates (NNDR)

NNDR collection is an agency arrangement. Business rate income within the Comprehensive Income & Expenditure Statement is the Council's share of the accrued business rate income for the year. The difference between this and the amount transferred to the General Fund under statute (representing the Council's share of the estimated business rate income for the year together with the Council's share of the previous year's surplus or deficit which is distributed or recovered) is taken to the Collection Fund Adjustment Account. The central share (after allowable deductions) of business rate income is paid out of the Collection Fund to central government. Growth in business rate income in an Enterprise Zone area, business rate income from renewable energy schemes and from businesses in New deal areas is wholly attributable to the Council and transferred in full to the General Fund on an accruals basis. Debtors are shown exclusive of the proportions attributable to major preceptors.

Residual Community Charge

Income adjustments are included within the Collection Fund; they are borne entirely by the Council and are excluded from the Collection Fund surplus/deficit.

8 Inventories

Inventories are measured at the lower of cost and net realisable value except where acquired through a non-exchange transaction when cost is assumed to be equal to fair value at acquisition date.

Inventories are measured at the lower of cost and current replacement cost where held for distribution at no charge or for a nominal charge.

The cost attributed to identify inventory is assigned using the first-in, first-out (FIFO) basis.

9 Work in Progress (Construction Contracts)

Where the Council acts as a contractor, if the outcome of a construction contract can be estimated reliably, the percentage of completion method is used to recognise revenue and expenses. Contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and surplus/deficit which can be attributed to the proportion of work completed.

If the outcome cannot be estimated reliably revenue is recognised only to the extent it is probable costs will be recoverable, and costs are recognised as an expense in the period incurred. When the uncertainties no longer exist, revenue and expenses are recognised using the percentage of completion method.

Should it become apparent that total costs will exceed total revenue the expected deficit on the contract is immediately expensed.

10 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

11 Provisions, Contingent Liabilities and Contingent Assets

Provisions

A provision is recognised when:

- there is a present obligation (legal/constructive) as a result of a past event
- it is probable a resource outflow will be required to settle the obligation, and
- a reliable estimate of the amount can be made.

For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and 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 each reporting date and adjusted to reflect current best estimates. 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.

If some or all of the expenditure required to settle a provision is expected to be reimbursed (e.g. an insurance claim), this is recognised when it is virtually certain that if the obligation is settled reimbursement will be received. The reimbursement is treated as an asset but the amount recognised does not exceed the amount of the provision.

(a) Equal Pay

The Council has made a provision for the costs of settling claims for back pay arising from payments incurred before the Council implemented its equal pay strategy. The impact has been neutralised within the revenue account by capitalising the cost following the receipt of a Government capitalisation directive.

Contingent Liability

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

A contingent liability is not recognised in the financial statements but disclosed as a note to the accounts. If it becomes probable that a resource outflow will be required for an item previously dealt with as a contingent liability, a provision is recognised.

Contingent Asset

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

A contingent asset is not recognised in the financial statements but disclosed as a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential. If it has become virtually certain an inflow will arise and the asset's value can be measured reliably, a debtor and related revenue are recognised.

12 Reserves

The Council sets aside specific amounts as usable 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/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 unusable reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in the sections relating to the relevant policies.

13 Government and Non-Government Grants

Government grants and third-party contributions, including donated assets are recognised as due when there is reasonable assurance that;

- the Council will comply with the conditions attached to them

- the grants and contributions will be received

Where conditions of grant remain outstanding which could give rise to grant being repaid, grant is carried in the balance sheet as grant received in advance.

Conditions are stipulations that give the grant funder or donor the right to the return of their monies if it is not used for the purpose specified.

Revenue grants or contributions are credited to the relevant service line within net cost of services if specific or to Taxation and Non-Specific Grant Income if general or non ring-fenced.

Capital grants are credited to Taxation and Non-Specific Grant Income as general grant, but then reversed out of the General Fund Balance in the Movement in Reserves Statement. Where capital grant has been recognised but has yet to be used to finance capital expenditure, it is credited to the Capital Grants Unapplied Account within reserves. Capital grant that has been used for financing purposes is transferred to the Capital Adjustment Account.

14 Non-current Assets – 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 and creation of or which add to Property, Plant & Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. 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, removing or restoring an asset where the Council has an obligation to do so and is required to make provision for these costs

Borrowing Costs - The Council has adopted a policy under IAS 23 'Borrowing Costs' to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. In implementing a policy of capitalisation of borrowing costs the Council has determined what it sees as a qualifying asset and what the borrowing costs are that are to be capitalised.

- Qualifying Assets – Assets that take a substantial period of time to get ready for their intended use or sale, where this would cause a significant balance of borrowing costs to accrue.
- Borrowing costs – Where the Council borrows to specifically fund a scheme the amount that is capitalised is the actual cost of borrowing less investment income. Where funds are borrowed generally a capitalisation rate is used based on the weighted average of borrowing costs during the period.

The Council only capitalises borrowing costs when in addition to the above it becomes probable that the capital expenditure will result in future economic benefits or service potential to the Council; and that the borrowing costs can be measured reliably.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

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

- infrastructure, 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 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 is used as an estimate of fair value.

Depreciated historical cost is used as a proxy for fair value for relatively short life assets such as vehicles, plant and equipment.

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. In support of this the Council carries out an annual review of its assets for impairment. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains unless they reverse a previous revaluation or impairment loss in which case they are credited to the relevant service line within net cost of services.

Where decreases in value are identified, the revaluation loss is 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.

Impairment of Assets

At the end of each reporting period an assessment takes place 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.

Disposals

The carrying amount of an item is derecognised:

- on disposal through, for example, sale, donation granting of a finance lease or transfer, or

- when no future economic benefits or service potential are expected from its use or disposal as a result, for example, of it being abandoned, scrapped or decommissioned.

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. Depreciation is not charged on Assets Held for Sale.

Assets held solely for capital appreciation purposes are reclassified as investment properties.

Non operational property, plant and equipment which do not meet the criteria for reclassification as either Assets Held for Sale or investment properties are held within property, plant and equipment as surplus assets. Surplus assets are carried in the balance sheet at their existing use value and revalued immediately prior to disposal if the current carrying value is materially different in order that the proper gain or loss on disposal can be determined.

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 Council’s underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of Non Current 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.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives, the depreciable amount being an asset’s depreciated historic cost or fair value at the start of the financial year. No depreciation is charged in the year in which an asset is first made ready for use. A charge is made in the year in which an asset is derecognised or classified as held for sale. 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 Council's valuer (Council dwellings 30 Years or now notional Major Repairs Allowance (MRA) if notional MRA reasonably reflects the annual cost of maintaining property in its current condition over a thirty-year period, other buildings and non operational properties up to 100 years)

- vehicles – a reducing balance method over the useful life of the asset, as advised by a suitably qualified officer (Up to 10 years)

- infrastructure – straight-line allocation over 40 years

- plant, equipment and computers – straight-line allocation over the useful life of the asset as advised by a suitably qualified officer (plant and equipment up to 15 years and computers/office equipment up to 10 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 are depreciated separately. Componentisation is being introduced with effect from 1 April 2010 as assets are acquired, enhanced, replaced or revalued.

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.

15 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 Non Current 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 Non Current Assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. This is known as the minimum revenue provision and the policy is detailed below. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Following the introduction of self-financing, with effect from 2012/13, depreciation, revaluation and impairment losses represent a "real" charge to the HRA to be met by rent payers. However, the Council has taken advantage of the transitional protection offered to housing authorities over a five year period to 2016/17, to reverse out impairment and revaluation losses relating to council dwellings and to cap the amount of depreciation charged on council dwellings at the notional Major Repairs Allowance included within the HRA Business Plan for that year.

Minimum Revenue Provision (MRP)

Prudent provision (MRP) is made annually for the repayment of debt relating to capital expenditure financed by borrowing or credit arrangements. The amount charged is determined having regard to the relevant statutory requirements and related guidance on MRP issued by DCLG.

16 Leases and Lease-Type Arrangements

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.

(a) Finance Leases – Council as Lessee

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

- a charge for the acquisition of the interest in the asset – 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)

The apportionment is done in such a way as to produce a constant rate of interest on the outstanding liability in each period over the lease term

An asset recognised under a finance lease 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.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses arising on leased assets. Instead, a minimum revenue provision is made towards the deemed capital investment in accordance with statutory requirements and the Council's policy for determining MRP. Depreciation, revaluation and impairment losses are therefore replaced by the revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

(b) Operating Leases – Council as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting 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.

(a) Finance Leases – Council as Lessor

Where the Council grants a finance lease over an asset, 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 is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- an amount to write down the net investment in the lease including 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 will be 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 paid, the element for the charge for the acquisition of the interest in the property is used to write down the lease asset. 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 Non Current Assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated from the Capital Adjustment Account to the General Fund Balance in the Movement in Reserves Statement.

(b) Operating Leases – Council as Lessor

Where the Council grants an operating lease over an asset, 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. 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.

17 PFI and PPP Arrangements

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

PFI assets are initially recognised at their fair value when they are first made available for use (based on the cost to purchase the property, plant and equipment) balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Initial direct costs of the Council are added to the carrying amount of the asset. Any upfront contributions made by the authority to the PFI operator, either in the form of a cash lump sum or transfer of property that will not be used to provide services under the arrangement, are applied to write-down the PFI liability at the contribution’s value agreed in the operator’s financial model when the PFI asset is first made available for use.

PFI assets under construction are recognised on the balance sheet where the terms and conditions of the contractual obligation are such that the economic benefit of the asset flows to the Council at that time, similar to an asset that an authority constructs or develops for its own use.

PFI assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement

- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- payment towards liability – applied to write down the Balance Sheet liability due to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)

- lifecycle replacement costs – are accounted for as they are incurred. Where the profile of lifecycle expenditure actually incurred by the PFI operator differs significantly from the projected profile included within the PFI model adjustments are made to account for the difference. A prepayment is recognised where planned expenditure paid for through the unitary payment exceeds the actual amount incurred by the PFI operator. An additional liability is recognised where planned expenditure is less than that actually incurred. The prepayment / additional liability is carried forward in the balance sheet until the expenditure is actually incurred / settled, or , in the case of a prepayment when there is no longer an expectation that it will eventually be incurred by the PFI operator at which point it is charged to revenue. Lifecycle replacement costs which represent the refurbishment or replacement of major components are capitalised as Property, Plant and Equipment in accordance with Accounting Policy 14.

18 Investment Properties

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 and expenditure incurred in relation to investment properties are credited/charged to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

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.

19 Intangible Assets

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

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

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. 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 and 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.

20 Revenue Expenditure Funded from Capital under Statute

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

21 Heritage Assets

Heritage assets are assets whose principal purpose is to contribute to knowledge and culture and which are preserved in trust for future generations because of their artistic, cultural, environmental, historical, scientific or technological associations. They are recognised on balance sheet at cost or value. Where they are carried at value, the most appropriate and relevant valuation method is used including, for example, insurance values. Revaluations are carried out as and when necessary in order to keep carrying values current (there is no requirement for them to be revalued at least every 5 years). .

