Audit and Standards Committee

Thursday 14 September 2017 at 5.00 pm

To be held at the Town Hall, Pinstone Street, Sheffield, S1 2HH

The Press and Public are Welcome to Attend

Membership

Councillors Josie Paszek (Chair), Adam Hanrahan (Deputy Chair), Dianne Hurst, Alan Law, Pat Midgley, Peter Price and Paul Scriven.

Independent Co-opted Members

Liz Stanley.

Sheffield City Council

PUBLIC ACCESS TO THE MEETING

The Audit and Standards Committee oversees and assesses the Council's risk management, control and corporate governance arrangements and advises the Council on the adequacy and effectiveness of these arrangements. The Committee has delegated powers to approve the Council's Statement of Accounts and consider the Annual Letter from the External Auditor.

The Committee is also responsible for promoting high standards of conduct by Councillors and co-opted members.

A copy of the agenda and reports is available on the Council's website at http://democracy.sheffield.gov.uk. You can also see the reports to be discussed at the meeting if you call at the First Point Reception, Town Hall, Pinstone Street entrance. The Reception is open between 9.00 am and 5.00 pm, Monday to Thursday and between 9.00 am and 4.45 pm. on Friday. You may not be allowed to see some reports because they contain confidential information.

Recording is allowed at meetings of the Committee under the direction of the Chair of the meeting. Please see the website or contact Democratic Services for details of the Council's protocol on audio/visual recording and photography at council meetings.

If you require any further information please contact Dave Ross in Democratic Services on 0114 273 5033 or email dave.ross@sheffield.gov.uk.

FACILITIES

There are public toilets available, with wheelchair access, on the ground floor of the Town Hall. Induction loop facilities are available in meeting rooms.

Access for people with mobility difficulties can be obtained through the ramp on the side to the main Town Hall entrance.

AUDIT AND STANDARDS COMMITTEE AGENDA
14 SEPTEMBER 2017

Order of Business

1. Welcome and Housekeeping Arrangements

2. Apologies for Absence

3. Exclusion of the Press and Public
To identify items where resolutions may be moved to exclude the press and public.

4. Declarations of Interest (Pages 1 - 4)
Members to declare any interests they have in the business to be considered at the meeting.

5. Minutes of Previous Meeting (Pages 5 - 8)
To approve the minutes of the meeting of the Committee held on 13 July 2017.

6. 2016/17 Statement of Accounts and the External Auditor's Report to Those Charged with Governance (ISA 260) (Pages 9 - 210)
(a) Report of the Executive Director of Resources on the 2016/17 Statement of Accounts.

(b) The External Auditor's (KPMG) Report to Those Charged with Governance (ISA 260).

7. Approach to Budget and Business Planning (Pages 211 - 216)
Report of the Director of Policy, Performance and Communications.

8. Internal Audit Annual Report 2016/17 (Pages 217 - 242)
Report of the Senior Finance Manager (Internal Audit).

9. Update on Standards Complaints (Pages 243 - 254)
Report of the Director of Legal and Governance.

10. Work Programme (Pages 255 - 260)
Report of the Director of Legal and Governance.

11. Dates of Future Meetings
To note that meetings of the Committee will be held at 5.00 p.m. on:-

- 16 November 2017
- 14 December 2017 (additional meeting if required)
- 11 January 2018
- 8 February 2018 (additional meeting if required)
- 8 March 2018 (additional meeting if required)
- 12 April 2018
- 14 June 2018
- 26 July 2018

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ADVICE TO MEMBERS ON DECLARING INTERESTS AT MEETINGS

If you are present at a meeting of the Council, of its executive or any committee of the executive, or of any committee, sub-committee, joint committee, or joint sub-committee of the authority, and you have a **Disclosable Pecuniary Interest** (DPI) relating to any business that will be considered at the meeting, you must not:

- participate in any discussion of the business at the meeting, or if you become aware of your Disclosable Pecuniary Interest during the meeting, participate further in any discussion of the business, or
- participate in any vote or further vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

You **must**:

- leave the room (in accordance with the Members' Code of Conduct)
- make a verbal declaration of the existence and nature of any DPI at any meeting at which you are present at which an item of business which affects or relates to the subject matter of that interest is under consideration, at or before the consideration of the item of business or as soon as the interest becomes apparent.
- declare it to the meeting and notify the Council's Monitoring Officer within 28 days, if the DPI is not already registered.

If you have any of the following pecuniary interests, they are your **disclosable pecuniary interests** under the new national rules. You have a pecuniary interest if you, or your spouse or civil partner, have a pecuniary interest.

- Any employment, office, trade, profession or vocation carried on for profit or gain, which you, or your spouse or civil partner undertakes.

- Any payment or provision of any other financial benefit (other than from your council or authority) made or provided within the relevant period* in respect of any expenses incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

  *The relevant period is the 12 months ending on the day when you tell the Monitoring Officer about your disclosable pecuniary interests.

- Any contract which is made between you, or your spouse or your civil partner (or a body in which you, or your spouse or your civil partner, has a beneficial interest) and your council or authority –

  - under which goods or services are to be provided or works are to be executed; and
  - which has not been fully discharged.

- Any beneficial interest in land which you, or your spouse or your civil partner, have and which is within the area of your council or authority.

- Any licence (alone or jointly with others) which you, or your spouse or your civil partner, holds to occupy land in the area of your council or authority for a month or longer.

- Any tenancy where (to your knowledge) –
  - the landlord is your council or authority; and
  - the tenant is a body in which you, or your spouse or your civil partner, has a beneficial interest.

- Any beneficial interest which you, or your spouse or your civil partner has in securities of a body where -

  (a) that body (to your knowledge) has a place of business or land in the area of your council or authority; and

  (b) either -
    - the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or
    - if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, or your spouse or your civil partner, has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

If you attend a meeting at which any item of business is to be considered and you are aware that you have a **personal interest** in the matter which does not amount to a DPI, you must make verbal declaration of the existence and nature of that interest at or before the consideration of the item of business or as soon as the interest becomes apparent. You should leave the room if your continued presence is incompatible with the 7 Principles of Public Life (selflessness; integrity; objectivity; accountability; openness; honesty; and leadership).

You have a personal interest where –

- a decision in relation to that business might reasonably be regarded as affecting the well-being or financial standing (including interests in land and easements over land) of you or a member of your family or a person or an organisation with whom you have a close association to a greater extent than it would affect the majority of the Council Tax payers, ratepayers or inhabitants of the ward or electoral area for which you have been elected or otherwise of the Authority's administrative area, or

- it relates to or is likely to affect any of the interests that are defined as DPIs but are in respect of a member of your family (other than a partner) or a person with whom you have a close association.

Guidance on declarations of interest, incorporating regulations published by the Government in relation to Disclosable Pecuniary Interests, has been circulated to you previously.

You should identify any potential interest you may have relating to business to be considered at the meeting. This will help you and anyone that you ask for advice to fully consider all the circumstances before deciding what action you should take.

In certain circumstances the Council may grant a **dispensation** to permit a Member to take part in the business of the Authority even if the member has a Disclosable Pecuniary Interest relating to that business.

To obtain a dispensation, you must write to the Monitoring Officer at least 48 hours before the meeting in question, explaining why a dispensation is sought and desirable, and specifying the period of time for which it is sought. The Monitoring Officer may consult with the Independent Person or the Council's Audit and Standards Committee in relation to a request for dispensation.

Further advice can be obtained from Gillian Duckworth, Director of Legal and Governance on 0114 2734018 or email gillian.duckworth@sheffield.gov.uk.

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SHEFFIELD CITY COUNCIL

Audit and Standards Committee

Meeting held 13 July 2017

PRESENT: Councillors Josie Paszek (Chair), Adam Hanrahan, Dianne Hurst, Alan Law and Peter Price

Co-Opted Member
Liz Stanley

Representative of KPMG
Matt Ackroyd

Council Officers
John Mothersole, Chief Executive
Eugene Walker, Executive Director, Resources
Kayleigh Inman, Senior Finance Manager, Internal Audit
Stephen Bower, Finance Manager
Ruth Matheson, Assistant Finance Manager
Jane Walker, Business Manager

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1. APOLOGIES FOR ABSENCE

1.1 Apologies for absence were received from Councillors Pat Midgley and Paul Scriven.

2. EXCLUSION OF THE PRESS AND PUBLIC

2.1 No items were identified where it was proposed to exclude the public and press.

3. DECLARATIONS OF INTEREST

3.1 There were no declarations of interest.

4. MINUTES OF PREVIOUS MEETINGS

4.1 The minutes of the previous meetings of the Committee, held on 27 April and 17 May 2017, were approved as correct records.

5. ANNUAL GOVERNANCE STATEMENT 2016-17

5.1 The Director of Legal and Governance submitted a report outlining the Annual Governance Statement for 2016/17. The Council was required to produce, and have signed off, as part of its annual accounts, an Annual Governance Statement. The statement was intended to identify any significant control weaknesses and also to set out how the Council intended to address any weaknesses identified.

5.2 Eugene Walker, Executive Director, Resources, introduced the report. He commented that there were no major failures outlined in the statement. However, there were issues highlighted which was good practice to outline in the statement.

5.3 One of the significant issues was the overspend in social care. There was an increasing demand in adults and children's social care which had a significant impact in 2016-17 and would continue to affect budgets in the future. However, measures had been taken to try and address the overspend.

5.4 A further issue which had been highlighted was a legal judgement regarding equality in licensing policy. Although, the Council had been compliant at the time of the original decision, the legal judgement meant a need to take steps to ensure compliance in the future, which had been taken.

5.5 Following a query from a Member of the Committee as to whether the recent Adult Social Care grant from the Government had made any difference to the overspend in social care, John Mothersole, Chief Executive, commented that the funding had been received after the year outlined in the statement. It would help with the general overspend but the main pressures related to Learning Disabilities and Looked After Children. There was a need to take a longer term view. Demand could not be reduced but earlier intervention could stop issues further down the line. Pressures in social care had been increasing across the country which was why the Government intervention in respect of funding was needed.

5.6 **Resolved**: That:-

(i) the Committee notes the contents of the Annual Governance Statement for 2016/17 and that this had been signed by the Council Leader, Chief Executive and the Executive Director, Resources and that the statement formed part of the Annual Accounts; and

(ii) the Chair's opening script at future meetings of the Licensing Committee be amended to reflect the change in the equality duty arising from the recent legal judgement.

6. ANNUAL AUDIT FEE LETTER 2017/18

6.1 Matt Ackroyd, representing KPMG, introduced a report confirming the audit work and fee proposed for 2017/18.

6.2 **Resolved**: That the Committee notes the Annual Audit Fee Letter for 2017/18.

7. SUMMARY OF THE STATEMENT OF ACCOUNTS

7.1 The Executive Director, Resources, submitted a report providing the Committee with a summary of the 2016/17 Statement of Accounts and explaining the core statements and a number of the key notes to the accounts.

7.2 Ruth Matheson, Assistant Finance Manager, introduced the report. She commented that the report was governed by accounting standards and legislation. Training for Members of the Committee by an independent consultant could be offered on this if Members felt this could assist with their role.

7.3 **Resolved**: That the Committee notes the core statements and the key notes to the Statement of Accounts for 2016/17.

8. PROGRESS ON AUDIT REPORTS WITH A HIGH OPINION

8.1 The Senior Finance Manager, Internal Audit, submitted a report providing an updated position on implementation of recommendations contained in audit reports issued with a high opinion.

8.2 Kayleigh Inman, Senior Finance Manager, presented the report and commented that only one recommendation remained outstanding. Members were asked to agree to the removal of the Highways Maintenance Client Monitoring Arrangements and Statutory Responsibilities Health Check items.

8.3 In response to a question from a Member of the Committee regarding ongoing monitoring of the Statutory Responsibilities Health Check, Kayleigh Inman confirmed that Directors would be required to review as part of the annual governance declaration. Further to that an assurance framework pilot would be undertaken.

8.4 Responding to a question from the Chair regarding ongoing issues, Kayleigh Inman commented that these tended to be big issues which were not easily solved and that the ‘ongoing’ status reflected that work was in progress to address the recommendations.

8.5 In respect of a question from a Member of the Committee regarding fraud awareness training, Kayleigh Inman confirmed that an e-learning programme would be rolled out and all services would be required to undertake this once it was available.

8.6 **Resolved**: That the Committee:-

(i) notes the contents of the report; and

(ii) agrees to the removal of the Highways Maintenance Client Monitoring Arrangements and Statutory Responsibilities Health Check items from future reports.

9. INTERNAL AUDIT ANNUAL FRAUD REPORT

9.1 The Head of Strategic Finance submitted a report outlining the work undertaken by Internal Audit on fraud and corruption, focusing on the outcomes of the work from its investigations and the work undertaken on the National Fraud initiative.

9.2 Stephen Bower, Finance Manager, presented the report. He commented that the Internal Audit team lead on fraud management but managers were required to take action to address issues. Resources in the internal audit team were prioritised on the major concerns and could be moved around where needed.

9.3 Stephen Bower added that Housing Benefit Fraud was regulated by PriceWaterhouseCoopers (PWC). Last year it was reported that there was £325 million worth of fraud in this area nationally. However, this was just the level of fraud that was reported and the actual figure was likely to be closer to around £2.2 billion.

9.4 The largest number of frauds was single persons discount of Council Tax. The biggest fraud last year at the Council was a person recrediting income to their own credit card. Measures had been taken and Mr Bower believed that a fraud of this type could not happen again.

9.5 Regarding a question in respect of Housing Benefit fraud and neglected properties, Stephen Bower commented that Council properties were well managed in respect of this. Issues that arose tended to be related to housing association properties. If Members were aware of properties that were neglected they should let officers know.

9.6 **Resolved**: That the Committee notes the contents of the report.

10. WORK PROGRAMME

10.1 The Director of Legal and Governance submitted a report providing details of an outline work programme for the Committee for the 2017/18 municipal year.

10.2 **Resolved**: That the Committee's work programme for the 2017/18 municipal year be approved.

Sheffield City Council

Audit and Standards Committee Report

Report of:	Eugene Walker Interim Executive Director of Resources, Local Authority Section 151 Officer
Date:	14 September 2017
Subject:	2016/17 Statement of Accounts 2016/17 Report to Those Charged With Governance (ISA 260)
Author of Report:	David Phillips Head of Strategic Finance
Summary:	The purpose of the report is to communicate any relevant matters arising from the external audit of the 2016/17 Statement of Accounts to Members.
Recommendations:	To request that approval is given for the Chair of the Audit and Standards Committee to conclude the audit by signing the Letter of Management Representations and the Statement of Accounts for 2016/17.
Background Papers:	None
Category of Report:	OPEN

Statutory and Council Policy Checklist

Financial Implications
NO
Legal Implications
NO
Equality of Opportunity Implications
NO
Tackling Health Inequalities Implications
NO
Human rights Implications
NO
Environmental and Sustainability implications
NO
Economic impact
NO
Community safety implications
NO
Human resources implications
NO
Property implications
NO
Area(s) affected
None
Relevant Cabinet Portfolio Leader
Olivia Blake
Relevant Scrutiny Committee if decision called in
Not applicable
Is the item a matter which is reserved for approval by the City Council?
NO
Press release
NO

AUDIT AND STANDARDS COMMITTEE – 14 SEPTEMBER 2017

2016/17 STATEMENT OF ACCOUNTS

EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) 2016/17

Purpose of this Report

1. The purpose of the following report is to communicate any relevant matters arising from the external audit of the 2016/17 Statement of Accounts to Members and in acknowledging these findings request that approval is given to allow the auditors to conclude the audit, by signing the Letter of Management Representations and the Statement of Accounts.

Introduction and Background

2. The Council's 2016/17 Statement of Accounts were authorised by the Interim Executive Director of Resources (Section 151 Officer) on the 9 June 2017. At this time the accounts were still subject to External Audit by KPMG. This audit is now complete and the External Auditor's findings have been received.

3. The Statement of Accounts needs to be approved by the Audit and Standards Committee at this meeting.

4. As the Statement of Accounts is a technical document some explanatory notes are attached at ***Appendix 1*** to this report to aid understanding. These notes explain the purpose of each statement and the peculiarities of Local Authority accounting.

5. External Auditors are required to undertake their work in accordance with International Auditing Standards. Specifically, they are required to communicate any relevant matters relating to the audit to those charged with governance.

Findings from the External Audit of the 2016/17 Statement of Accounts

6. The findings from the external audit review are set out in detail in their Report to those Charged with Governance (ISA 260) 2016/17, which is a separate report, and members are asked to note the contents.

7. As a result of on-going work on the draft accounts produced in June, some minor misstatements and presentational errors have been identified by officers and others have been identified as a result of the external audit.

The necessary amendments have been made to the Statement of Accounts and agreed with the auditors.

8. The Report to those Charged with Governance (ISA 260) 2016/17 Appendix 3: Audit Differences, identifies a number of adjustments which have been amended in the accounts.

9. The Section 151 officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices, and he will certify that they give a true and fair view (i.e. that the financial statements present a true and fair view of the financial position of Sheffield City Council as at 31 March 2017 and its income and expenditure for the year). We understand that the auditors intend to issue an unqualified audit opinion on the accounts.

10. The External Auditors are also required to report on value for money, specifically on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The Report to those Charged with Governance (ISA 260) 2016/17, Section 2 reports an unqualified conclusion.

11. In order to complete their audit and satisfy their auditing standards, the Auditors are requesting written management representation from those charged with governance. Appropriate enquiries have been made with responsible officers within the Authority in order to confirm the representations included. Therefore, a letter of management representations in the format prescribed by the External Auditors needs to be signed by the Chair of the Audit and Standards Committee.

12. The Auditors are also required to ask those charged with governance to confirm that there are no material uncertainties that cast significant doubt about the ability of the Council to continue as a going concern. Appropriate enquiries have been made within the Council and for other parties in which the Council has an interest and no material uncertainties have been identified.

Publication of the 2016/17 Statement of Accounts

13. As part of their work to complete the audit, the Auditors issue an opinion on the Statement of Accounts and a Certificate of Completion of the Audit. It is intended that an unqualified opinion will be given on the Statement of Accounts. The Auditors will not be able to issue a certificate to close the Audit until work for the outstanding objections to the 2016/17 Statement of Accounts have been concluded.

14. The 2016/17 Statement of Accounts will be published on the Council's website. Once the Certificate of Completion is received a statement will be published to inform that the audit has been concluded and the accounts have been published.

Financial Implications

15. There are no financial implications arising from the recommendations set out in this report.

Equal Opportunities Implications

16. There are no equal opportunities implications arising from the recommendations set out in this report.

Property Implications

17. There are no property implications arising from the recommendations set out in this report.

Recommendations

18. It is recommended:

- That the Audit and Standards Committee accepts the Report to those Charged with Governance (ISA 260) 2016/17.

- That following the above acceptance the Chair of the Audit and Standards Committee provides her signature to the Letter of Management Representations in order to conclude the audit;

- That the Audit and Standards Committee approves the Statement of Accounts for 2016/17 and the Chair of the Audit and Standards Committee provides her signature to the Statement of Accounts.

David Phillips
Head of Strategic Finance

14 September 2017

APPENDIX 1

Explanatory Note: Statement of Accounts

1. The purpose of this document is to provide guidance on the interpretation of the Council's Statement of Accounts. The accounts comprise several key statements:

- Expenditure and Funding Analysis Statement
- Comprehensive Income and Expenditure Account
- Movement in Reserves
- Balance Sheet
- Cash Flow Statement
- Key Notes to the Core Financial Statements
- Housing Revenue Account Income and Expenditure Account
- Collection Fund

Peculiarities of Local Authority Accounting

2. The presentation of Local Authority accounts differs greatly to that of the private sector. Many of these differences occur due to legislative requirements for Local Authority accounts. For example, in the Council's accounts income is shown as a negative figure in brackets and expenditure is shown as a positive figure.

3. There are also significant differences in the way the Council accounts for Capital and Pension Contributions.

Capital

4. Local Authorities account for capital in line with International Financial Reporting Standards (IFRS) on the face of the income and expenditure account. However, the impact of any charges are "reversed" out in an adjustment between accounting basis and funding basis under regulation, so that they do not impact on the amount collected in Council Tax.

Pensions

5. Local Authorities are required to comply with International Accounting Standards (IAS) 19 on accounting for post-employment benefits, which means accounting for pension liabilities when they are committed to giving them, not when they are actually paid out. The Council complies with IAS 19 and recognises the Council's share of the net liability of South Yorkshire Pension Scheme in the balance sheet. Within the Comprehensive Income and Expenditure account the cost of service figures have been adjusted so they represent the true costs of pensions

earned, IAS 19 does not have any effect on the amount collected in Council Tax as they are reversed out as an adjustment between accounting basis and funding basis under regulation.

Expenditure and Funding Analysis Statement

6. The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (Government grants, rents, Council Tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council’s portfolios / services.

7. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

Comprehensive Income and Expenditure Account

8. This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (Council Tax).

9. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.

10. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Movement in Reserves

11. This Statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.

12. The Surplus or (Deficit) on the provision of services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

13. These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes, therefore an adjustment is

made to the movement in reserves statement for adjustments between accounting basis and funding basis under regulation.

14. The net increase / decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Balance Sheet

15. The Balance Sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

16. Reserves are reported in two categories:

- Usable reserves - 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.

- Unusable reserves - those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

Cash Flow Statement

17. The Cash Flow statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents.

18. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority.

Key Notes to the Financial Statements

19. The notes to the accounts contain information in addition to that presented in the main statements. They provide narrative descriptions, disaggregation of items presented in the statements and further information about items in the statements.

20. The report on the Outturn position at the end of the 2016/17 financial year was considered by Cabinet on 21 June 2017. This reported a net deficit of £2.3m overall for the general fund revenue account. The Statement of Accounts is in line with the outturn report but sets out the more detailed financial position for the Council in a format required by legislation. The Expenditure and Funding Analysis and the following note show the reconciliation between the outturn position and the statement of accounts:

- *Adjustments between accounting basis and funding basis under regulations* (Note 12) – this note details how the CIES has been adjusted in accordance with accounting practice, and the resources that are specified by statutory provision as being available.

Housing Revenue Account (HRA)

21. The HRA Income and Expenditure Statement shows the economic cost in year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants.

22. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

Collection Fund

23. The Collection Fund is a statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and Central Government of council tax and business rates.

SHEFFIELD CITY COUNCIL

STATEMENT OF ACCOUNTS 2016/17

Unaudited

For the period
1 April 2016 to 31 March 2017

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Narrative Report by the Executive Director of Resources

1. INTRODUCTION

Purpose of the Narrative Report

Sheffield City Council is a large and diverse organisation and the information contained in these accounts can be technical and complex to follow. The aim of this Narrative Report, therefore, is to provide a narrative context to the accounts by presenting a clear and simple summary of the City Council's financial position and performance for the year and its prospects for future years.