Operational heritage assets (i.e. those that, in addition to being held for their heritage characteristics, are used for other activities or services) are accounted for as operational assets.

Depreciation is not provided on heritage assets where they have indefinite lives.

Revaluation gains and losses and impairments of heritage assets are accounted for in exactly the same way as for Property, Plant and Equipment.

22 Financial Instruments

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.

(a) Loans and Receivables

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

Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

When the Council makes loans at less than market rates (soft loans) a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain 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.

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 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/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

(b) Available-for-Sale Assets

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

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

- instruments with quoted market prices – the market price

- other instruments with fixed and determinable payments – discounted cash flow analysis

- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus/Deficit on Revaluation of Available-for –Sale Financial Assets line in the Comprehensive Income and Expenditure Statement. 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/loss for the asset accumulated in the 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/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/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)

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and 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.

The amount of interest charged to the HRA is determined on a fair and equitable share basis by reference to the HRA's Capital Financing Requirement.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The 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.

Instruments Entered Into Before 1 April 2006

Where the Council has entered into financial guarantees that are not required to be accounted for as financial instruments they 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.

23 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account via the Movement in Reserves Statement.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis at the earlier of when the Council can no longer withdraw an offer of those benefits or when the Council recognises the cost of restructuring. .

Redundancy payments are charged to the relevant service line in the Comprehensive Income and Expenditure Statement.

Pension strain costs are charged to Non Distributed Costs in accordance with statutory provisions which require that the General Fund be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

Post Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education
- The Local Government Pensions Scheme, administered by South Yorkshire Pensions Authority

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

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Children's and Education Service line in the Comprehensive Income and Expenditure Statements is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year.

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

- The liabilities of the South Yorkshire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. 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, using a discount rate based on the indicative rate of return on high quality corporate bonds. In determining these liabilities, an assumption has been made on the advice of our actuaries that 50% of employees retiring will take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension

- The assets of the South Yorkshire pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

- The change in the net pensions liability is analysed into the following components:

- current service cost – the increase in liabilities as 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 as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- net interest – interest receivable on the fair value of plan assets held at the start of the period adjusted for changes in plan assets during the year as a result of contributions and benefit payments less the interest payable on pension liabilities both determined using the discount rate based on high quality corporate bonds used to measure the defined benefit obligation at the beginning of the period – debited/credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- remeasurements - return on plan assets (net of admin expenses and excluding amounts included in net interest) and actuarial gains/losses that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions debited/credited to the Pensions reserve as Other Comprehensive Income and Expenditure

- contributions paid to the South Yorkshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

24 Repayment of Debt – Metropolitan Debt

Principal repayments are based on a 10% Sinking Fund using a methodology prescribed in Statutory Instrument 1986 No. 437 and will be extinguished by 2020/21.

25 Value Added Tax (VAT)

VAT payable is included only to the extent that it is irrecoverable from HM Revenue & Customs, whilst VAT receivable is excluded from income. The net amount due from/to HMRC at the end of the financial year is included within debtors or creditors.

26 Events after the Reporting Period

Events after the reporting period 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 the Interim Strategic Director of Resources and Transformation authorises the Accounts for issue are not reflected in the Statement of Accounts.

27 Exceptional Items

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

28 Interests in Companies and Other Entities

Where the Council exercises control, shares control or exerts a significant influence over another entity, and the Council's interests are material in aggregate, it will prepare Group Accounts. The Council's interest in another entity can be contractual or non contractual, and may be evidenced by, but is not limited to, the holding of equity or debt instruments in the entity as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees.

The Council has control over another entity, where it is able to direct the activities of that entity such that it is has exposure to or rights over variable returns and can use its power over the entity to effect the returns it receives.

Shared control with another party or parties in a joint venture arises where decisions about activities that significantly affect returns require the unanimous consent of the parties sharing control including the Council.

The Council can exert a significant influence over an associate where the Council has the power to participate in the financial and operating policy decisions of an entity which fall short of control or joint control.

The Council's single entity financial statements include the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools within the control of the Council..

Where local authority maintained schools convert to academies during the year, the assets, liabilities and reserves of the school are deconsolidated from the Council's single entity accounts at their carrying amount at the date of conversion unless the school has a deficit for which the Council retains responsibility. The Non Current Assets of the school are derecognised when the Council relinquishes control over school premises which it had held as a local authority maintained school through ownership, legally enforceable rights or some other means.

Interests in companies and other entities are recorded in the Council's balance sheet as financial assets at cost, less any provision for losses.

29 Acquisitions and discontinued operations

Transfers of functions to or from other public sector bodies are accounted for with effect from the date of transfer. Assets and liabilities are transferred at their carrying value at the date of transfer unless otherwise agreed and the balance sheet restated to reflect the value of assets brought onto or removed from the balance sheet. The financial effect of functions transferred, to or from the Council are disclosed separately in the current year as "transferred in" or "transferred out" operations. The financial effect of functions transferred to another public sector body are disclosed separately in the comparative year to enable the performance of continuing operations to be compared on a like for like basis.

A function in this context is an identifiable service or business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve the objectives of that service or business operation.

Discontinued operations are activities that cease completely. Income and expenditure relating to discontinued operations are presented separately on the face of the Comprehensive Income and Expenditure Statement.

B) Accounting Standards issued but not yet adopted

Amendments have been made to a number of accounting standards which have not been adopted by the Code until 2015/16. A brief description of the accounting changes and their estimated financial effect is provided overleaf.

IFRS 13 Fair Value

IFRS 13 Fair Value Measurement is a substantial new Standard which is designed to apply to assets and liabilities covered by those sections of the Code that currently permit or require measurement at fair value (with some exceptions). Its adoption in the 2015/16 Code will lead to a number of amendments to the definition of fair value throughout the Code including those applying to surplus assets, investment property, assets held for sale, debtors, creditors, revenue recognition and employee benefits. The changes introduced by the new standard are to be applied prospectively which means that it will not be necessary to restate comparatives. It has not yet been possible to assess what the effect of these changes might be but CIPFA have indicated in the 2015/16 Code of Practice that they do not anticipate that it will have a material impact on the financial statements of most local authorities.

Two other areas where changes are being adopted in 2015/16 are Annual Improvements to IFRS 2011–2013, and IFRIC 21 levies. Neither are expected to have a material impact.

Changes to accounting policies in subsequent years – Transport Infrastructure Assets

The measurement requirements of the CIPFA Code of Practice on Transport Infrastructure Assets, as amended 2013, will be adopted in the 2016/17 Code. This will require transport infrastructure assets to be restated from an historic cost basis to current value using depreciated replacement cost. This will represent a change in accounting policy from 1 April 2016 which will be applied retrospectively. It will require the establishment of a separate class of assets for transport infrastructure assets in accordance with the types of assets classified in the Code of Practice on Transport Infrastructure Assets. This is likely to lead to a very material increase in the carrying value of highways assets and will involve restatement of the balance sheet on 1 April 2015 and restatement of comparatives for 2015/16 in the 2016/17 accounts.

C) Critical Judgements in applying Accounting Policies

In applying the accounting policies set out, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Schools – the Council has applied the principles for asset recognition set out in the Code and supplementary guidance provided by CIPFA to determine which school assets should be recognised on the Council's balance sheet. As set out in Accounting Policy 28 the guiding principle is that school assets are only recognised where the Council has control over the asset either through ownership, legally enforceable rights or has control in substance by some other means.

  Mere use of an asset does not in itself demonstrate control. In terms of schools converting to academy, the assumption is that all such schools will be granted a 125 years lease over the land and buildings which will give the academy effective control over the school buildings, playing fields, caretaker residences and any other properties within the curtilage of the school. The presumption as far as faith schools and foundation trust schools is that control will rest with the Church or trustees as may be the case unless there are enforceable rights which assign control or ownership of the asset to the school's governing body.

- Business rates appeals – The introduction of the business rates retention scheme with effect from 1 April 2013, means that the Council shares in the risks and rewards of growth or decline in business rates income with central government and the fire authority. As a consequence the Council recognises on its balance sheet its proportion of business rates assets and liabilities including its share of refunds to business ratepayers as a result of appeal. Valuation Office statistics on appeals lodged and settled since the April 2010 rating valuation has been used to arrive at the best estimate of the likely level of business rate income collectable up to and including 2014/15 which may have to be refunded as a result of outstanding appeals as at 31 March 2015. The Council's share is £3.9m as shown in Note 36.

D) Assumptions made about the future and other major sources of estimation

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

MRP

As stated in Accounting policy Note 15, the Council is required to make a prudent provision (Minimum Revenue Provision or MRP) to repay debt each year relating to capital expenditure financed by borrowing or credit arrangements. The amount charged is determined having regard to the relevant statutory requirements and related guidance on MRP issued by DCLG.

The guidance on MRP issued by DCLG offers different options to satisfy the requirement to make a "prudent provision" but these are not prescriptive. It is a matter for each local authority to determine what is a prudent provision in its local context.

A review of the profile of charges relating to pre 2007/08 debt has led to a change in its profiling to a fairer basis for current and future council tax payers to one which reflects the useful economic life of the assets financed by pre 2007/08 debt and also takes into account the time value of money. This brings the basis for charging MRP on pre 2007/08 debt into line with that for post 2007/08 debt and will form the basis for future charges.

Pensions liability

Included in the Council's Balance Sheet at 31 March 2015 is an estimated pensions liability of £370m. This compares to £264m at 31 March 2014 and £372m at 31 March 2013. The volatility in the amount of the liability is due to it being highly sensitive to a number of key assumptions used to determine pension fund liabilities, including the rate at which future liabilities are discounted to present value terms, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, indexation of pensions and the rate of inflation. The sensitivity analysis provided in Note 18 sets out how small changes to these key assumptions can result in a material change to the pensions liability. A firm of consulting actuaries is engaged by South Yorkshire Pensions Authority to provide expert advice about the best assumptions to be applied based on information available each year end.

Additional Information

Audit Certificate

Glossary

GLOSSARY

This listing will help Members and other readers to understand the terminology used within the Statement of Accounts.

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.

ACCRUALS

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

ADDED YEARS

A discretionary award increasing the value of pensions for retiring employees aged 50 or over subject to specific conditions. Employers' must exercise this discretion in accordance with the national regulations and the Council's own policies.

ASSET

An asset is a resource controlled by the Authority as a result of past events from which future economic benefits or service potential is expected to flow to the Authority.

- A current asset is an amount which is expected to be realised within 12 months.
- A non-current asset is an amount which is expected to be realised after more than 12 months.

AUDIT OF ACCOUNTS

An independent examination of the Authority's financial affairs.

BALANCE SHEET

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

BORROWING

Government support for capital investment is described as either Supported Capital Expenditure (Revenue) known as SCE(R) or Supported Capital Expenditure (Capital Grant) known as SCE(C). SCE can be further classified as either Single Capital Pot (SCP) or ring-fenced.

BUDGET

The forecast of net revenue and capital expenditure over the accounting period.

CAPITAL ADJUSTMENT ACCOUNT

An account maintained to provide a balancing mechanism between the different rates at which assets are depreciated and are financed through the capital controls system.

CAPITAL CHARGE

A charge made to service revenue accounts to reflect the cost of Non Current Assets used in the provision of services.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

CAPITAL FINANCING

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

CAPITAL PROGRAMME

The capital schemes the Authority intends to carry out over a specific period of time.

CAPITAL RECEIPT

The proceeds from the disposal of land or other Non Current Assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government but they cannot be used to finance revenue expenditure.

CIPFA

The Chartered Institute of Public Finance and Accountancy

COLLECTION FUND

A separate fund that records the income and expenditure relating to Council Tax and non-domestic rates.

COMMUNITY ASSETS

Assets that the Authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

CONSISTENCY

The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

CONTINGENT ASSET

A contingent asset is 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 Authority's control.

CONTINGENT LIABILITY

A contingent liability is 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 Authority'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 local authorities engage in specifically because they are elected, multi-purpose authorities. 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. There is therefore no logical basis for apportioning these costs to services.

COUNCIL TAX

A banded property tax that is levied on domestic properties. The banding is based on assessed property values at 1 April 1991.

CREDITOR

Amount owed by the Authority for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

DEBTOR

Amount owed to the Authority for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

DEFINED BENEFIT PENSION SCHEME

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

DEPRECIATION

The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Authority's Non Current Assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

DISCRETIONARY BENEFITS (PENSIONS)

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

DEDICATED SCHOOLS GRANT (DSG)

A ring-fenced grant for Schools paid by the Department for Education and Skills (DfES) to the Local Authority; it replaces the Schools Formula Spending Share (FSS).

EARMARKED RESERVE

A sum set aside in a reserve for a specific purpose.

EQUITY

The Authority's value of total assets less total liabilities.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

EXCEPTIONAL ITEMS

Material items which derive from events or transactions that 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 of the accounts.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FEES AND CHARGES

Income arising from the provision of services e.g. the use of leisure facilities.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This reserve has been created under the SORP 2007 to hold the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with Regulations to be charged to the General Fund Balance.

FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

GENERAL FUND SERVICES

Comprises all services provided by the Council with the exception of services relating to the provision of local Council housing – which are accounted for in the Housing Revenue Account. The net cost of General Fund services is met by council tax, Government Grants and Business Rates.

GOING CONCERN

The concept that the Statement of Accounts is prepared on the assumption that the Authority will continue in operational existence for the foreseeable future.

GOVERNMENT GRANTS

Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Authority. These grants may be specific to a particular scheme or may support the revenue spend of the Authority in general.

HERITAGE ASSETS

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

HOUSING BENEFITS

A system of financial assistance to individuals towards certain housing costs administered by authorities and subsidised by central government.

HOUSING REVENUE ACCOUNT (HRA)

A separate account to the General Fund, which includes the income and expenditure arising from the provision of housing accommodation by the Authority.

IMPAIRMENT

A reduction in the value of a fixed asset to below its carrying amount on the Balance Sheet.

INCOME AND EXPENDITURE ACCOUNT

The revenue account of the Authority that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

INFRASTRUCTURE ASSETS

Non Current Assets belonging to the Authority that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

INVENTORIES

Items of raw materials and stores an authority has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

INTANGIBLE ASSETS

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Authority's intangible assets comprise computer software licences.

NET INTEREST EXPENSE (PENSIONS)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement less interest income earned on plan assets.

INVESTMENTS

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investments 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 (PENSION FUND)

The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

LIABILITY

A liability is a present obligation arising from a past event, the settlement of which is expected to result in an outflow of resources.

A liability is where the Authority owes payment to an individual or another organisation.
- A current liability is an amount which is expected to be settled within 12 months.
- A non-current liability is an amount which is expected to be settled after more than 12 months.

LIQUID RESOURCES

Current asset investments that are readily disposable by the Authority without disrupting its business and are either:
- Readily convertible to known amounts of cash at or close to the carrying amount; or
-Traded in an active market

LONG-TERM CONTRACT

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 to substantially complete the contract is such that the contract activity falls into more than one accounting period.

MATERIALITY

The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

MAJOR REPAIRS RESERVE

The Council is required by regulation to establish a Major Repairs Reserve. The main credit to the account comprises the total depreciation charge for all Housing Revenue Account assets. Capital expenditure is then funded from the reserve without being charged to the Housing Revenue Account.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Authority.

NET BOOK VALUE

The amount at which property, plant and equipment are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

NET DEBT

The Authority's borrowings less cash and liquid resources.

NET EXPENDITURE

Gross expenditure less specific grants and income for charging for services.

NET REALISABLE VALUE

The open market value of an asset in its existing use less any expenses incurred in realising the asset.

NON-DISTRIBUTED COSTS

These are overheads for which no user now benefits and as such are not apportioned to services

NATIONAL NON-DOMESTIC RATES (NNDR)

The National Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by the government and multiplied by the assessed rateable value of the premises they occupy. It is collected by the authority on behalf of the Council, Central Government, and South Yorkshire Fire and Civil Defence Authority with surplus and deficits being shared in the ratio specified by Business Rates Retention Regulations.

OPERATING LEASE

A lease where the ownership of the fixed asset remains with the lessor.

PAST SERVICE COST (PENSIONS)

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.

PENSION SCHEME LIABILITIES

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect valuation date.

PRECEPT

The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

PRIOR YEAR ADJUSTMENT

Material adjustments applicable to previous years arising from changes in accounting polices or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PRIVATE FINANCE INITATIVE (PFI)

A contract in which the private sector is responsible for supplying services that traditionally have been provided by the Council. The Council will pay for the provision of this service, which is often linked to availability, performance and levels of usage.

PROPERTY, PLANT AND EQUIPMENT

Tangible assets used by the Council in the provision of services that yield benefits to the Council for a period of more than one year.

PROVISION

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

PRUDENCE

Requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.

PRUDENTIAL CODE

Under the prudential framework, local authorities make their own decisions how much and what capital investment to undertake, based on their judgement on affordability, prudence and strategic objectives. In making their decisions, finance teams are required to take account of the CIPFA Prudential Code.

RATEABLE VALUE

The annual assumed rental of a hereditament, which is used for NDR purposes.

RELATED PARTIES

There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Authority's members, the Chief Executive, its Directors and their close family and household members.

RELATED PARTY TRANSACTIONS

The Code of Practice on Local Authority Accounting requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

RE-MEASUREMENTS

For a defined benefit pension scheme, the re-measurements comprise:

(a) Changes in actuarial surpluses or deficits that arise because:

Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or

The actuarial assumptions have changed

(b) Return on plan assets excluding interest income which forms part of the pensions net interest expense

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits. Received other than in cash. Pension contributions payable by the employer are excluded.

RESERVES

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life.

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

REVALUATION RESERVE

Records unrealised revaluation gains arising (since 1 April 2007) from holding Non Current Assets.

REVENUE EXPENDITURE

The day-to-day expenses of providing services.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Legislation allows some items to be funded from capital resources that under IFRS and normal accounting practice would be charged to Surplus or Deficit on Provision of Services.

REVENUE SUPPORT GRANT

A grant paid by Central Government to authorities, contributing towards the general cost of their services.

TEMPORARY BORROWING

Money borrowed for a period of less than one year.

TRUST FUNDS

Funds administered by the Authority for such purposes as prizes, charities, specific projects and on behalf of minors.

USEFUL ECONOMIC LIFE (UEL)

The period over which the Authority will derive benefits form the use of a fixed asset.

WORK IN PROGRESS (WIP)

The cost of work performed on an uncompleted project at the end of the financial year.

A summary of this document can be made available in your language and in alternative formats such as Braille, large print, electronic and audio-tape versions. Contact us at:

Email: central.finance@rotherham.gov.uk

''If you or someone you know needs help to understand or read this document, please contact us'':

☎: 01709 822022   💻:central.finance@rotherham.gov.uk

Minicom: 01709 823536

Slovak **Slovensky**

Ak vy alebo niekto koho poznáte potrebuje pomoc pri pochopení alebo čítaní tohto dokumentu, prosím kontaktujte nás na vyššie uvedenom čísle alebo nám pošlite e-mail.

Kurdish Sorani کوردی سۆرانی

ئەگەر تۆ یان کەسێک کە تۆ دەیناسی پێویستی بەیارمەتی هەبێت بۆ ئەوەی لەم بەڵگەنامە یە تێبگات یان بیخوێنێتەوە، تکایە پەیوەندیمان پێوە بکە لەسەر ئەو ژمارەیەی سەرەوەدا یان بەو ئیمەیڵە.

Arabic عربي

إذا كنت انت أواي شخص تعرفه بحاجة إلى مساعدة لفهم أوقراءة هذه الوثيقة، الرجاء الاتصال على الرقم اعلاه، أو مراسلتنا عبر البريد الإلكتروني

Urdu اُرد و

اگر آپ یا آپ کے جاننے والے کسی شخص کو اس دستاویز کو سمجھنے یا پڑھنے کیلئے مدد کی ضرورت ہے تو برائے مہربانی مندرجہ بالا نمبر پرهم سے رابطہ کریں یا ھمیں ای میل کریں۔

Farsi فارسی

اگر جناب عالی یا شخص دیگری که شما اورا می شناسید برای خواندن یا فهمیدن این مدارک نیاز به کمک دارد لطفا با ما بوسیله شماره بالا یا ایمیل تماس حاصل فرمایید.

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**22 July 2015**
3.	**Title:**	**Draft Annual Governance Statement 2014/15**
4.	**Directorate:**	**Finance and Corporate Services**

5 Summary

5.1 The purpose of this report is to seek approval for the draft Annual Governance Statement (AGS) 2014/15.

5.2 The AGS reflects the outcomes from the Jay, Ofsted and Casey inspections and the subsequent Government Directions including the appointment of five Commissioners on 26 February 2015. The Jay and Ofsted reports highlighted substantial and serious failings in the Council's Children's Services and in particular arrangements for safeguarding vulnerable children. The Casey Report concluded the Council overall was not fit for purpose; it was failing to meet the needs of residents, users and businesses in an efficient and effective way (i.e. it failed to meet its Best Value duty). The Council has not had satisfactory governance arrangements in place that could have avoided the very serious weaknesses highlighted in the inspection reports.

5.3 The AGS shows how the Council, led by the Commissioners, has begun to respond to the weaknesses through the development of both a Children's Improvement Plan and a Corporate Improvement Plan. Progress on the Children's Improvement Plan is monitored by the Children and Young People's Improvement Board and is reported to the Department for Education. A first progress report on the Corporate Improvement Plan will be presented to the Department for Communities and Local Government by 26 August 2015. Positive progress is being made on both plans, although there remains a substantial amount of work still to be done.

5.4 Details of the latest progress reports will be added to the Annual Governance Statement before the AGS is signed-off in September.

5.5 Recommended practice requires the Leader of the Council and the Chief Executive(in RMBC's case the Managing Director) to sign the AGS prior to its publication.