The Statement of Accounts contains all the financial statements and disclosure notes required by statute. They have been prepared in accordance with the 2016/17 Code of Practice on Local Authority Accounting (the Code) together with guidance notes as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A glossary can also be found towards the end of these accounts to help explain some of the accounting terms used. Due to the complex nature of the accounts a simpler version has been prepared, and this can be obtained at http://www.sheffield.gov.uk/home/your-city-council/statement-accounts. These summarised statements have no formal legal standing, but by excluding most of the technical accounting adjustments they offer the reader a simplified view of the City Council's financial activities.

The Headlines

The following summarises the headlines of this year's accounts.

- As a result of emerging pressures within Childrens' and Adult Social Care, the Council overspent its General Fund budget by £2.3m in 2016/17.

- The Council's net worth has increased by £151.4m (or 21%) since 2015/16, the main factors being:

    - A net increase in the Council's fixed assets (£315.2m), primarily due to the reversal of previous impairments on council dwellings. This was due to a technical accounting adjustment that was required in 2016/17, as a result of a change in a regional adjustment factor, offset by;
    - An increase in the Council's pensions' liability (£101.6m) due to the annual review by the actuary. This is an accounting adjustment determined by the Council's actuaries, which is based on a number of assumptions that interact in complex ways, and;
    - An increase in the council's liabilities with respect to Private Finance Initiatives (£30.9m). The majority of which reflects the capital expenditure invested in the Streets Ahead programme during the year.

- Total usable Revenue reserves decreased by £27.9m from £193.9m to £166m and total usable Capital reserves increased by £2.6m from £140.3m to £142.9m (see section 4 of this Narrative Report);

- £211.9m of capital investment went through the Capital Programme during the year, down from £237m in 2015/16.

2. THE CITY COUNCIL'S CORPORATE AIMS AND OBJECTIVES

The Council's Corporate Plan 2015-18 was approved by Cabinet on 18th March 2015.

The plan sets our direction and priorities for the next three years.

The plan is structured around five priorities of the administration that capture our long term ambitions for Sheffield:

- An in touch organisation
- Strong economy
- Thriving neighbourhoods and communities
- Better health and wellbeing
- Tackling inequalities

A summary of the Corporate Plan can be downloaded from the Council's website: http://www.sheffield.gov.uk/home/your-city-council/our-priorities

3. KEY SECTIONS INCLUDED IN THE STATEMENT OF ACCOUNTS

Statement of Responsibilities (page 14)

This sets out the respective responsibilities of the City Council and the Executive Director of Resources for the Accounts.

Expenditure and Funding Analysis Statement (page 15)

The statement shows how annual expenditure is used and funded from resources (Government grants, rents, Council Tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

Comprehensive Income and Expenditure Statement (page 18)

This account summarises the revenue costs of providing all Council services and the income and resources received in financing the expenditure.

Movement in Reserves Statement (page 19)

This statement shows the movement during the year of the different reserves held by the Council.

Balance Sheet (page 22)

The Balance Sheet includes information on the Council's non-current and current assets, short term and long term liabilities and the balances at its disposal at the reporting date.

Cash Flow Statement (page 24)

This statement provides a summary of the flow of cash into and out of the Council for revenue and capital purposes, based on the indirect method of presentation.

Notes to the Financial Statements (page 25)

These notes expand on important points shown in the core statements and provide further explanation of movements and balances.

Housing Revenue Account (HRA) (page 131)

This account reflects the statutory obligation under the Local Government and Housing Act 1989 to show separately the financial transactions relating to the provision of local Council housing.

Collection Fund Statement (page 138)

This statement summarises the transactions of Sheffield as a Billing Authority in relation to National Non-Domestic Rates and Council Tax, and also illustrates the way in which income has been distributed to Precepting Authorities (i.e. South Yorkshire Fire and Police).

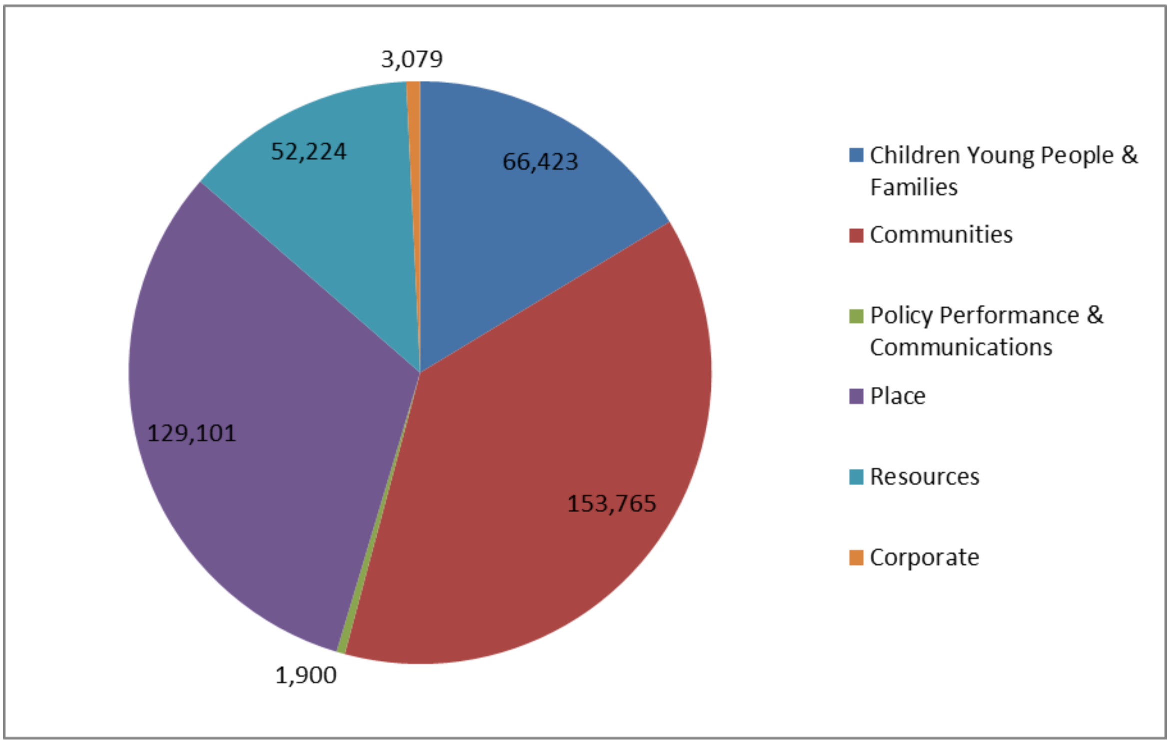
4. FINANCIAL PERFORMANCE FOR THE YEAR

Revenue Expenditure

Revenue expenditure covers the day-to-day running costs of the Council's services which are grouped under five portfolios plus corporate. The net revenue budget for 2016/17, which included a General Fund savings programme of £27.6m, was split by portfolio as shown in the chart overleaf. The net expenditure was budgeted to be funded by £90.6m of Revenue Support Grant, £176.5m of Council Tax, £106.6m of the Council's share of National Non Domestic Rates (NNDR), £29.1m of Business Rates Top Up Grant, £3.5m of Social Care Precept and £283k of Collection Fund Surplus.

2016/17 was yet another challenging year in which all portfolios worked hard to deliver the savings programme referred to above, compounded by six years of austerity. The table after the chart shows the final outturn position for the year, expressed as variances between actual and budgeted net expenditure. For further details, please refer to the Council website where a copy of the final outturn report (scheduled for approval by Cabinet on 21 June 2017) can be found at:
http://democracy.sheffield.gov.uk/ieListDocuments.aspx?CId=123&MId=6618

Sheffield City Council 2016/17 Net Revenue Budget by Portfolio (£000)



Portfolio	**Variance £'000**
Children Young People and Families	6,345
Communities	6,601
Policy Performance and Communications	359
Place	(532)
Resources	(1,897)
Corporate	(8,551)
Total overspend for the year	**2,325**

As indicated in the table above, the key areas of concern are the CYPF and Communities portfolios which overspent by a combined total of £12.9m largely as a result of emerging pressures within Childrens' and Adult Social Care.

Revenue expenditure is reported in the Council's Accounts under the Comprehensive Income and Expenditure Statement (CIES). The CIES takes a wider view of financial performance than that shown in the General Fund and shows the accounting position for the year, namely a surplus of £151.4m. This surplus represents the total amount by which the Council's net worth has increased during the year as shown in the Balance Sheet. The following paragraphs explain the four main sections of the CIES, and are supplemented by a table which reconciles the total overspend on the General Fund of £2.3m to the surplus in the CIES (£151.4m).

The first section of the CIES shows the cost of the Council's services in gross and net terms, to give a total 'Net Cost of Services'. This total includes items such as depreciation that would ordinarily be a considerable cost in a commercial organisation but which is not required to be funded by Council Tax. Net Cost of Services totals £87.7m in 2016/17 (£443.1m in 2015/16). The reversal of previous impairments on council dwellings (circa £300m) is the primary reason for such a significant variance, which was due to a technical accounting adjustment that was required in 2016/17, as a result of a change in a regional adjustment factor.

The second section of the CIES refers to corporate items such as the gain or loss on the disposal of non-current assets, payments made in relation to the pooling of HRA capital receipts and precepts paid to Parish Councils. This is known as ‘Operating Expenditure’ and totals £59.1m in 2016/17 (£49.3m in 2015/16).

The third section of the CIES includes £101.2m (£74.3m in 2015/16) of interest paid or received (‘Financing’) and £549.1m (£593.6m in 2015/16) of general income due to the Council (local share of NNDR, Council Tax, non-ring fenced Government grants including those used to fund capital expenditure).

The fourth and final section of the CIES contains two major accounting adjustments, one for the actuarial loss on the Council’s pension scheme, the other for the gain on revaluation of fixed assets.

	£000
Total General Fund Overspend per Outturn report	2,325
Net contributions from revenue reserves	26,385
Surplus on the Housing Revenue Account	0
Deficit on Schools Accounts	1,616
Total Contribution from Reserves	**30,326**
Removal of debt charges	(32,668)
Removal of pension contributions	(98,462)
Items that do not affect Council Tax:	
Inclusion of accounting charges for depreciation, impairment, holiday pay, PFI, etc.	(49,359)
Gains & losses on non-current assets, pension assets and other items	(1,261)
Surplus on Total Comprehensive Income and Expenditure in Accounts	**(151,424)**

Further details can also be found in a new disclosure note: Note 9 Note to the Expenditure and Funding Analysis (see page 55).

Capital Expenditure

Capital expenditure can generally be defined as spending which creates and enhances assets that have a life of more than one year.

The 2016/17 Capital Outturn is £211.9m against a revised budget of £241.9m, a variance of £30m (12%). The main reason for this is ‘slippage’ (the extent to which, in terms of expenditure, a capital project is behind its original schedule) which will be carried forward into 2017/18 (along with the resources identified to fund it).

The 2016/17 Capital Outturn represents a decrease of £25.1m (11%) on 2015/16 (£237m).