6 Recommendations

The Audit Committee is asked:

- **To agree the attached draft Annual Governance Statement (AGS) 2014/15**
- **To note the requirement for the Leader of the Council and the Managing Director to sign the statement prior to the publication of the AGS in September**
- **To note that any significant changes made following the agreement of the draft AGS will be presented to Commissioners, the Advisory Cabinet, the Strategic Leadership Team and the Audit Committee prior to the signing of the final AGS.**

7 Proposals and Details

7.1 General principles

7.1.1 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, properly accounted for and used economically, efficiently and effectively.

7.1.2 In discharging these responsibilities, the Council must ensure that there is good governance and a sound system of internal control in place, which facilitate the effective exercise of the Council's functions and which include arrangements for the management of risk.

7.1.3The Accounts and Audit (England) Regulations 2011 require local authorities to:

> *"conduct a review at least once in a year of the effectiveness of its system of internal control"* (Reg 4(2)), and
>
> *"following the review, the body or committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control"* (Reg 4(3)).

7.1.4 The CIPFA / SOLACE *Delivering Good Governance* guidance (2012) suggests the Leader and the Chief Executive should sign a certificate (at the end of the AGS) confirming that the AGS accurately reflects the arrangements in place during the year and the effectiveness of those arrangements. This should be done after the approval of the Statement and prior to its publication, which must be at the same time as the publication of the Council's Statement of Accounts, by 30 September 2015.

7.1.5 During the course of the past year the Council was subject to a review of its arrangements for preventing Child Sexual Exploitation (the Jay Review), an OFSTED Inspection of the Council's Children's Services and a Corporate Governance Inspection (the Casey Review). These inspections revealed major weaknesses and culminated in the Secretary of State for Communities & Local Government and the Secretary of State for Education appointing five Commissioners on 26 February 2015 to have responsibility for the executive and licensing functions of the Council and to lead the Council on its improvement journey. The AGS makes reference to the reports resulting from the inspections and the Government's intervention.

7.1.6 The Commissioners have produced a Children's Improvement Plan and a Corporate Improvement Plan. . Commissioners and the Council have commenced the process of improving the Council's services and how it operates, with a particular focus on safeguarding children. The steps will continue until the point at which the Secretaries of State confirm that those powers that have been removed can be returned to the Council. The improvement plans are referred to in the AGS.

7.2 Structure of the Annual Governance Statement

7.2.1 The draft AGS is attached to this report at **Appendix A**. The structure of the statement is as follows:

- Section 1: Scope of the Council's responsibility
- Section 2: Purpose of the Governance Framework
- Section 3: Review of Arrangements 2014/15
- Section 4: Child Sexual Exploitation, Ofsted and Corporate Governance Inspections and Government Intervention
- Section 5: Governance Arrangements and their Operation during the Year
- Section 6: Other Significant Issues Arising During the Year
- Section 7: Improvement Planning and Progress since 31 March 2015
- Section 8: Certificate of the Leader and Managing Director.

7.3 Process for completion

7.3.1 The AGS outlines the Council's view of governance and internal control in Rotherham MBC in 2014/15 and up to the date of the signing of the statement.

7.3.2 The approach to completing the AGS included the certification of Statements of Assurance by senior management. This process involves senior management recording key issues arising and considered during the year and is in line with current good practice.

7.3.3 Key reports have also been considered and meeting agendas and minutes reviewed to indicate the operation of arrangements within the Council during the year.

7.3.4 In common with recent years and recommended practice, the draft AGS is being presented to the Audit Committee to enable the Committee to carry out a review of the Statement and supporting evidence, including senior officers' Statements of Assurance, prior to the Statement being signed by the Leader and Managing Director.

7.4 Significant governance issues

7.4.1 The AGS includes headlines from the Jay, Ofsted and Casey reports, which found serious failings in the Council's safeguarding and general governance arrangements. These are in Section 4 of the AGS and are not repeated here.

7.4.2 Other issues arising in the year from the review of internal control are:

- A failure to effectively commission and manage the delivery of school improvement activity
- Inadequate arrangements for taxi-licensing
- Inadequate arrangements for minimising the risk of harm to Looked After Children when transport arranged outside of the Council's Home to School Transport contracts is used, and

- Weaknesses in arrangements for ensuring contractors were effectively and consistently assuring the safety of tenants when carrying out gas servicing works on behalf of the Council.

These are covered in Section 6 of the AGS.

8 Finance

8.1 There are no direct financial implications arising from this report. Any financial implications arising from any future development of internal controls would feature in subsequent reports to Commissioners.

9 Risks & Uncertainties

9.1 Failure to apply sound internal controls and good governance means the Council is unable to demonstrate it is meeting its Best Value responsibility for providing efficient and effective services, including safeguarding vulnerable children. However it has in place Improvement Plans to address this.

10 Policy & Performance Agenda Implications

10.1 Good governance is wholly related to the achievement of the Council's objectives and priorities within its statutory legal and financial frameworks..

11 Background and Consultation

11.1 This report has been informed by the views of the Strategic Directors, Service Directors and the External Auditor.

11.2 Following consideration and agreement by Commissioners and the Audit Committee, the Leader and the Managing Director will be asked to sign the statement before its publication in September 2015.

Contact Names:
Colin Earl, Assistant Director Audit, ICT and Procurement Ext 22033

Appendix A
Draft Annual Governance Statement 2014/15

APPENDIX A

ROTHERHAM MBC ANNUAL GOVERNANCE STATEMENT 2014/15

1 SCOPE OF RESPONSIBILITY

1.1 Rotherham Metropolitan Borough 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 (the Best Value duty).

1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and effective arrangements for the management of risk.

1.3 The Council has a Code of Corporate Governance in line with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

1.4 This Annual Governance Statement meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

2 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 The governance framework comprises the systems and processes and 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.

2.2 The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. The system of internal control is based on an on-going process that is designed to:

- identify and prioritise the risks to the achievement of Council policies, aims and objectives
- evaluate the likelihood of those risks being realised and assess the impact should they be realised, and
- manage the risks efficiently, effectively and economically.

3 REVIEW OF ARRANGEMENTS 2014/15

3.1 Rotherham Council's Governance Framework includes a range of policies, procedures and activities that are designed to be consistent with the expectations for public sector bodies. The Casey Report stated "*on paper Rotherham has reasonable arrangements within the expected range*". However, the Jay, Ofsted and Casey Reports made clear that some of the Council's arrangements were weak and there were also a number of serious failings in the operation of the Council's arrangements.

3.2 Section 4 of this statement highlights the main findings and conclusions from the Jay, Ofsted and Casey Reports. Section 5 makes reference to the operation of general governance arrangements in place at the Council and includes annual statutory assessments made by Internal and External Audit.

4 CHILD SEXUAL EXPLOITATION, OFSTED AND CORPORATE GOVERNANCE INSPECTIONS AND GOVERNMENT INTERVENTION

4.1 The Jay Report into Child Sexual Exploitation

4.1.1The Council was subject to a review of its arrangements for preventing child sexual exploitation (CSE) in 2014. The report resulting from the review, published in August 2014, identified the likely scale of CSE in Rotherham from 1997 to date.

4.1.2 The report highlighted collective failures of political and officer leadership in addressing the crime of CSE. It found that the scale of the problem had been badly understood by the Council. The report noted some improvements over the previous 4 years through the dedication of resources to CSE and better partnership working. But it highlighted there was still an absence of good risk assessment in too many cases in children's social care, the Council's CSE Team still struggled to keep pace with the demands of its workload and there was not enough long term support for victims.

4.2 Ofsted Inspection

4.2.1The Council was subject to an Ofsted Inspection of its Children's Services in 2014. The report, published in November 2014, found weaknesses in leadership, management and governance and social care practice. The overall conclusion from the inspection was that:

> *"there are widespread or serious failures that result in children being harmed or at risk of harm. In the delivery of services for looked after children and care leavers these failures result in the welfare of these children not being safeguarded and promoted. Leaders and managers have not been able to demonstrate sufficient understanding of failures and have been ineffective in prioritising, challenging and making improvements"*.

4.3 Corporate Governance Inspection

4.3.1 As a result of the Jay and Ofsted Reports, the Government appointed Louise Casey, CB, to lead a Corporate Governance Inspection into Rotherham Council. The resulting 'Casey Report' set out a succession of serious, corporate failings across the organisation as well as in its wider partnership relations, in particular it cited:

- Poor leadership and a lack of vision
- Lack of transparency
- Inability to address past weaknesses
- Lack of robust scrutiny
- Failure to face up to uncomfortable truths
- Failed accountability
- Weak partnerships and community strategy
- A culture of denial
- A focus on reputation rather than quality of services
- An absence of self-challenge
- Absence of strategic, financial management
- Poor standards and conduct
- Not translating strategy into action
- Inadequate children's social care
- A failure to hold partners, particularly police, to account
- Taxi licensing which has failed to protect people
- Inconsistent performance management and reporting.

The Jay and Casey reports can be found at www.rotherham.gov.uk
The Ofsted report is held at www.gov.uk/government/organisations/ofsted

4.5 Government Intervention
4.5.1 The Casey Report concluded "*The Council is currently incapable of tackling its weaknesses, without a sustained intervention*". In response, the Secretary of State for Communities and Local Government and the Secretary of State for Education issued directions to the Council on 26 February 2015, which require the Council:

- to rebuild the governance capacity of the Authority, addressing the deep seated culture of poor governance and leadership – both political leadership and officer/managerial leadership; this is a pre-requisite for the fresh start where compliance with the best value duty is secured;
- to restore public trust and confidence in Rotherham by putting an end to any of the Authority's activities, practices, and omissions which are, or risk being, not compatible with the best value duty; and
- to secure as soon as practicable that all the Authority's functions are exercised in conformity with the best value duty thereby delivering improvements in services and outcomes for the people of Rotherham.

4.5.2 The Directions also included the appointment of five commissioners*[1] to take on all executive and licensing responsibilities at the Council and drive the improvements necessary to safeguard children and deliver services that meet the needs of Rotherham. The Directions provide for regular progress reports and

[1] See **Appendix 1**. The Directions superseded a Direction issued to the Authority dated 10 October 2014 appointing a Children's Social Care Commissioner at the Authority

quarterly reviews of which powers, if any, can be returned to the Council. The next progress report is due at the end of August 2015.

4.5.3 The Directions remain in force until 31 March 2019 unless the Secretaries of State, or, as the case may be, either one of them, consider it appropriate to amend or revoke them at an earlier date.

4.5.4 The Commissioners have led the development of a Children's Services Improvement Plan and a Corporate Improvement Plan. Structures and actions are being put in place to deliver these plans – see Section 7.