For further details, please refer to Appendix 8 of the final outturn report on the Council website:
http://democracy.sheffield.gov.uk/ieListDocuments.aspx?CId=123&MId=6618

The capital expenditure of £211.9m in 2016/17 was funded via four main sources:

- Capital grants and contributions
- Prudential borrowing
- Major Repairs Reserve
- Capital receipts

A further £47.1m of capital was invested in the Streets Ahead programme during the year, which takes total capital expenditure for 2016/17 to £259m (see Note 43).

As at 31 March 2017, the loans portfolio, excluding £426m of PFI liabilities, totalled £747m. This compares to an overall Capital Financing Requirement, excluding PFI Liability, of £988m of which £346m relates to the Housing Revenue Account.

During the year, we took £25m of borrowing for capital purposes – primarily to fund our on-going commitment to the Streets Ahead programme and to purchase properties in preparation for the Sheffield Retail Quarter and therefore all relating to General Fund activity.

Usable Reserves

Reserves are reported in two categories, usable and unusable. This section is concerned with usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

The following table shows a breakdown of usable reserves. Of the different components shown in the table, the General Fund is the only component which is not earmarked for a specific purpose. At £9.7m or 2.4% of the 2017/18 net revenue budget, the General Fund is low in comparison to most other major cities. If this were ever used, it would have to be replaced as soon as possible as the Council would always need a minimum level of emergency reserves.

As stated in the outturn report, this reserve has fallen below the minimum prudent level recommended by the Executive Director of Resources, mainly as a result of the £2.3m overspend in 2016/17. The Executive Director, as Statutory Finance Officer (s151 Officer), recommends that the reserve is returned to the minimum recommended level of £12.6m, approximately 3% of net revenue expenditure, during 2017/18.

31 March 2016 £000		31 March 2017 £000
	Capital Reserves:	
(44,980)	Capital Receipts Reserve	(53,111)
(71,827)	Major Repairs Reserve	(69,311)
(23,444)	Capital Grants Unapplied Reserve	(20,461)
(140,251)		(142,883)
	Revenue Reserves:	
(12,599)	General Fund	(9,689)
	Earmarked General Fund Reserves**:**	
(17,005)	Schools Reserves	(16,150)
(468)	Revenue Grants and Contributions	(1,033)
(151,928)	Other Earmarked Revenue Reserves	(125,833)
(8,176)	Housing Revenue Account Balance	(9,199)
(3,713)	Earmarked Housing Revenue Account Reserve	(4,107)
(193,889)		(166,011)
(334,140)	**Total**	**(308,894)**

During the financial year 2016/17, total usable reserves decreased by £25.2m from £334.1m to £308.9m. The key reason for this was to support the early payment of the pension deficit, thus enabling the delivery of £5m of savings over the period 2017/18 to 2019/20.

A breakdown of the in-year movement on each of the usable reserves can be found in the Movement in Reserves Statement. An explanation of each reserve is provided in Note 29.

5. SIGNIFICANT CHANGES IN ACCOUNTING POLICY

The Council's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the CIPFA Code of Practice on Local Authority Accounting 2016/17. The accounting policies presented in Note 1 are compliant with IFRS and have been applied in preparing the financial statements and the comparative information.

In 2016/17, the CIPFA Code of Practice was due to adopt the Transport Infrastructure Assets Code, resulting in a change to the measurement basis for the Council's highways related assets. The new Highways Network Asset would have been valued at depreciated replacement cost, replacing the depreciated historic cost value reported now. The new valuation approach had been expected to significantly increase the value of the Council's Balance Sheet from 1 April 2016 by several £billion.

However, on 10 March 2017 CIPFA/LASAAC issued a statement containing the following:

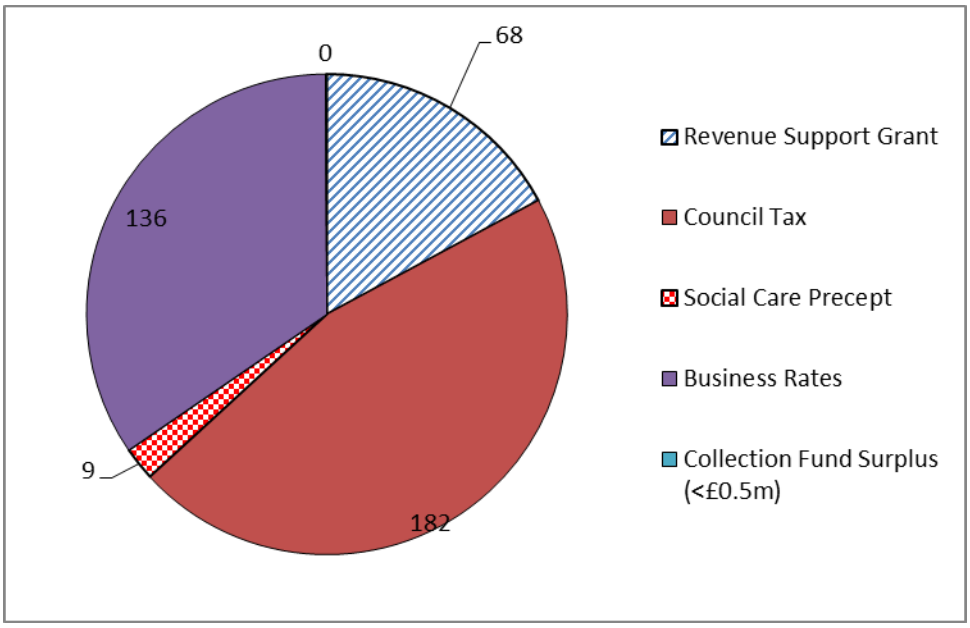
"At its meeting on March 8th, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities."

6. FINANCIAL OUTLOOK

This section provides a summary of what the future holds for the Council's finances. Further details can be found in the 2017/18 Revenue Budget (approved by Full Council on 3 March 2017) and the Medium Term Financial Strategy.

Local Government Finance Settlement

After releasing details of the Provisional Local Government Finance Settlement on 15 December 2016, the final Local Government Finance Settlement figures for 2017/18 were confirmed on 20 February 2017.



How the 2017/18 net revenue budget is financed (expressed in £m)

As shown in the chart above, the net revenue budget for 2017/18 totals £395.6m and comprises three main sources of income, as well as the 'Social Care Precept' plus a small one-off amount of £398k "Collection Fund Surplus".

When compared to the 2016/17 net revenue budget, the proportion of each of these income sources has changed significantly, thus pointing to a trend of things to come. For example, Revenue Support Grant (RSG) accounted for 22% of the net revenue budget in 2016/17. As a result of RSG being reduced by £23m in the 2017/18 Settlement, it now only accounts for 17% of the net revenue budget in 2017/18. Council Tax (including the social care precept) is now the primary source of income (at 48% of the total net revenue budget). Business Rates are the second largest source of income, and account for 34% of net revenue budget.

The Final Local Government Finance Settlement for 2017/18 also included indicative figures for the two financial years from 2018/19 to 2019/20. Although indicative, we have agreed a minimum funding guarantee with DCLG which means that we know that RSG will reduce by around 46% cumulatively over the next two years.

There was also information about certain specific grants such as Public Health (reduced by 2.5%) and New Homes Bonus (reduced by £240m nationally to fund a new, albeit one-off 'Adult Social Care Support' Grant – see below).

The Settlement also included some details of new sources of income such as: (a) the one-off Adult Social Care Support grant (£2.7m), (b) the Improved Better Care Fund grant (£2.2m). Furthermore, the Government confirmed that local authorities would be permitted additional flexibility of 1% for the social care precept, meaning a maximum increase of 3% in 2017/18.

Finally, in order to compensate the City Council for loss of business rates income as a result of the 2017 revaluation, it was confirmed in the Settlement that the City Council would receive an increase to its top-up grant of £9.4m.

On 8 March 2017, the Chancellor announced in his Spring Budget 2017 that £2bn of additional adult social care funding would be made available to local authorities over the next 3 years. Indicative allocations were released later that week, stating that the City Council could expect to receive £12.5m of extra funding in 2017/18. However, there are a number of conditions (including the agreement of a spending plan in conjunction with the Clinical Commissioning Group (CCG) through which officers are working.

As a result of this new information and to enable the Council to begin the business planning process for 2018/19, officers have started work on preparing a revised Medium Term Financial Strategy (MTFS) for 2018-23.

Conclusion

Sheffield City Council has successfully delivered over £350m of General Fund budget savings in the past six years, and it has managed to produce a balanced 2017/18 budget, which includes additional portfolio General Fund savings of £25.7m. However, due to the impending snap General Election in early June 2017, it is not clear whether a new Government will pursue the current Government's plans to reduce the national budget deficit to zero by the end of the next Parliament. Nevertheless, it will undoubtedly place Council services under further intense pressure for the foreseeable future.

7. FURTHER INFORMATION

Further information about the Council's Statement of Accounts is available upon request from the following e-mail address: FinancialPlanning&Accounts@sheffield.gov.uk
The Statement of Accounts can be downloaded from the Council's website: http://www.sheffield.gov.uk/home/your-city-council/statement-accounts

If you have any problems understanding this publication, or have any suggestions as to how it may be improved, please contact us via the e-mail address above.

Please note that local electors and taxpayers have a statutory right to inspect the Council's Statement of Accounts and all related books, deeds, contracts, bills, vouchers and receipts before the external audit has been completed, and to question the auditor. The availability of the accounts for inspection was advertised on the Council's website on 6 June 2017 and in public notice areas.

Statement of Accounts

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Executive Director of Resources.

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- Approve the Statement of Accounts.

The Responsibilities of the Executive Director of Resources

The Executive Director of Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Executive Director of Resources has:

- selected suitable accounting policies and then applied them consistently,

- made judgements and estimates that were reasonable and prudent,

- complied with the Local Authority Code.

The Executive Director of Resources has also:

- kept proper accounting records, which were up to date,

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby certify that the Statement of Accounts on pages 15 - 146 gives a true and fair view of the financial position of Sheffield City Council as at 31 March 2017 and of its income and expenditure for the year ended 31 March 2017.

Eugene Walker
Interim Executive Director of Resources (Section 151 Officer)
14 September 2017

The Core Financial Statements

Expenditure and Funding Analysis Statement (EFA)

The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (Government grants, rents, Council Tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

2016/17

	Notes	Outturn Position Reported to Internal Management £000	Adjustments for Items Not Reported to Internal Management £000	Net Expenditure Chargeable to the General Fund and HRA Balances Under Statutory Funding Provisions £000	Adjustments between the Funding and Accounting Basis £000	Other Adjustments £000	Net Expenditure in the CI&ES £000
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
Children, Young People and Families		83,020	(6)	**83,014**	26,739	0	109,753
Schools		0	1,616	**1,616**	0	0	1,616
Communities (excluding HRA)		155,428	(575)	**154,853**	5,941	0	160,794
Place		153,848	(560)	**153,288**	113	(564)	152,837
Policy, Performance & Communications		3,455	0	**3,455**	0	0	3,455
Resources		52,326	(126)	**52,200**	(44,572)	(1,003)	6,625
Corporate		(445,751)	26,619	**(419,132)**	21,354	397,330	(448)
Total General Fund (GF)		2,326	26,968	**29,294**	9,575	395,763	434,632
Housing Revenue Account (HRA)		0	(15,697)	**(15,697)**	(324,254)	(6,974)	(346,925)
Net Cost of Services	9	**2,326**	**11,271**	**13,597**	**(314,679)**	**388,789**	**87,707**
Other Income & Expenditure GF		0	0	**0**	**0**	(395,763)	(395,763)
Other Income & Expenditure HRA		0	0	**0**	**0**	6,974	6,974
Other Income & Expenditure		**0**	**0**	**0**	**0**	**(388,789)**	**(388,789)**
Difference between General Fund Surplus / Deficit and CI&ES Surplus / Deficit	9	**2,326**	**11,269**	**13,596**	**(314,679)**	**0**	**(301,082)**
Opening General Fund and HRA Balance at 1 April		(193,889)					
Surplus / Deficit on General Fund and HRA Balance at 31 March		13,598					
Other Movements		14,281					
Closing General Fund and HRA Balance at 31 March*		**(166,010)**					

* For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement

2015/16 – Comparative Information Restated

	Notes	Outturn Position Reported to Internal Management £000	Adjustments for Items Not Reported to Internal Management £000	Net Expenditure Chargeable to the General Fund and HRA Balances Under Statutory Funding Provisions £000	Adjustments between the Funding and Accounting Basis £000	Other Adjustments £000	Net Expenditure in the CI&ES £000
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
Children, Young People and Families		77,754	(26)	**77,728**	19,126	0	96,854
Schools		0	1,879	**1,879**	0	0	1,879
Communities (excluding HRA)		163,646	0	**163,646**	4,085	0	167,731
Place		165,868	(10,763)	**155,105**	18,758	1,532	175,395
Policy, Performance & Communications		3,217	0	**3,217**	63	0	3,280
Resources		58,018	0	**58,018**	(35,300)	347	23,065
Corporate		(469,064)	(47,011)	**(516,075)**	34,383	479,556	(2,136)
Total General Fund (GF)		(561)	(55,921)	**(56,482)**	41,115	481,435	466,068
Housing Revenue Account (HRA)		0	(18,852)	**(18,852)**	7,613	(11,705)	(22,945)
Net Cost of Services	9	**(561)**	**(74,773)**	**(75,334)**	**48,728**	**469,730**	**443,123**
Other Income & Expenditure GF		0	0	**0**	0	(481,435)	(481,435)
Other Income & Expenditure HRA		0	0	**0**	0	11,705	11,705
Other Income & Expenditure		**0**	**0**	**0**	**0**	**(469,730)**	**(469,730)**
Difference between General Fund Surplus / Deficit and CI&ES Surplus / Deficit	9	**(561)**	**(74,773)**	**(75,334)**	**48,728**	**0**	**(26,607)**
Opening General Fund and HRA Balance at 1 April		(137,531)					
Surplus / Deficit on General Fund and HRA Balance at 31 March		(75,333)					
Other Movements		18,975					
Closing General Fund and HRA Balance at 31 March*		**(193,889)**					

* For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement

Comprehensive Income and Expenditure Statement (CI&ES)

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (Council Tax). Councils raise taxation to cover expenditure in accordance with regulations and this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2015/16 Restated Gross Expenditure £000	2015/16 Restated Gross Income £000	2015/16 Restated Net Expenditure £000		Notes	2016/17 Gross Expenditure £000	2016/17 Gross Income £000	2016/17 Net Expenditure £000
			Continuing Operations:				
215,505	(118,651)	96,854	Children, Young People and Families		239,435	(129,682)	109,753
229,143	(227,264)	1,879	Schools		207,373	(205,757)	1,616
221,728	(46,333)	175,395	Place		190,422	(37,585)	152,837
249,768	(82,037)	167,731	Communities (excluding HRA)		252,760	(91,966)	160,794
7,345	(4,065)	3,280	Policy, Performance & Communications		8,539	(5,084)	3,455
251,489	(228,424)	23,065	Resources		221,011	(214,386)	6,625
(2,676)	540	(2,136)	Corporate		975	(1,423)	(448)
1,172,302	**(706,234)**	**466,068**			**1,120,515**	**(685,883)**	**434,632**
138,126	(161,071)	(22,945)	Housing Revenue Account (HRA)		(189,095)	(157,830)	(346,925)
1,310,428	**(867,305)**	**443,123**	**(Surplus) / Deficit on Continuing Operations**		**931,420**	**(843,713)**	**87,707**
		49,255	Other Operating Expenditure	14			59,130
		74,293	Financing and Investment Income and Expenditure	15			101,201
		(593,278)	Taxation and Non-Specific Grant Income	16			(549,120)
		(26,607)	**(Surplus) / Deficit on Provision of Services**				**(301,082)**
		(33,688)	(Surplus) / deficit on revaluation of non-current assets				3,638
		(99,469)	Re-measurements of the pension net defined benefit liability				147,281
		715	Other (gains) / losses				(1,261)
		(132,442)	**Other Comprehensive (Income) and Expenditure**				**149,658**
		(159,047)	**Total Comprehensive (Income) and Expenditure**				**(151,424)**

Movement in Reserves Statement (MIRS)

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. It includes both revenue and capital usable reserves, most of which are held pending future spending commitments.

The (Surplus) / Deficit on the provision of services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The net (increase) / decrease before transfers to earmarked reserves line shows the statutory General Fund and Housing Revenue Account Balance before any discretionary transfers (to) or from earmarked reserves undertaken by the Council.

2016/17

	Note	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account Balance £000	Earmarked Housing Revenue Account Reserve £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
		29	29	29	29	29	29	29		30	
Balance at 31 March 2016		**(12,599)**	**(169,401)**	**(8,176)**	**(3,713)**	**(71,827)**	**(44,980)**	**(23,444)**	**(334,140)**	**(382,850)**	**(716,990)**
Movement in reserves during 2016/17:											
Total Comprehensive (Income) and Expenditure		38,870	0	(341,274)	0	0	61	0	(302,343)	150,919	(151,424)
Adjustments between accounting basis and funding basis under regulations	12	(9,575)	0	324,254	0	18,119	(8,192)	2,983	327,589	(327,589)	0
Net (increase) / decrease before transfers to earmarked reserves		**29,295**	**0**	**(17,020)**	**0**	**18,119**	**(8,131)**	**2,983**	**25,246**	**(176,670)**	**(151,424)**
Transfers (to) / from earmarked reserves	13	(26,385)	26,385	15,997	(394)	(15,603)	0	0	0	0	0
(Increase) / decrease in year		**2,910**	**26,385**	**(1,023)**	**(394)**	**2,516**	**(8,131)**	**2,983**	**25,246**	**(176,670)**	**(151,424)**
Balance at 31 March 2017		**(9,689)**	**(143,016)**	**(9,199)**	**(4,107)**	**(69,311)**	**(53,111)**	**(20,461)**	**(308,894)**	**(559,520)**	**(868,414)**

2015/16 Comparative Information

	Note	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account Balance £000	Earmarked Housing Revenue Account Reserve £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
	Note	29	29	29	29	29	29	29		30	
Balance at 31 March 2015		**(11,183)**	**(110,865)**	**(12,841)**	**(2,643)**	**(71,851)**	**(36,977)**	**(26,055)**	**(272,415)**	**(285,526)**	**(557,941)**
Movement in reserves during 2015/16:											
Total Comprehensive (Income) and Expenditure		(15,368)	0	(10,549)	0	0	25	0	(25,892)	(133,157)	(159,049)
Adjustments between accounting basis and funding basis under regulations	12	(41,113)	0	(7,613)	0	21,780	(7,377)	1,960	(32,363)	32,363	0
Net (increase) / decrease before transfers to earmarked reserves		**(56,481)**	**0**	**(18,162)**	**0**	**21,780**	**(7,352)**	**1,960**	**(58,255)**	**(100,794)**	**(159,049)**
Transfers (to) / from earmarked reserves	13	55,065	(58,536)	22,827	(1,070)	(21,756)	(651)	651	(3,470)	3,470	0
(Increase) / decrease in year		**(1,416)**	**(58,536)**	**4,665**	**(1,070)**	**24**	**(8,003)**	**2,611**	**(61,725)**	**(97,324)**	**(159,049)**
Balance at 31 March 2016		**(12,599)**	**(169,401)**	**(8,176)**	**(3,713)**	**(71,827)**	**(44,980)**	**(23,444)**	**(334,140)**	**(382,850)**	**(716,990)**

Balance Sheet

The Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves, and any statutory limitations on their use. For example the capital receipts reserve may only be used to fund capital expenditure or repay debt. The second category of reserves is unusable reserves i.e. those that the Council is not able to use to provide services. This category 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’.

As at 31 March 2016 £000		Notes	As at 31 March 2017 £000
2,484,433	Property, Plant and Equipment	17	2,811,217
63,064	Heritage Assets	18	54,364
21,555	Investment Properties	19	21,955
147,627	Long term Debtors	22	165,700
2,716,679	**Long Term Assets**		**3,053,236**
15,000	Short Term Investments	20	8,000
182	Inventories		184
133,563	Short Term Debtors	23	110,858
83,914	Cash and Cash Equivalents	20 / 24	85,114
30,022	Assets Held for Sale	25	26,771
262,681	**Current Assets**		**230,927**
(25,786)	Short Term Borrowing	20	(29,431)
(130,078)	Short Term Creditors	26	(145,190)
(23,162)	Short Term Provisions	27	(16,138)
(13,838)	PFI / PPP Finance Lease Liability	20 / 45	(10,746)
(22,377)	Capital Grants Receipts in Advance	41	(34,573)
(215,241)	**Current Liabilities**		**(236,078)**
(729,208)	Long Term Borrowing	20	(732,346)
(7,951)	Long Term Provisions	27	(13,512)
(381,391)	PFI / PPP Finance Lease Liability	20 / 45	(415,410)
(795,982)	Net Pension Liability	48	(897,558)
(118,833)	Other Long Term Liabilities	28	(103,306)
(13,764)	Capital Grants Receipts in Advance	41	(17,539)
(2,047,129)	**Long Term Liabilities**		**(2,179,671)**
716,990	**Net Assets**		**868,414**
(334,140)	Usable Reserves	29	(308,894)
(382,850)	Unusable Reserves	30	(559,520)
(716,990)	**Total Reserves**		**(868,414)**

The Statement of Accounts was approved and authorised for issue by the Interim Executive Director of Resources and the Audit and Standards Committee, in accordance with the Accounts and Audit (England) Regulations 2015 on 14 September 2017.

These financial statements may be amended following audit review.

Eugene Walker
Interim Executive Director of Resources
(Section 151 Officer)
14 September 2017

Councillor Josie Paszek
Chair of the Audit and
Standards Committee
14 September 2017

Cash Flow Statement

The Cash Flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council**.**

2015/16 £000		**Notes**	**2016/17 £000**
26,607	Net surplus or (deficit) on the provision of services		301,082
159,220	- Adjustment to surplus or (deficit) on the provision of services for non-cash movements	31	(148,754)
(6,321)	- Adjustment for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	31	(46,002)
179,506	**Net cash flow from operating activities**		**106,326**
(178,899)	Investing activities	32	(87,366)
24,585	Financing activities	33	(17,760)
25,192	**Net increase / (decrease) in cash and cash equivalents**		**1,200**
58,722	Cash and cash equivalents at 1 April	24	83,914
83,914	**Cash and cash equivalents at 31 March**	24	**85,114**

Notes to the Core Financial Statements

The following notes contain further information to that presented in the main statements. They provide narrative descriptions, disaggregation of items presented in the statements and information about items that do not qualify for recognition in the statements.

01. Accounting Policies

I. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code') and the CIPFA Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2015 Regulations.

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

II. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet.

- Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- Payments for utilities, such as gas and electricity, are charged at the date of the meter reading rather than being apportioned between years, therefore this policy is applied consistently each year.