5 GOVERNANCE ARRANGEMENTS AND THEIR OPERATION DURING THE YEAR

5.1 The Council's Governance framework includes a range of policies, procedures and activities that are designed to be consistent with the expectations for public sector bodies. The table below indicates the effectiveness of the governance arrangements in place during the year, with reference to the expectations of the CIPFA/SOLACE *Delivering Good Governance* Guidance:

Expected Arrangements	Comments Regarding Arrangements at RMBC
Identifying and communicating the Council's vision of its purpose and intended outcomes for Residents, service users and businesses.	The Casey Report identified a lack of a strategic vision and a lack of strong political and managerial leadership that were severely inhibiting the Council's ability to lead the transformation of the borough. It found "*too many plans and priorities and these are insufficiently connected to each other or day-to-day operations*"
Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions.	The Council has a constitution, agreed decision making processes and arrangements for undertaking statutory, scrutiny and regulatory functions, which the Corporate Governance Inspection concluded were, on paper, within an expected range. However, many of these were found to be weak in practice.
Developing, communicating and embedding codes of conduct, and defining the standards of behaviour for Members and staff.	Although the expected Codes, policies and procedures exist, the Casey Report was highly critical of the actual ethical standards found at the Council.
Reviewing and updating Standing Orders, Financial Regulations and supporting procedure notes / manuals, which define how decisions are taken and the processes and controls required to manage risks.	Established Standing Orders and Financial Regulations are in place and followed. The Casey Report concluded Risk Management arrangements were as expected on paper, but in reality Risk Management in the Council was not effective.
Ensuring that the Council's	Financial controls in the Council were found to be

financial management arrangements conform with the governance requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Statement on the Role of the Chief Financial Officer in Local Government (2010).	good by the Corporate Governance Inspection, with revenue and capital monitors frequently reported to Cabinet and overall sound financial discipline in the organisation. The Council has managed within its budgets consistently over time and is able to demonstrate improved financial resilience. However, inspectors found a lack of focus on strategic service and financial planning, which had sometimes contributed to operational decisions being taken to reduce costs and save money which have not turned out to be sensible.
Undertaking the core functions of an audit committee, as identified in CIPFA's *Practical Guidance for Local Authorities.*	The Council has an Audit Committee which has terms of reference consistent with CIPFA Guidance. The Audit Committee did not contribute to effective risk management at the Council.
Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.	The Council has a constitution and agreed decision making processes. The Council's Monitoring Officer and its Chief Finance Officer have responsibility for minimising any risk of non-compliance with laws, regulations and internal arrangements. Reports to Members require financial and legal implications to be included. Transparency in some decision making was criticised in the Casey report. Also, at a control level, the Casey report highlighted a lack of checks on basic procedures, for example compliance with gifts and hospitality arrangements.
Whistle-blowing and arrangements for receiving and investigating complaints from the public.	The Council has standard arrangements as expected for encouraging the reporting of suspected wrong-doing. However, practice at the Council was found to have been well below expected standards by the Casey review.
Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training.	The Casey report was highly critical of the role of Members in ensuring the Council identified and managed its risks effectively, and had in place arrangements for improving its services.
Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging	The Council's approach to strategic and corporate planning was found by Casey to be generally in line with expected norms. However, the plans were not found to connect with reality on the ground. There was a lack of effective

open consultation.	consultation.
Incorporating good governance arrangements in respect of partnerships.	The Casey Report noted complex partnership arrangements. The Council did not ensure partnership working was effective and achieved the desired outcomes.

The Corporate Improvement Plan and the Children and Young People's Improvement Plan seek to address these issues directly.

5.2 Internal Audit

5.2.1 It is a requirement of the UK Public Sector Internal Audit Standards that an annual report is produced setting out the work performed by Internal Audit and the opinion of the *Chief Audit Executive* (at Rotherham this is the Assistant Director Audit, ICT and Procurement) on the Council's internal control environment.

5.2.2 Based upon the Internal Audit work undertaken during the year, considering the work of the External Auditor, and taking into account the Jay, Ofsted and Casey reports, the conclusion of the Assistant Director Audit, ICT and Procurement was that the Council's control environment for 2014/15 was inadequate and did not operate satisfactorily during the year. This conclusion was reported to the Audit Committee on 5 May 2015.

5.3 External Audit

5.3.1 As the Council's external auditor, KPMG are required each year to carry out a statutory audit of the Council's financial statements and give an assessment of the Council's value for money arrangements.

5.3.2 Opinion on Financial Statements 2013/14

KPMG issued an unqualified opinion on the Council's financial statements for the 2013/14 financial year on 22 September 2014. In KPMG's opinion, the financial statements gave a true and fair view of the financial position of the Authority and of its expenditure and income for the year ended 31st March 2014.

5.3.3 Value for Money Conclusion 2013/14

KPMG are also required to report on the Council's arrangements for securing value for money in the provision of its services and functions. KPMG's work included consideration of the Jay, Ofsted and Casey Reports. The significant weaknesses identified in the Council's arrangements mean that KPMG were unable to be satisfied the Council had arrangements to secure the economic, efficient and effective use of resources. KPMG therefore issued an adverse conclusion on 26 March 2015 in respect of the 2013/14 financial year.

5.4 Anti-Fraud and Corruption Arrangements

5.4.1 In October 2014 CIPFA published an updated Code of Practice on Managing the Risk of Fraud and Corruption. This replaced the former Code published in 2008. The 2014 Code requires councils to give an opinion within their Annual Governance Statements on the Council's compliance with the Code.

5.4.2 The Council has reasonable compliance with the 2014 Code. However, there are areas emphasised within the Code that require the Council to refresh / add to various policies and procedures, including:

- Refreshing the Council's Anti-Fraud and Corruption Strategy, Policy and Action Plan;
- Considering the need for, and provision of, external verification of the Council's compliance with the Code, possibly through some form of peer review;
- Making reference to compliance with the Code in the Council's Annual Governance Statement; and
- Developing a Cyber Security Policy.

5.4.3 The Council's practical arrangements are also subject to review as part of the Corporate Improvement Plan. An initial appraisal has been completed by Commissioner Ney, which will lead to some improvement actions. All actions will be implemented by March 2016.

6 OTHER SIGNIFICANT ISSUES ARISING DURING THE YEAR

6.1 In June / July 2014, Internal Audit carried out a review of the Council's arrangements for commissioning and managing the delivery of school improvement activity. The review highlighted significant weaknesses in relation to the specification of work to be provided, monitoring of activities and performance, and reporting arrangements. The Council and schools could not clearly demonstrate they were achieving value for money from the arrangements in place. Action has been taken to address the issues raised, including better and more transparent commissioning and monitoring.

6.2 The Taxi licensing function was specifically mentioned in the Casey Report as having a key role in preventing and disrupting CSE. The report found that taxi-licensing arrangements were wholly inadequate and placed vulnerable Children at risk. The Council had failed to acknowledge and tackle the problems. Action that has now been taken is highlighted in Section 7.

6.3 Following the criticisms of the taxi-licensing arrangements, Internal Audit looked in early 2015 at the Council's arrangements for arranging the transport of Looked after Children. While arrangements were found to be acceptable when provision was arranged within existing 'home to school' contracts, the audit found a number of instances where transport for children was arranged outside of the contracts and, therefore, did not afford the same level of checks and controls over the taxi firms and drivers used. Management took immediate action to minimise the risks identified by implementing better checks and controls.

6.4 An internal review of Gas Safety found that the Council's Quality Assurance processes did not sufficiently ensure that contractors, used by the Council to carry out building and gas servicing works, had gas safety management systems that were being effectively and consistently applied. In two cases, in April and June 2014, safety controls were found to have not been applied, creating a risk of exposure to gas leaks. Immediate action was taken to ensure the relevant checks and controls were being applied.

7 IMPROVEMENT PLANNING AND PROGRESS SINCE 31 MARCH 2015

7.1 Children's Services Improvement Plan

7.1.1 Children's Social Care Services were put into intervention on 10 October 2014, following the Jay and Ofsted reports.

7.1.2 The Children's Social Care Commissioner (Commissioner Newsam) has led the production of a comprehensive improvement plan to address the issues reported in the Jay and Ofsted Reports. The key priorities of the plan are to:

a) Strengthen the arrangements for screening through the introduction of a Multi-Agency Safeguarding Hub (MASH)
b) Put in place sufficient social workers to ensure caseloads are manageable across the service
c) Clear up the backlog of out-of-date assessments and ensure that assessments are completed in a timely fashion including programmed reviews
d) Recruit to a permanent senior and middle management structure
e) Strengthen the specialist team for investigating Child Sexual Exploitation CSE and put in place strong, strategic and operational leadership to tackle CSE
f) Ensure all children in need, children on a child protection plan and looked after children have an up to date plan focused on outcomes and that children on caseload are visited at the required frequency by social workers
g) Address the severe deficit in the ICT system as a matter of urgency and procure a replacement system
h) Carry out effective performance management and quality assurance arrangements and ensure they are well understood
i) Co - ordinate leadership across the Health and Wellbeing Board, the Local Safeguarding Children Board (LSCB) and Children's Partnership and the Corporate Parenting Board to establish and deliver against jointly agreed priorities.

7.1.3 The arrangements for implementing these actions, and monitoring progress against them, are being overseen by a Children's Improvement Board; Progress Board and Child Sexual Exploitation Board. Weekly performance meetings are being held to ensure that rapid progress is secured in improving social care and outcomes for vulnerable children and young people. Reports on Progress are presented to the Government's Department for Education.

7.1.4 Progress to date includes:

- A Multi-Agency Safeguarding Hub was created on 1 April 2015 and is now the focal point for safeguarding.

- The new ‘Evolve’ CSE Team is creative, responsive and flexible, adopting a youth engagement model which is based on building trust and rapport with children and young people, providing consistent wrap-around support and protection. Caseload is much lower and more acceptable.
- The council has been successful in recruiting its most senior children and young people’s managers on a permanent basis
- Strong commitment has been given by all partners to the partnership priorities
- The Council and its partners have made a sizeable financial contribution to tackling CSE, including support for Child Sexual Exploitation victims and survivors (£200k) and an outreach youth based work provision to engage with young people at risk of Child Sexual Exploitation (£234k) Significant external funding has also been made available.
- Overall there is an improving picture in relation to social work delivery. Staff report feeling under less stress and performance is improving.

7.1.5 More work is still needed, and in particular more attention is to be given to improving arrangements for Looked After Children, missing children, early help locality working and commissioning.

The Children’s Improvement Plan can be found at www.rotherham.gov.uk

7.2 Corporate Improvement Plan

7.2.1 Led by the Commissioners, the Council agreed an improvement plan on 22 May 2015 aimed at restoring strong governance and appropriate services and, in due course, transferring authority back to Councillors and managers.

7.2.2 The plan identifies the essentials of an effective council and includes comprehensive actions to ensure the Council can operate in line with these. The essentials are:

- Inspirational political and managerial leadership
- Robust governance, decision-making and performance management
- Culture of excellence and outstanding implementation
- Strong, high impact partnerships.

7.2.3 A Corporate Improvement Board has been established to monitor progress against the plan and Commissioners have responsibility for reporting progress to the Government on a six-monthly basis, starting in August 2016.