- Car parking penalty charge notices – a prudent approach is taken and the income is recognised at the point of actual receipt rather than when the invoice is raised.

- Materiality levels were set to determine the accruals to be taken at the end of the financial year for certain low value revenue transactions. In these instances, the change from year to year is recurring in nature and the sums involved have been deemed not to be material compared with total income and expenditure.

III. Acquisitions and Discontinued Operations

Acquired Operations

All operations acquired in year will be treated in line with the Council's accounting policies and disclosed separately on the face of the Comprehensive Income and Expenditure Statement.

Discontinued Operations

Any discontinued operations are disclosed separately on the face of the Comprehensive Income and Expenditure Statement.

IV. 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. All deposits placed within instant access call accounts, money market funds and the Council's instant access call account should be classified in the accounts as cash equivalents due to these being highly liquid investments which offer instant access to the funds and are therefore deposited to meet the Council's short term cash requirements. All fixed term investments are not classified as cash equivalents as at the point of making the deposit the Council is unable to convert these to cash until the maturity date of the investment.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts.

V. Material Items of Income or Expense

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. Where they are disclosed is dependent on how significant the items are to an understanding of the Council's financial performance.

VI. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively if material (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

VII. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund (Minimum Revenue Provision) by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

VIII. Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

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

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

Post-Employment Benefits

Employees of the Council are members of the following pension schemes:

- The Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Pensions on behalf of the Department of Health (DoH).
- The Local Government Pension Scheme, administered by South Yorkshire Pensions Authority on behalf of Sheffield City Council and the other local authorities in South Yorkshire.

These Pension Schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the Teachers' Pension Scheme and the NHS Pension Scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are therefore accounted for as defined contribution schemes and no liability for future payments of benefits is recognised on the Balance Sheet. The Children, Young People and Families line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. Portfolios are charged with the employer's contributions payable to NHS Pensions in the year for the Public Health staff working in their Portfolio. This will be across various lines within the Comprehensive Income and Expenditure Statement.

The Local Government Pension Scheme

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

- The liabilities of the pension fund attributable to the Council are included on 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 projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate. Details of the rates used and assumptions made are included in Note 48 to the core financial statements.

- The assets of the pension fund attributable to the Council are included on 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:

    - Service cost comprising:

        - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked,

        - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement,

        - net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure,
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the 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 to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

No adjustments have been made within the Housing Revenue Account for Retirement Benefits. This is because it is not possible to identify the Housing Revenue Account's share of assets and liabilities on a consistent and reliable basis and because it would be incompatible with legislative requirements to show items within the Housing Revenue Account not specified as statutory debits and credits.

Superannuation Fund Accounts are available from the South Yorkshire Pensions Authority, PO Box 18, Regent Street, Barnsley, S70 2HG

IX. Events After the Reporting Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

X. Fair Value Measurement

The Council measures some of its non-financial assets, such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or

- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the assets in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 – unobservable inputs for the asset.

XI. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument 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.

For most of the borrowings that the Council has, this means that the amount presented on 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 to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund is managed by a transfer to or from the Financial Instruments Adjustment Account (an unusable reserve), in the Movement in Reserves Statement.

The Council does not guarantee any external organisations' debt instruments and as a result has no financial guarantees which need to be included within the accounts.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made this means that the amount presented on the Balance Sheet is the outstanding principal receivable (plus accrued interest). Interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, 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. This results 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 from the voluntary organisations, with the difference serving to increase the amortised cost of the loan on the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund 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 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 relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Available for Sale Assets

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

Assets are maintained on 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.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.

- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs – unobservable inputs for the asset.

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. The exception is where impairment losses have been incurred. These are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available for Sale Reserve.

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

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement along with any accumulated gains or losses previously recognised in the Available for Sale Reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Instruments Entered Into Before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

XII. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate as at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

XIII. Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

When capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. When it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Business Improvement Districts

Business Improvement District (BID) schemes are funded by a BID levy paid by non-domestic ratepayers. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

CIL is received without outstanding conditions, it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

XIV. Heritage Assets

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as Heritage Assets)

Heritage Assets are assets held principally for their contribution to the knowledge, understanding and appreciation of the Council's culture, history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets, and these are detailed below. The accounting policies in relation to Heritage Assets that are deemed to include elements of intangible Heritage Assets are also presented below. For the purposes of the accounts, the Council has grouped its Heritage Assets into four main areas, which are accounted for as follows:

Museums and Galleries

The collections include fine and decorative art, natural sciences, human history and industrial heritage. The assets are reported on the Council's Balance Sheet at insurance valuation, which is updated on an annual basis. The policy insures the collections as a whole and includes assets managed by both Museums Sheffield and Sheffield Industrial Museums Trust. High value works are valued annually, either through external valuation or with reference to auction guides. Variations are made to the insurance schedule on an annual basis or sooner as appropriate.

Land and buildings assets have been reported on the Council's Balance Sheet at cost. Only assets with a determinable life have been depreciated.

While the collections in their entirety have significant historic value, the majority of items have a relatively low market value. In many cases the costs of conservation exceed market values and investment in the assets is determined on the basis of its unique local historic significance.

The collections develop through a combination of acquisition through purchase and donation. Acquisitions are initially recognised at cost and donations are recognised at valuation ascertained by the museum's curators.

- Museums Sheffield works to an Acquisition and Disposal Policy that is revised every five years and agreed by Museums Sheffield Board of Trustees and the Council.

- Sheffield Industrial Museums Trust works to the Collections Agreement between the Trust and the Council, which provides the basis for the collections activity of the Trust. This document includes the Acquisitions and Disposal policy.

Standards of care are governed by the requirements of the National Museum Accreditation Scheme, with which both Trusts have achieved accreditation.

Civic Collections

The Civic Collections include gifts of silverware and paintings given to the city and examples of products manufactured by Sheffield's industries. The collection of silverware is reported on the Balance Sheet at insurance valuation, which is based on a specialist valuation report commissioned in 2009. The other artefacts have not been valued because of the diverse nature of the assets and in the Council's opinion, conventional valuation approaches lack sufficient reliability. The assets are deemed to have indeterminate lives hence the Council does not consider it appropriate to charge depreciation.

Archives and Libraries

Sheffield Archives collect and preserve original historic records and printed material relating to Sheffield and the surrounding area. The collection is reported on the Balance Sheet at insurance valuation, which is based on an estimate of restorative costs, as it is unlikely market value could be derived given the diverse nature and size of the collections. The assets are deemed to have indeterminate lives hence the Council does not consider it appropriate to charge depreciation.

There are around 80,000 boxes of records. The public access policy is available at all sites for original documents, microform, CD-ROM and online libraries. Acquisitions occur throughout the year, deposited by other government departments and agencies, local Dioceses and private records on loan or donated to the Council.

Public Realm

Heritage Assets in the Public Realm include statues and monuments, war memorials, public art and archaeological sites. The Council does not consider that reliable valuation information can be obtained for the items held in the public realm. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Council does not recognise these assets on the Balance Sheet. However cost information is included where available.

Acquisitions, commissions for new items and disposals are dealt with on an individual basis.

General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. The Council will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

XV. Inventories and Long Term Contracts

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

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

XVI. Investment Property

Investment properties are those that are used solely to earn rentals and / or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

XVII. Joint Operations

Joint Operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

XVIII. Leases

Leases are classified as finance leases where the terms of the lease substantially transfer all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment, applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Lease

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on 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 (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

XIX. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (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.

XX. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (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 and removing the item and restoring the site on which it is located.

Borrowing costs are capitalised for capital projects that take a substantial period of time to get ready for intended use, determined as a construction / development period of two years or more and until the construction is complete. This policy does not apply to projects that are predominantly grant funded.

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

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

Expenditure Statement, they are reversed out of the General Fund to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost.

- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).

- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.

- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

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

Assets included on the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- 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

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

Where impairment losses are identified, they are accounted for as follows:

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

Depreciation

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

Depreciation is calculated on a straight line basis, over the useful life of the asset following the year of construction or acquisition, determined as follows:

- Buildings are based upon individual asset lives, assessed as part of the rolling programme of revaluations.

- Infrastructure assets between 20 and 40 years.

- Vehicles, plant, furniture and equipment between 5 and 10 years, with the exception of the incinerator plant under the Veolia Public Private Partnership (PPP) contract, which has a useful economic life of 23 years and the District Heating Network of 26 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. A framework for identifying components has been agreed with the Council’s valuers. Components are also recognised where capital investment for replacement or enhancement of the asset establishes a material component.

Recognition is applied as follows:

- Assets with a value in excess of £2m are considered for componentisation.

- Components of an asset are recognised and depreciated separately to the main asset, where the value of the component is at least 20%, and the difference in useful life is 20% or higher.

A further policy for Council Dwellings is in development, where it is necessary to recognise lower value and a greater number of components, to more accurately reflect replacement and asset life cycles.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the (Surplus) / Deficit on Provision of Services.

Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset on 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 (i.e. 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, 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 in the Movement in Reserves Statement.

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

XXI. Private Finance Initiative (PFI) and Similar Contracts

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council. The amounts payable to the PFI operators each year are analysed into five elements:

- **fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

- **finance cost** – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- **contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- **payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write downs is calculated using the same principles as for a finance lease).

- **lifecycle replacement costs** – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

In the case of contracts that receive Central Government PFI Grant Support through PFI credits, the amount receivable in respect of the financial year is shown in the Comprehensive Income and Expenditure Account.

XXII. Provisions and Contingent Liabilities

Provisions

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

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

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

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

Accounting for the Costs of the Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in the second year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense is recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

Contingent Liabilities

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

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

XXIII. Redemption of Debt

The Council is required to set aside from revenue each year a minimum amount for the redemption of debt. This sum is referred to as the Minimum Revenue Provision (MRP).

For capital expenditure incurred before 1st April 2008, or which in the future will be Supported Capital Expenditure (expenditure which receives income support from government), MRP will be charged on a flat line basis over fifty years. This will ensure that all debt associated with Supported Capital Expenditure is fully provided for up to the Adjustment A level that is required of us by government within fifty years.

For all Unsupported Borrowing, after adjusting for schemes to be deferred for MRP purposes, the MRP policy will be the Asset Life Method, which means that the provision made will be spread over the useful life of the asset created. The Asset Life Method must also be applied for any expenditure capitalised under a Capitalisation Directive.

In addition, the Council is also required to repay loans outstanding on those assets transferred from the former South Yorkshire County Council, which are repaid on the basis of a sinking fund rate of 10%. Interest on external loans is charged direct to the Comprehensive Income and Expenditure Account.

XXIV. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund 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 report against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

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

XXV. Revenue Expenditure Funded from Capital under Statute

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

XXVI. Schools

Accordingly, in line with the guidance currently available, the Council has adopted the following policy:

Where a school is under the Council's control (i.e. under the responsibility of the Council's Section 151 Officer) its income, expenditure, current assets, liabilities and reserves are consolidated into the Council's accounts and are, therefore, included within the figures disclosed in the Statement of Accounts. Any reserves attributable to the school are earmarked and disclosed separately. As a result Community schools, Community Special schools, Voluntary Aided schools, Voluntary Controlled schools and Foundation schools are all consolidated into the Council's accounts. However, once a school transfers to Academy status it is no longer under the control of the Council and, therefore, its income, expenditure, assets, liabilities and reserves are no longer consolidated into the Council's accounts.