7.2.4 A number of early significant steps have been taken, including:

- Carrying out a series of events with residents and services users, and businesses and staff to help establish the vision and priorities for the Council.
- Holding meetings with partners to begin revitalising joint strategic planning and working, to address the needs of Rotherham

- Establishing a comprehensive Members' development programme and supporting and mentoring Members
- Establishing a revised organisation structure that more closely meets the Council's current requirements
- Establishing a strategic service and financial planning group to provide consistency between budget setting and service priorities
- Supporting the Audit Committee to meet its important responsibilities in relation to risk management and governance, including a commitment to recruit a voting independent member.

7.2.5 The Corporate Improvement Plan complements and supports the Children's Improvement Plan actions outlined above.

The Corporate Improvement Plan can be found at www.rotherham.gov.uk

7.3 Taxi Licensing

7.3.1 Under the guidance of Commissioner Ney, the Council has carried out a comprehensive review of its taxi-licensing policy and its administration arrangements. The Council has introduced a new, stronger, policy involving a 'fit and proper person' test that will be applicable to all existing licence-holders as well as new applicants. CCTV will be required in all taxis within 3 months, and taxi drivers will be required to obtain a Business and Technology Education Council Level 2 academic qualification within 12 months.

7.3.2 In addition to the policy improvements, internal administration structures and processes, including quality assurance arrangements, have been strengthened and an independent review into performance and practice is being carried out.

7.4 Adult Social Care

7.4.1 The Council's Adult Social Care, although not the subject of any whole service inspection, has undertaken a self-assessment using a Local Government Association assessment tool. This exercise was completed in May and has been reviewed and commented on by an independent peer reviewer. The results of this exercise have been combined with a desk top analysis of available performance and financial data and a development programme has been launched in June 2015 to address the findings that arose from this work.

7.4.2 A self-assessment of Adults' Safeguarding has been undertaken, again using the Local Government Association assessment tool. This has been reviewed by an external peer reviewer who examined documentation and spent two days interviewing appropriate staff from the Council and partners. This exercise was completed in June 2015 and an action plan to implement improvement opportunities has been developed by the Adult Safeguarding Board and this will now be implemented during 2015. In addition, a strategy for Safeguarding Adults in Rotherham will be developed through a workshop involving the Board. This will be consulted upon and a strategy will be in place later in 2015.

7.4.3 The Health and Wellbeing Board approved the Better Care Fund proposals in May 2015.

7.5 Local Elections

7.5.1 Local elections of a third of Council seats in May 2015 led to 16 councillors being elected who had not served before that date. This is more than 25% of the Council. Further, 'all-out' elections are planned for May 2016. There is now an Advisory Cabinet of 5 councillors working closely with senior staff and commissioners.

8 LEADER AND MANAGING DIRECTOR STATEMENT 2014/15

8.1 This Annual Governance Statement fairly reflects the position at Rotherham Metropolitan Borough Council during the year and up to the date of signing.

8.2 During the year the Council was subject to an inspection of its arrangements for Child Sexual Exploitation (the Jay Review), an Ofsted inspection of its Children's Services and a Corporate Governance Inspection (The Casey Review). These found significant and serious failings in the Council's arrangements for protecting vulnerable children.

8.3 The Casey Review concluded the Council overall was not fit for purpose; it was failing to meet the needs of residents, users and businesses in an efficient and effective way (i.e. it failed to meet its Best Value duty). The Council has not had satisfactory governance arrangements in place that could have avoided the very serious weaknesses highlighted in the inspection reports.

8.3 The Casey Review concluded that the Council could not tackle the serious weaknesses itself. As a result, the Secretary of State for Communities and Local Government and the Secretary of State for Education issued directions to the Council on 26 February 2015 which require the Council to rebuild the governance capacity of the Authority, to restore public trust and confidence and to secure as soon as practicable that all the Authority's functions are exercised in conformity with the best value duty. The Directions also included the appointment of five commissioners to lead the Council's improvement.

8.4 Improvement plans have been put in place and some early progress is being made. However, the scale of the challenge is substantial and there are still major challenges ahead. . We have established ambitious plans with the aim of achieving rapid, effective and sustainable improvements. We have put in place arrangements for monitoring and reporting progress to the relevant Government Departments, Council, Public and other stakeholders.

8.5 Councillors, commissioners and senior staff are working together to achieve this change.

Signed …………………………………………….
Councillor Chris Read, Leader, Rotherham MBC

Signed …………………………………………….
Stella Manzie CBE, Commissioner and Managing Director, Rotherham MBC

Date: xx September 2015

APPENDIX 1

COMMISSIONERS APPOINTED TO ROTHERHAM COUNCIL

The following commissioners were appointed to Rotherham Council by the Secretary of State for Communities & Local Government and the Secretary of State for Education:

Lead Commissioner: Commissioner Sir Derek Myers, former joint Chief Executive of the London Borough of Kensington and Chelsea and Hammersmith and Fulham.

Commissioner and Managing Director: Stella Manzie CBE, a former Chief Executive of Barking and Dagenham, Coventry, Redditch and West Berkshire councils. As Managing Director, Commissioner Manzie who has taken on the role of the day to day running of all services until the Commissioners appoint a new permanent chief executive.

Children's Social Care Commissioner Malcolm Newsam: Commissioner Newsam has worked at executive director level in Peterborough City Council, Kent County Council, Essex County Council and Bedfordshire County Council. He has acted as Doncaster Borough Council's Programme Director setting up the Doncaster Children's Services Trust and was appointed Children's Social Care Commissioner in Rotherham in October 2014.

Commissioner Mary Ney: Commissioner Ney retired from being Chief Executive of the Royal Borough of Greenwich in 2014. Commissioner Ney was assistant inspector to Louise Casey's inspection of Rotherham, where she led the partnership working strand of the inspection.

Commissioner Julie Kenny CBE: Commissioner Kenny is a commissioner at the UK Commission for Employment and Skills and a Board Member of Sheffield City Region Local Enterprise Partnership

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**22 July 2015**
3.	**Title:**	**KPMG External Audit Plan 2014/15 (as updated)**
4.	**Directorate:**	**Finance and Corporate Services**

5. Summary

The Council's external auditor, KPMG, presented their original External Audit Plan for 2014/15 to Audit Committee in February 2015.

The original Plan set out the audit risks, work and approach to be undertaken in relation to the Financial Statements audit but did not contain any details relating to the Value for Money (VFM) audit. This was because at the time that the original Plan was presented, the outcomes from the corporate governance inspection had still to be published.

Following the publication of the corporate governance inspection, KPMG have now had an opportunity to evaluate the findings and how it impacts on their 2014/15 VFM audit.

The updated Plan (attached as Appendix 1) sets out the VFM risks they have identified and scope of the work planned in relation to VFM.

6. Recommendations

That Audit Committee approves KPMG's External Audit Plan 2014/15 (as updated), noting the proposed areas to be covered by the VFM audit.

7. Proposals

The external auditor's responsibilities in relation to local government audits under legislation and the Code of Audit Practice are to:

- **Financial Statements**
  form an opinion on whether the Council's financial statements give a true and fair view of the Council's financial performance and financial position.

- **Use of Resources (Value for Money conclusion)**
  conclude on whether the Council has met its Best Value duty to put arrangements in place to secure value for money from the use of its resources.

KPMG's External Audit Plan sets out how they will discharge these responsibilities in relation to the 2014/15 financial year.

The Plan sets out the risks that have been identified from the audit planning process and scope and approach to the work that it is to be undertaken.

The Plan attached as Appendix 1 is an updated version from the one originally presented to Audit Committee in February 2015. The original Plan set out the audit risks, work and approach to be undertaken in relation to the Financial Statements audit but did not contain any details relating to the Value for Money (VFM) audit. This was because at the time that the original Plan was presented, the outcomes from the corporate governance inspection had still to be published.

Following the publication of the corporate governance inspection, KPMG have now had an opportunity to evaluate the findings and how it impacts on their 2014/15 VFM audit. This is reflected in the updated Plan which sets out the scope of the work planned in relation to VFM.

Financial Statements

There has been no change to the risks and work planned in relation to the Financial Statements audit in the updated Plan.

As set out in Section 4 (pages 11 to 13 of the Plan) the key audit risks on which KPMG will focus during their audit remain as previously:

- Child Sexual Exploitation claims
- Accounting for school assets used by local authority maintained schools
- Digital Region closure costs, and
- The Council's new banking arrangements

In forming their opinion, KPMG will have regard to the materiality levels on page 6 of the Plan, namely, overall materiality of £13.2m for planning purposes and a £661k triviality threshold (adjusted downwards slightly from the original Plan where the corresponding figures were £15m and £750k respectively).

Value for Money Conclusion

As set out in Section 5 (page 14 of the updated Plan), in reaching their VFM conclusion, KPMG are required to consider two key themes:

- Does the Council have sufficient financial resilience to manage effectively its financial risks and opportunities and sustain a stable financial position, and
- Does the Council have proper arrangements in place to challenge how it secures Value For Money and prioritise resources by, for example, improving productivity and efficiency and achieving cost reductions

As set out in Section 5 on page 18 of the updated Plan the key VFM risks that KPMG have identified in relation to arriving at their VFM Conclusion are:

- The failings in corporate governance arrangements reported in the Corporate Governance Inspection
- The Financing of Child Sexual Exploitation claims, and
- The need to deliver budget savings of £41m over the three years 2016/17 to 2018/19

Given that the Corporate Governance Inspection was only published in February 2015, KPMG are not expecting significant improvements to have been made in the 2014/15 financial year. There is therefore a risk that they will conclude that governance arrangements remain inadequate as in 2013/14.

Reporting

KPMG's findings on the audit of the financial statements and VFM audit will be reported (ISA 260 report) to Audit Committee at its meeting in September. Members will be asked to consider the audit findings prior to giving formal approval for the financial statements to be published as final.

8. Finance

The planned audit fee contained in the original Plan of £186,300 remains the same in the updated Plan and in line with expectations based on the Audit Commission's published work programme and scales of fees. It is based on KPMG's assessment of the level of risk.

9. Risks and Uncertainties

The updated Plan and audit fee is based on the assumptions set out in section 6 of the Plan on page 23.

As stated on page 23, changes to the Plan and the fee may be necessary if significant new audit risks emerge or KPMG's expectations are not met.

At this stage officers believe there is no reason why KPMG's expectations will not be met.

As noted on page 16 of the updated Plan, at this stage, KPMG have not as yet identified the residual audit risks relating to their VFM audit and the scale of work that will be required to address them. This may also have an impact on the final audit fee.

10. Policy and Performance Agenda Implications

Obtaining a good audit report on the 2014/15 financial statements will maintain the Council's excellent reputation for good financial management.

11. Background Papers and Consultation

External Audit Plan 2014/15 (as originally presented February 2015)
External Audit Plan 2014/15 (as updated – attached as Appendix 1)
Report to Audit Committee – February 2015
Audit Appointment letter 2015/16
Audit Commission work programme and scale of fees

Contact Name: Stuart Booth, Interim Strategic Director of Finance and Corporate Services, extension 22034
stuart.booth@rotherham.gov.uk
Simon Tompkins, Finance Manager, extension 54513
simon.tompkins@rotherham.gov.uk

cutting through complexity

External Audit Plan 2014/15

Rotherham Metropolitan Borough Council

DRAFT 13 July 2015

Contents

The contacts at KPMG in connection with this report are:

Tim Cutler
Partner
KPMG LLP (UK)

Tel: 0161 246
tim.cutler@kpmg.co.uk

Debra Chamberlain
Senior Manager
KPMG LLP (UK)

Tel: 0161 246 4189
Debra.chamberlain@kpmg.co.uk

Amy Warner
Assistant Manager
KPMG LLP (UK)

Tel: 0113 231 3089
Amy.warner@kpmg.co.uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 1st Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Introduction

This document describes how we will deliver our audit work for Rotherham Metropolitan Borough Council.

Scope of this report

This document updates the External Audit Plan we presented in February 2015 by including the VFM element of the audit plan, which was previously excluded as we had not concluded our 2013/14 VFM conclusion work.

This document supplements our *Audit Fee Letter 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for Rotherham Metropolitan Borough Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2014/15.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

The Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM arrangements work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers, Commissioners and Members for their continuing help and co-operation throughout our audit work.

Headlines

This section summarises our approach to your financial statements and VFM audit.

Audit approach	Our overall audit approach remains similar to last year with no fundamental changes . Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the finance team. Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.
Key financial statements audit risks	We have completed our initial risk assessment for the financial statements audit and have identified the impact of Child Sexual Exploitation claims and the treatment of local authority maintained schools on the financial statements as significant risks. These risks are described in more detail on pages 11 and 12.
VFM audit approach	In 2013/14 we qualified our VFM conclusion reflecting the finding of the 'Report of Inspection of Rotherham Metropolitan Borough Council' published in February 2015. We have completed our initial risk assessment for the VFM conclusion and have identified the following risk areas for further consideration: ■ Governance Arrangements; ■ Financing Child Sexual Exploitation Claims; and ■ Budget pressures We will update the Audit Committee as our work in these areas progresses.
Audit team, deliverables, timeline and fees	The core audit team has been updated since our original audit plan was issued. Debra Chamberlain remains as Senior Manager and Amy Warner will continue to be your Assistant Manager. Your new engagement lead is Tim Cutler. Our main year end audit is currently planned to commence in late June. Upon conclusion of our work, we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*. The planned fee for the 2014/15 audit is £186,300. This is unchanged from the position set out in our *Audit Fee Letter 2014-15*.

Our audit approach

We undertake our work on your financial statements in four key stages during 2015:

- **Planning (January to February).**
- **Control Evaluation (February to April).**
- **Substantive Procedures (June to August).**
- **Completion (September).**

We have summarised the four key stages of our financial statements audit process for you below:

	Stage	Activity	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1	Planning	Update our business understanding and risk assessment.	○								
		Assess the organisational control environment.		○							
		Determine our audit strategy and plan the audit approach.		○							
		Issue our *Accounts Audit Protocol*.	○								
2	Control evaluation	Evaluate and test selected controls over key financial systems.		○							
		Review the work undertaken by the internal audit on controls relevant to our risk assessment.		○	○						
		Review the accounts production process.			○	○					
		Review progress on critical accounting matters.				○					
3	Substantive procedures	Plan and perform substantive audit procedures.						○	○	○	
		Conclude on critical accounting matters.							○	○	
		Identify audit adjustments.							○	○	
		Review the Annual Governance Statement.							○	○	
4	Completion	Declare our independence and objectivity.									○
		Obtain management representations.									○
		Report matters of governance interest.									○
		Form our audit opinion.									○

Page 227

Our audit approach – planning (continued)

During January and February 2015 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

Our planning work takes place in January and February 2015. This involves the following aspects:

Planning

- Update our business understanding and risk assessment including fraud risk.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks including risk of fraud affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 6 of this document.

Our audit approach –planning (continued)

When we determine our audit strategy we set a monetary materiality level for planning purposes.

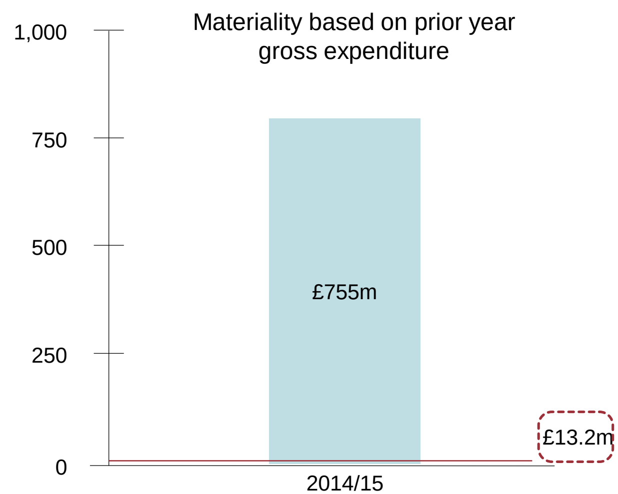
For 2014/15 we have set this at £15 million.

We will report all audit differences over £750k to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.



Materiality for planning purposes has been set at £13.2m, which equates to 1.75 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) *'Communication with those charged with governance'*, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 (UK&I), *'Evaluation of misstatements identified during the audit',* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £661k.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Our audit approach – planning (continued)

We will issue our *Accounts audit protocol* following completion of our planning work.

Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We met with the core finance team to discuss mutual learning points from the 2013/14 audit. These will be incorporated into our work plan for 2014/15. We revisit progress against areas identified for development as the audit progresses.

Our audit approach – control evaluation

During February to April 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15. We work with your finance team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our on site interim visit will be completed during February 2015. During this time we will complete work in the following areas:

Control Evaluation	
	■ Evaluate and test controls over key financial systems identified as part of our risk assessment. ■ Review the work undertaken by the internal audit function on controls relevant to our risk assessment. ■ Review the accounts production process. ■ Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

There were no significant findings arising from our interim work that we would like to draw the Audit Committee's attention to.

Our audit approach – substantive procedures

During July to August 2015 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our ISA 260 Report to the Audit Committee in September 2015.

Our final accounts visit on site has been provisionally scheduled for late June/early July. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Interim Strategic Director of Finance and Corporate Services in July 2015, prior to reporting to the Audit Committee in September 2015.

Audit adjustments

During our on site work, we will meet with the core finance team on a regular basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.

Our audit approach – other matters

In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified audit approach for 2014/15 have now been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 19.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of June 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Key financial statements audit risks

In this section we set out our assessment of the significant risks and other key areas of audit focus of the Authority's financial statements for 2014/15.

For each key risk/significant risk area we have outlined the impact on our audit plan.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*. As noted below, we do not consider these risks reflect any specific circumstances identified or expected in relation to the Authority.

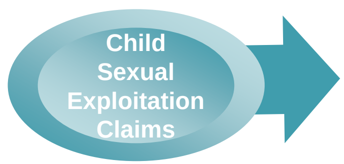
- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Appendix 3 covers more details on our assessment of fraud risk.

The table below and overleaf sets out the significant risks we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2014/15. On page 13 we outline our areas of audit focus. These are areas which, based on our risk assessment, do not constitute a significant risk but still require additional audit focus.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Page 234

Key audit risks	Impact on audit
 **Audit areas affected** - Provisions / Contingent liabilities	**Risk** At the time of undertaking our planning work, there is still uncertainty around the number and value of Child Sexual Exploitation (CSE) claims the Authority will receive. There is potential for there to be a significant level of claims and therefore this is a key financial statements audit risk. **Our proposed audit work** We will review the process for identifying and evaluating potential claims to provide assurance over the completeness of the balances included within the financial statements. We will also review the treatment of CSE claims within the financial statements and consider this against the criteria in *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, which provides guidance for the appropriate accounting treatment when there are uncertainties over claims.

Key financial statements audit risks (continued)

Key audit risks

Audit areas affected

- Property Plant and Equipment

Impact on audit

Risk

LAAP Bulletin 101 *Accounting for School Assets used by Local Authority Maintained Schools* issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.

Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet.

Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.

Our proposed audit work

As part of our audit, we will ensure the Authority is aware of the latest guidance and review the judgements it has made. This will include :

- Determining whether the Authority has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by VA, VC and Foundation schools;
- Considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary; and
- Determining whether the basis of valuation of assets which are brought on balance sheet at 1 April 2013 is appropriate and the valuations are undertaken by qualified valuers (if applicable).

Page 235

Key financial statements audit risks (continued)

For each area of audit focus we have outlined the impact on our audit plan.

Area of other audit focus	Impact on audit
Digital Region Limited **Audit areas affected** ■ Provisions	During 2013/14 the Authority (and other members of the joint venture agreement) took a decision to close its Joint Venture company, Digital Region Limited (DRL). Significant costs had already been provided for in earlier years, when these costs became accruable under the accounting standard governing provisions (IAS37). We will review the provision value against any updated costs estimate arising from the closure of DRL commenting on its material accuracy and completeness as needed. We no longer consider this to be a significant risk in relation to our value for money conclusion. We will keep a watching brief on the costs throughout the year however, and if these costs rise we will reconsider any impact on our value for money conclusion.
Transition to new bank account **Audit areas affected** ■ Cash	As part of the Co-Op's rationalisation of its portfolio, it is no longer providing banking services to the public sector. As such, the Authority has procured a new banking service provider (NatWest). The transition is planned for February 2015. We will review the process to ensure the associated balances in the financial statements are fairly stated.

Page 236

VFM audit approach

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

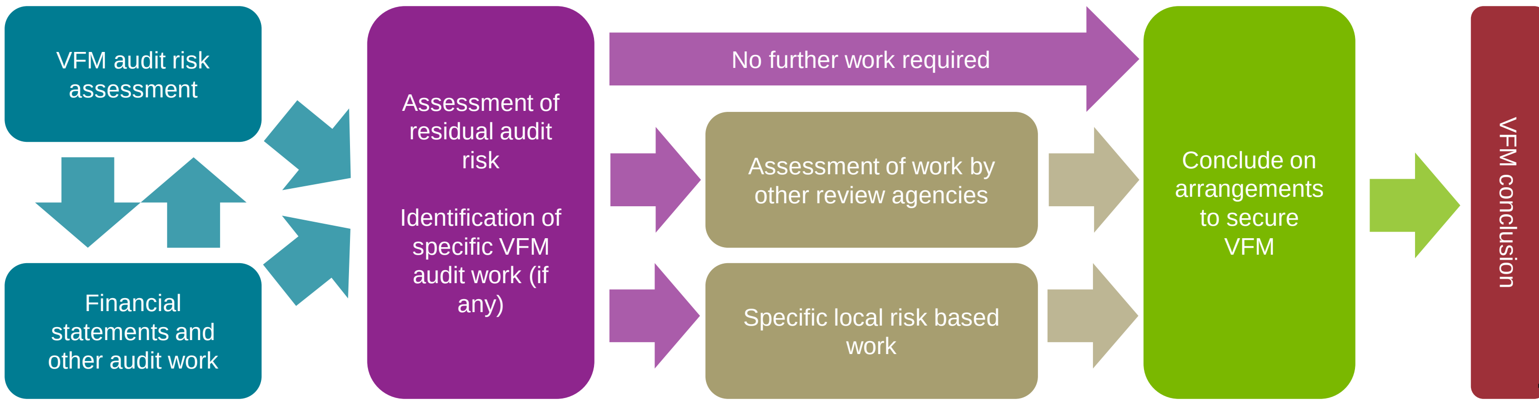
Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future.	■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ■ achieving cost reductions; and ■ improving efficiency and productivity.	■ Prioritising resources ■ Improving efficiency and productivity

VFM audit approach (continued)

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*. In doing so we consider: ▪ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ▪ information from the Audit Commission's VFM profile tool; ▪ evidence gained from previous audit work, including the response to that work; and ▪ the work of other inspectorates and review agencies.

Page 238

VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Assessment of residual audit risk	It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria. Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.
Identification of specific VFM audit work	If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Page 239

VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have identified one risk to our VFM conclusion at this stage. We will update our assessment at year end.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as: ▪ local savings review guides based on selected previous Audit Commission national studies; and ▪ update briefings for previous Audit Commission studies. The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	On the following page, we report the results of our initial risk assessment. We will report on the results of the VFM audit through our *ISA 260 Report*. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

VFM audit approach (continued)

We have identified a number of specific VFM risks.

We will carry out additional risk-based work in the following areas:

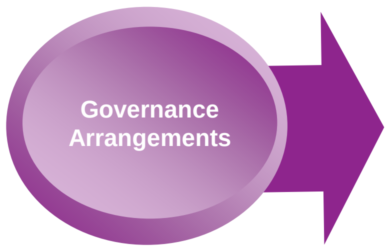
- **Governance Arrangements**
- **Child Sexual Exploitation Claims**
- **Funding cuts and cost pressures, in particular in Children and Young Peoples Services**

In line with the risk-based approach set out on the previous page, we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion,

We will report our final conclusions in our *ISA 260 Report 2014/15*.

Key VFM risk	Risk description and link to VFM conclusion
	The 'Report of Inspection of Rotherham Metropolitan Borough Council' (Casey Review) highlighted serious failings across the Authority in relation to governance and as a result, five Commissioners were appointed by the Government in February 2015. We also note that given the evidence identified by the Inspection, we issued an adverse VFM conclusion for 2013/14. To respond to the failings identified by the Inspection, the Authority has developed an improvement plan. Given that the Inspection only reported in February 2015, we are not expecting significant changes in respect of governance arrangements for 2014/15, however we will still need to form a judgement for our 2014/15 VFM conclusion. Whilst undertaking this we will consider the developments being made under the improvement plan to provide support to the Authority. We will keep up to date with the progress made through the Authority's six monthly updates to the improvement plan. There is a risk therefore, that the governance arrangements in place for 2014/15 were not adequate to achieve economy, efficiency and effectiveness.

Page 241

VFM audit approach (continued)

Key VFM risk	Risk description and link to VFM conclusion
Financing Child Sexual Exploitation Claims	Since the Professor Alexis Jay report into Child Sexual Exploitation was published in August 2014, a number of people have come forward to make claims against the Authority. The final costs associated with these claims are not yet known but there is a risk that this could place significant financial pressure on the Authority due to the scale of the claimants coming forward. This could have a significant impact on the Authority's financial resilience.
Budget Pressures	The Authority's budget over the next 3 years identifies a saving need of £41m to principally address future reductions to local authority funding alongside service cost and demand pressures. In addition to this, Rotherham MBC also faces cost pressures following the reports by Professor Alexis Jay into Child Sexual Exploitation in Rotherham and the Report of the Inspection of Rotherham Council. As a result of these, significant changes to Children and Young People Services as well as organisation wide corporate governance are required and have started to be made in 2014/15 and will continue into future years. This will place financial pressure on the directorate and the wider Authority. The need for savings and dealing with cost pressures in CYPS will have a significant impact on the Authority's financial resilience.

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Amy has been part of the audit team for a number of years. Both Tim and Debra are new additions to the team. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.

Tim Cutler

Partner

"My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee and the Commissioner – Managing Director."

Debra Chamberlain

Senior Manager

"I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I am responsible for the management, delivery and review of the audit.

I will work closely with Tim to ensure we add value.

I will liaise with Interim Strategic Director of Finance and Corporate Services, senior members of the finance team and Head of Internal Audit."

Amy Warner

Assistant Manager

"I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants."

Page 243

Audit deliverables

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	■ Outlines our audit approach and significant risks. ■ Identifies areas of audit focus and planned procedures.	**February 2015 and updated for July 2015**
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements.	**September 2015**
Completion		
Auditor's Report	■ Provides an opinion on your accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	**September 2015**
Whole of Government Accounts	■ Provide our assurance statement on the Authority's WGA pack submission.	**September 2015**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**November 2015**

Page 244

Audit timeline

We will be in continuous dialogue with you throughout the audit.

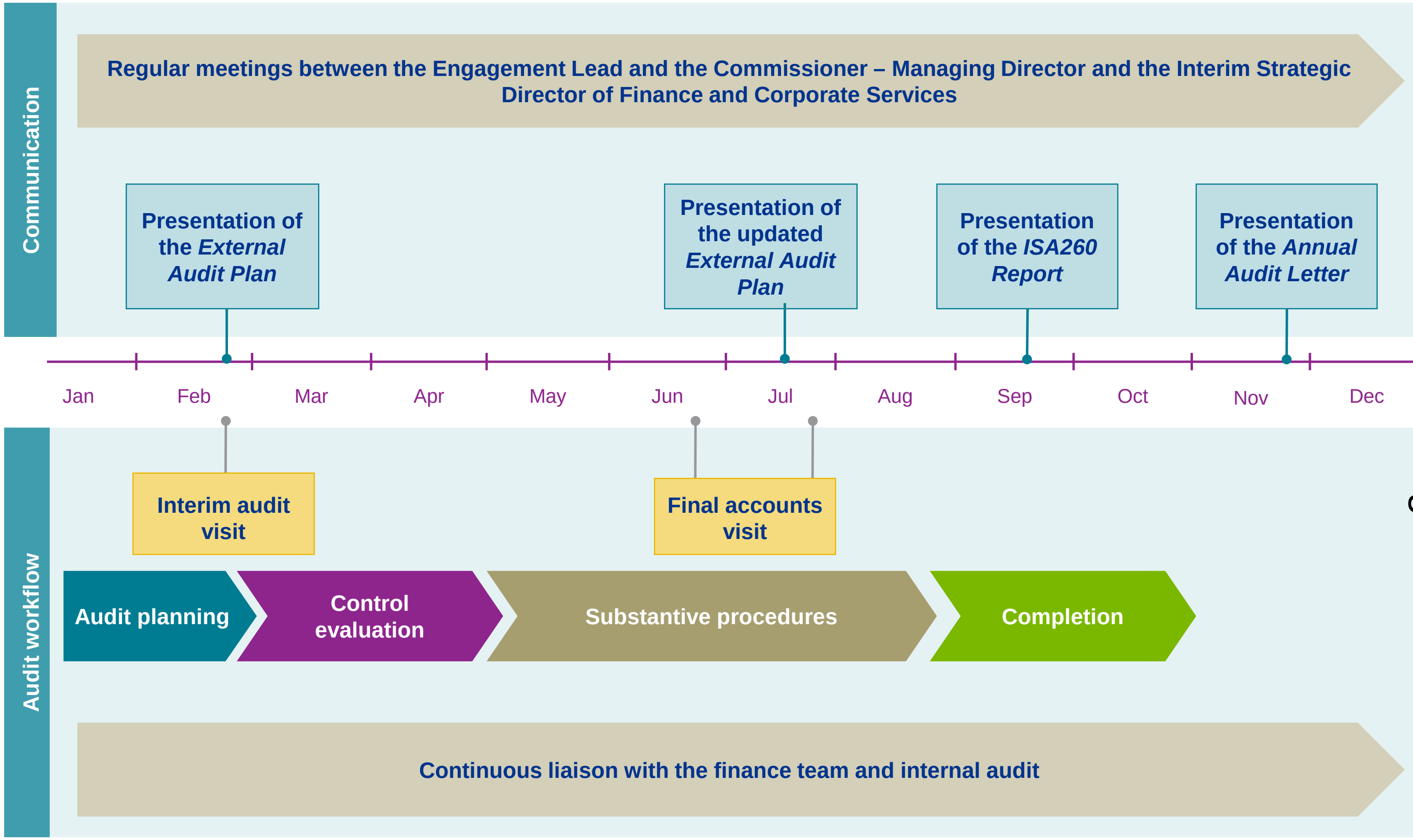
Key formal interactions with the Audit Committee are:

- February – External Audit Plan (with updated VfM plan in July);
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team throughout the year.

Our main work on site will be our:

- Interim audit visits during February.
- Final accounts audit during June and July.



Key: ● Audit Committee meetings.

Audit fee

The fee for the 2014/15 audit of the Authority is £186,300. The fee has not changed from that set out in our *Audit Fee Letter 2014/15* issued in April 2014.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2014/15 is £186,300. This is the same as the audit fee for 2013/14.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2014/15;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;
  - requested information will be provided within the agreed timescales;
  - prompt responses will be provided to queries and draft reports;
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority continues to maintain an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Interim Strategic Director of Finance and Corporate Services.

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

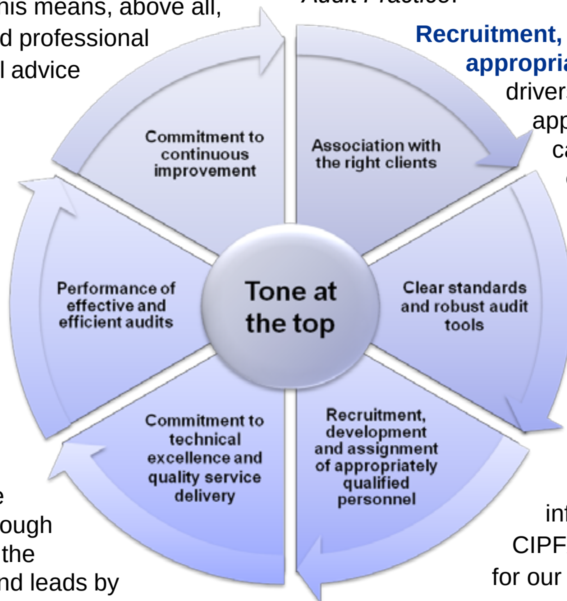
KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.



Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Tim Culter as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

Appendix 3 : Assessment of fraud risk

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Members /Officers responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management./officers

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition.
  - Management override of controls.

Page 250

Appendix 4: Transfer of Audit Commissions' functions

The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commissions' regulatory and other functions.

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO;
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office; and
- the Commission's counter-fraud function will transfer to the new public sector Counter Fraud Centre established by the Chartered Institute of Public Finance and Accountancy (CIPFA).

cutting through complexity™