In respect of any non-current assets associated with schools the Council has determined that Community schools, Community Special schools and Foundation schools should be on balance sheet, but that Voluntary Aided schools, Voluntary Controlled schools, and Academy schools should not. Voluntary Aided schools and Voluntary Controlled schools non-current assets are not included as ownership and control of the assets lies with the diocese. Non-current assets relating to schools that gain Academy status are derecognised from the Council's balance sheet when the contract is complete and signed and the specific assets have been handed over / transferred.

XXVII. Tax Income (Council Tax, National Non-Domestic Rates and Residual Community Charge)

The Council is a Council Tax billing authority, collecting Council Tax on behalf of other authorities as well as itself. The collection of Council Tax on behalf of other authorities is treated as being on an agency basis, and thus only the elements of Council Tax collection that relate to the Council's own income are included in its main financial statements.

The Council is a Business Rates billing authority, collecting Business Rates on behalf of the South Yorkshire Fire and Rescue Authority and Central Government as well as itself. The collection of Business Rates on behalf of other authorities is treated as being on an agency basis, and thus only the elements of Business Rates collection that relate to the Council's own income (49%) are included in its main financial statements.

The Collection Fund account covers all local taxation collected by the Council on behalf of itself, local parish councils, Fire, Police and the Government.

The cost of collection allowance and costs added to NNDR in respect of recovery action are the Council's income and appear in the Income and Expenditure Account.

The Collection Fund account reflects the statutory requirement of the Local Government Finance Act 1988 (as amended by the 1992 Act).

XXVIII. Value Added Tax (VAT)

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

02. Accounting Standards Issued, Not Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) has introduced changes in accounting policy as a result of amendments to accounting standards. The main changes to these standards are not applicable to the Council, as they relate to Pension Authorities only.

03. Critical Judgements in Applying Accounting Policies

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

The critical judgements made in the Statement of Accounts are:

- The CIPFA Code requires the Council to produce group accounts to reflect significant activities provided to Council taxpayers by other organisations in which the Council has an interest. The group is identified as comprising the City Council and South Yorkshire Property Investment Limited (Local Housing Company). However, when consolidating the value of these entities the result is not material and therefore the production of all the required statements would not assist the reader.

- Contracts with partners and providers have been considered for embedded leases; the outcome of this review is not to recognise any assets on the Council balance sheet.

- The Council has a number of historic European Union (EU) grants that potentially could be subject to further EU audits in the future. It remains a possibility that the available evidence for these grants may not meet the requirements of the grant conditions and so a provision has been made based on managerial judgements. There are as yet no further details on timescales for any future EU audits.

04. Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment, Depreciation (Note 17)	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. If the current level of repairs and maintenance	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings

	is not sustained it would bring into doubt the useful lives assigned to the assets.	would increase by £939K for every year that useful lives had to be reduced.
Property, Plant and Equipment, HRA valuation (Note 17	The value of the Council's housing dwellings stock is calculated using beacon properties. These valuations are then adjusted for the vacant possession value for the properties and to reflect their occupation by a secure tenant. This adjustment is considered to reflect the additional risk and liability the public sector landlords undertake when compared with private sector investors.	The fair value of the Council's housing dwellings stock as at the 31st March 2017 has been determined using DCLG's Social Housing adjustment factor for Yorkshire and Humber of 41%. A 1% decrease in this adjustment factor would have resulted in a revaluation loss of £30.383m in 2016/17.
Fair Value Measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where Level 1 inputs are not available, the Council employs or commissions relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for Surplus Assets the Council's chief valuation officer or the Council's Treasury advisors in relation to loans and investments).	Non-Financial Assets: The Council uses the market approach and income approach models to measure the fair value of its Surplus Assets and Investment Properties. The significant observable inputs used in the fair value measurement include using current market conditions, recent sale prices / rentals achieved and other relevant information for similar assets within the local authority area. Financial Assets and liabilities: The Council assesses fair value by calculating the net present value (NPV) of the cash flows that take place over the remaining life of the instruments. Significant changes in any of the inputs would result in a significantly lower or higher fair value measurement for the Council's assets and liabilities valued at fair value.

	Information about valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 17, 19, and 20.	
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. See Note 48 for further details.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £55.9m. However, the assumptions interact in complex ways. During 2016/17, the Council's actuaries advised that the net pension liability had decreased by £264.7m as a result of estimates relating to fund assets being corrected based on experience and increased by £412m attributable to updating of the assumptions around pension liabilities – a net impact of an increased liability of £147.3m.
Arrears	At 31 March 2017, the Council had a balance for sundry debtors of £21.6m. An impairment of doubtful debts of £16.6m (76.8%) was considered appropriate, however, it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an additional impairment of doubtful debts would be required to cover some of the £5m of sundry debts currently not provided for.
Business Rates	The provision for appeals is based on assumptions about the likely level of appeals raised against the ratings list in the future and the likely success of outstanding appeals. The provision stands at £27.2m which is reasonable given available data sources and historic analysis. However, further information from the Valuation Office Agency (VOA) may lead to a revision of these assumptions and could materially change the required level of provision.	If more up to date information from the Valuation Office Agency stimulates a reduction to the provision, this will feed into a surplus on the collection fund. Estimates will be taken in January 2018 and so such a surplus would be made available for distribution to preceptors in the 2018/19 budget. Conversely, an increase in the provision would mean a reduction to available resources in 2018/19.

Future Funding	Like all other local authorities, the Council faces significant ongoing pressure on funding from Central Government. Beyond 2017/18, local authorities have been offered a limited amount of certainty over the level of funding from Department of Communities and Local Government (DCLG), and indicative figures for the next three years are available. In order to ensure that the Council is well placed to deal with the challenge of future funding cuts, various financial controls have been put in place. These include robust budget monitoring on a monthly basis to ensure that budget savings are implemented, a clearly formulated medium term financial strategy and business planning process embedded in the organisation, a policy of taking prudent provisions and a risk-based reserves strategy.

05. Prior Period Restatement

Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

In 2016/17 there were changes to the presentation of the financial statements in two key areas:

- Reporting on an organisational basis, breaking the mandatory link between the Service Reporting Code of Practice (SeRCOP) and the Comprehensive Income and Expenditure Statement (CIES).

- Introduction of a new Expenditure and Funding Analysis to provide a direct reconciliation between funding and budget, and the CIES, in a way that is accessible to the lay-reader. The Expenditure and Funding Analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the previous segmental reporting note.

As a result prior period adjustments were required to the Council's Statement of Accounts.

06. Events After the Reporting Date

The Statement of Accounts was authorised for issue by Eugene Walker, Interim Executive Director of Resources on 14 September 2017. 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 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2017 as it provides information that is relevant to an understanding of the Council's financial position but does not relate to conditions at that date:

Waste Management

The Council has made public that the arrangements for waste are being reviewed. The Council is currently reviewing procurement options for a service provider.

HR Connect

The Council has chosen to serve partial termination on the Capita Business Services contract, ensuring the service known as HR Connect, which delivers Payroll Services and HR Transactions, returns to the Councils control in October 2017. This is happening because, after having analysed all the different options the Council decided that this approach best meets the organisation's needs and priorities.

High Rise Buildings Fire Safety Review

Following the fire at Grenfell Tower, West London, the Council is reviewing and closely monitoring the developments arising from the tragic incident. To date only one Council owned building has been identified as requiring remedial work. The work will be funded from the Housing Revenue Account and those capital expenditure budgets are being re-profiled to enable the work to proceed without delay. The Council may need to incur further expenditure if Building Standards and or Fire Safety Regulations are revised.

07. Material Items of Income and Expense

In respect of the Housing Revenue Account, the regional adjustment factor, applied to ascertain the value of social housing stock, has increased to 41% compared to 31% which was used in 2015/16. This has meant all social housing stock has had a revaluation gain in year causing a material value of previous impairment losses to be reversed (£277.9m – see Note 17).

08. Acquired and Discontinued Operations

Acquired Operations

2016/17

No operations were acquired in the year to 31 March 2017.

2015/16

On 1 October 2015 the commissioning responsibility for the 0-5 years Healthy Child Programme Services (Health Visiting) transferred from NHS England to local authorities. The transfer means that Sheffield City Council has responsibility for the commissioning and delivery of the national Health Visiting specification, including planning, outcome and performance monitoring and redesign of services. The delivery of the 0-5 Healthy Child Programme is provided by Sheffield Children’s NHS Foundation Trust.

All income and expenditure has been included in the ‘Public Health’ line in the Comprehensive Income and Expenditure Statement, as not material to show separately.

Discontinued Operations

2016/17

There were no discontinued operations during 2016/17.

2015/16

There were no discontinued operations during 2015/16.

09. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis:

2016/17				
Adjustments from General Fund to arrive at the CI&ES Amounts	**Adjustments for Capital Purposes £000**	**Net change for the Pensions Adjustment £000**	**Other Differences £000**	**Total Adjustments £000**
Children, Young People & Families	28,333	(2,095)	501	**26,739**
Schools	0	0	0	**0**
Communities (excluding HRA)	8,052	(2,229)	117	**5,940**
Place	783	(1,270)	601	**114**
Policy, Performance & Communications	0	0	0	**0**
Resources	(19,789)	(66,851)	42,068	**(44,572)**
Corporate	40,131	26,740	(45,517)	**21,354**
Total General Fund (GF)	57,510	(45,705)	(2,230)	9,575
Housing Revenue Account (HRA)	(323,300)	0	(954)	(324,254)
Net Cost of Services	**(265,790)**	**(45,705)**	**(3,184)**	**(314,679)**
Other income & expenditure	0	0	0	0
Difference between General Fund Surplus / Deficit and CI&ES Surplus / Deficit	**(265,790)**	**(45,705)**	**(3,184)**	**(314,679)**

2015/16 Comparative Information - Restated				
Adjustments from General Fund to arrive at the CI&ES Amounts	**Adjustments for Capital Purposes £000**	**Net change for the Pensions Adjustment £000**	**Other Differences £000**	**Total Adjustments £000**
Children, Young People & Families	17,128	2,338	(340)	**19,126**
Schools	0	0	0	**0**
Communities (excluding HRA)	1,879	2,422	(216)	**4,085**
Place	17,101	1,405	252	**18,758**
Policy, Performance & Communications	80	0	(17)	**63**
Resources	(21,057)	5,129	(19,372)	**(35,300)**
Corporate	(14,769)	27,750	21,402	**34,383**
Total General Fund (GF)	362	39,044	1,709	41,115
Housing Revenue Account (HRA)	8,567	0	(954)	7,613
Net Cost of Services	**8,929**	**39,044**	**755**	**48,728**
Other income & expenditure	0	0	0	0
Difference between General Fund Surplus / Deficit and CI&ES Surplus / Deficit	**8,929**	**39,044**	**755**	**48,728**

Adjustments for Capital Purposes

This column adds in depreciation, impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

For the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

- For Financing and investment income and expenditure - the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

10. Segmental Income

Income received on a segmental basis has not been disclosed separately but can be seen further in the Comprehensive Income and Expenditure Statement (CIES) and Note 11 below.

11. Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

2015/16 Restated £000		2016/17 £000
	Income:	
(803,685)	Revenue Grants & Other Contributions	(755,937)
(76,220)	Capital Grants & Contributions	(49,773)
(175,444)	Income from Council Tax	(183,375)
(98,755)	Income from Non-domestic Rates	(106,306)
(1,177)	Interest and investment Income	(1,021)
(7,636)	Sales	(7,387)
(115,276)	Fees and Charges	(124,313)
(116,258)	Recharges	(118,745)
(201,795)	Other Income	(173,858)
(1,596,246)		**(1,520,715)**
	Expenditure:	
411,123	Employee Expenditure	385,910
108,928	Premises Expenditure	86,402
12,656	Transport Expenditure	13,230
154,612	Supplies & Services	129,551
306,027	Third Party Payments	321,978
197,051	Transfer Payments	188,701
96,756	Support Services	113,734
103,527	Depreciation, amortisation & impairment	(182,801)
493	Precepts & levies	503
70,674	Interest payable & similar charges	73,957
3,405	Payment to the Housing Capital Receipts Pool	3,398
44,623	Gain / loss on the disposal of assets	54,505
27,532	Pension interest cost, administration expenses and return on plan assets	26,632
(1,661)	Surplus / deficit on Trading Operations	1,675
33,893	Other Expenses	2,258
1,569,639		**1,219,633**
(26,607)	**(Surplus) / Deficit on the Provision of Services**	**(301,082)**

12. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2016/17									
		General Fund Balance £000	**Housing Revenue Account Balance £000**	**Major Repairs Reserve £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Council Reserves £000**
	Notes						29	30	
Reversal of items debited or credited to the CI&ES:									
Depreciation of Non-current assets		(50,199)	0	(16,985)	0	0	(67,184)	67,184	**0**
Impairment losses charged to the CI&ES		0	0	0	0	0	0	0	**0**
Revaluation losses charged to the CI&ES		(17,368)	294,803	0	0	0	277,435	(277,435)	**0**
Movements in fair value of Investment Properties		400	0	0	0	0	400	(400)	**0**
Capital grants and contributions credited to the CI&ES		69,447	0	0	0	(2,453)	66,994	(66,994)	**0**
Application of grants and contributions to capital financing from the Capital Grants Unapplied Reserve		0	0	0	0	5,436	5,436	(5,436)	**0**
Revenue expenditure funded from capital under statute		(27,849)	0	0	0	0	(27,849)	27,849	**0**
Costs of disposal funded from capital receipts		(83)	0	0	83	0	0	0	**0**
Net gain / (loss) on sale of non-current assets		(60,591)	6,086	0	(28,554)	0	(83,059)	83,059	**0**
Amount by which finance costs calculated in accordance with the code are different from the amount of finance costs calculated in accordance statutory requirements		(151)	954	0	0	0	803	(803)	**0**
Reversal of items relating to retirement benefits debited or credited to the CI&ES		(52,757)	0	0	0	0	(52,757)	52,757	**0**
Amount by which Council Tax and non-domestic rates income adjustment included in the CI&ES is different from the amount taken to the General Fund in accordance with regulation		2,687	0	0	0	0	2,687	(2,687)	**0**

2016/17 (Continued)

		General Fund Balance £000	Housing Revenue Account Balance £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
	Notes						29	30	
Amount by which officer remunerations costs calculated in accordance with the code are different from the amount of costs calculated in accordance with statutory requirements		(306)	0	0	0	0	(306)	306	**0**
Insertion of items not debited or credited to the CI&ES:									
Statutory provision for repayment of debt (MRP)		32,640	0	0	0	0	32,640	(32,640)	**0**
Voluntary provision for repayment of debt (VMRP)		0	27	0	0	0	27	(27)	**0**
Revenue Contribution to Major Repairs Reserve		0	22,384	(22,384)	0	0	0	0	**0**
Transfer of Capital Receipts (<£10k) to the General Fund and HRA		(509)	0	0	509	0	0	0	**0**
Transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool		(3,398)	0	0	3,398	0	0	0	**0**
Employer's contribution to pension scheme		98,462	0	0	0	0	98,462	(98,462)	**0**
Capital Financing:									
Use of Capital Receipts Reserve to finance new capital expenditure		0	0	0	16,372	0	16,372	(16,372)	**0**
Use of Major Repairs Reserve to finance new capital expenditure		0	0	57,488	0	0	57,488	(57,488)	**0**
Total		**(9,575)**	**324,254**	**18,119**	**(8,192)**	**2,983**	**327,589**	**(327,589)**	**0**

2015/16 Comparative Information

		General Fund Balance £000	Housing Revenue Account Balance £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
	Notes						29	30	
Reversal of items debited or credited to the CI&ES:									
Depreciation of Non-current assets		(46,319)	0	(17,500)	0	0	(63,819)	63,819	**0**
Impairment losses charged to the CI&ES		0	0	0	0	0	0	0	**0**
Revaluation losses charged to the CI&ES		(20,975)	(31,365)	0	0	0	(52,340)	52,340	**0**
Movements in fair value of Investment Properties		20,060	0	0	0	0	20,060	(20,060)	**0**
Capital grants and contributions credited to the CI&ES		76,220	0	0	0	(2,013)	74,207	(74,207)	**0**
Application of grants and contributions to capital financing from the Capital Grants Unapplied Reserve		0	0	0	0	3,973	3,973	(3,973)	**0**
Revenue expenditure funded from capital under statute		(8,549)	0	0	0	0	(8,549)	8,549	**0**
Costs of disposal funded from capital receipts		(573)	0	0	573	0	0	0	**0**
Net gain / (loss) on sale of non-current assets		(46,092)	1,469	0	(27,114)	0	(71,737)	71,737	**0**
Amount by which finance costs calculated in accordance with the code are different from the amount of finance costs calculated in accordance statutory requirements		(148)	954	0	0	0	806	(806)	**0**
Reversal of items relating to retirement benefits debited or credited to the CI&ES		(70,396)	0	0	0	0	(70,396)	70,396	**0**
Amount by which Council Tax and non-domestic rates income adjustment included in the CI&ES is different from the amount taken to the General Fund in accordance with regulation		(2,705)	0	0	0	0	(2,705)	2,705	**0**

2015/16 Comparative Information (Continued)

		General Fund Balance £000	**Housing Revenue Account Balance £000**	**Major Repairs Reserve £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Council Reserves £000**
	Notes						29	30	
Amount by which officer remunerations costs calculated in accordance with the code are different from the amount of costs calculated in accordance with statutory requirements		1,142	0	0	0	0	1,142	(1,142)	**0**
Insertion of items not debited or credited to the CI&ES:									
Statutory provision for repayment of debt (MRP)		29,296	0	0	0	0	29,296	(29,296)	**0**
Voluntary provision for repayment of debt (VMRP)		118	27	0	1,032	0	1,177	(1,177)	**0**
Revenue Contribution to Major Repairs Reserve		0	21,302	(21,302)	0	0	0	0	**0**
Transfer of Capital Receipts (<£10k) to the General Fund and HRA		(143)	0	0	143	0	0	0	**0**
Transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool		(3,406)	0	0	3,406	0	0	0	**0**
Employer's contribution to pension scheme		31,357	0	0	0	0	31,357	(31,357)	**0**
Capital Financing:									
Use of Capital Receipts Reserve to finance new capital expenditure		0	0	0	14,583	0	14,583	(14,583)	**0**
Use of Major Repairs Reserve to finance new capital expenditure		0	0	60,582	0	0	60,582	(60,582)	**0**
Total		**(41,113)**	**(7,613)**	**21,780**	**(7,377)**	**1,960**	**(32,363)**	**32,363**	**0**

13. Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17.

	Note	1 April 2015 £000	Transfer Out 2015/16 £000	Transfer In 2015/16 £000	31 March 2016 £000	Transfer Out 2016/17 £000	Transfer In 2016/17 £000	31 March 2017 £000
Earmarked General Fund Reserves:								
Schools Reserves	29	**(18,018)**	1,013	0	**(17,005)**	855	0	**(16,150)**
Revenue Grants and Contributions	29	**(400)**	0	(68)	**(468)**	0	(565)	**(1,033)**
Other Earmarked Revenue Reserves:	29							
- Insurance Fund		**(11,519)**	866	0	**(10,653)**	0	(449)	**(11,102)**
- New Homes Bonus (NHB)		**(1,922)**	0	(3,605)	**(5,527)**	0	(6,040)	**(11,567)**
- Major Sporting Facilities		**(22,774)**	0	(15,234)	**(38,008)**	0	(4,508)	**(42,516)**
- PFI Future Expenditure		**(11,165)**	0	(17,145)	**(28,310)**	13,428	0	**(14,882)**
- Public Health		**(2,005)**	973	0	**(1,032)**	0	0	**(1,032)**
- Service Area Reserves		**(10,430)**	0	(44)	**(10,474)**	450	0	**(10,024)**
- Other Reserves		**(32,632)**	0	(25,292)	**(57,924)**	23,214	0	**(34,710)**
Total		**(110,865)**	**2,852**	**(61,388)**	**(169,401)**	**37,947**	**(11,562)**	**(143,016)**

14. Other Operating Expenditure

The following table provides a breakdown of Other Operating Expenditure:

2015/16 £000		2016/17 £000
493	Precepts (paid to non-principal authorities)	503
3,405	Payments to the housing capital receipts pool	3,398
44,623	(Gain) / loss on the disposal of non-current assets	54,505
734	Pension Administration Expenses	724
49,255	**Total**	**59,130**

15. Financing and Investment Income and Expenditure

The following table provides a breakdown of Financing and Investment Income and Expenditure:

2015/16 £000		Note	2016/17 £000
70,674	Interest payable and similar charges		73,957
26,798	Pensions interest cost and expected return on pensions assets		25,908
(1,177)	Interest receivable and similar income		(1,021)
(1,661)	(Surplus) / Deficit on Trading Undertakings	34	1,675
(14)	Income from Partnership Organisations		0
0	New Homes Bonus Contribution to Capital		1,082
(20,327)	Income and Expenditure in relation to Investment Properties and changes to their fair value		(400)
74,293	**Total**		**101,201**

16. Taxation and Non Specific Grant Income

The following table provides a breakdown of Taxation and Non Specific Grant Income:

£000	2015/16 £000		Note	£000	2016/17 £000
	(175,444)	Council Tax Income			(183,375)
	(98,756)	NNDR Distribution			(106,306)
		Non-ring fenced government grants:	41		
(115,837)		- Revenue Support Grant (RSG)		(90,592)	
(73,443)		- Private Finance Initiative Grant (PFI)		(74,561)	
(16,399)		- Funding from the Health Service (Clinical Commissioning Group)		0	
(7,733)		- New Homes Bonus		(9,627)	
(110)		- Local Support Services Grant		(86)	
(3,468)		- Small Business Rates Relief		(3,700)	
(1,967)		- Business Rates Multiplier Cap		(1,976)	
(2,195)		- Independent Living Fund		0	
(28,883)		- Business Rates Top-up Grant		(29,124)	
(24)		- Other		0	
	(250,059)				(209,666)
	(524,259)				(499,347)
	(69,019)	Capital Grants and Contributions	41		(49,773)
	(593,278)	**Total**			**(549,120)**

In 2016/17 the funding from the Health Service (CCG) and the Independent Living Fund went to the service. Therefore, both grants are shown within (surplus) / deficit on continuing operations of the CIES rather than within (surplus) / deficit on provision of services of the CIES, as they were in 2015/16.

17. Property, Plant and Equipment (PPE)

Movements on Balances:

Movements in 2016/17	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment (VPFE) £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total PPE £000	Total PFI Assets included in PPE £000
Cost or Valuation:									
At 1 April 2016	913,987	673,975	89,738	870,849	35,079	97,317	65,973	**2,746,918**	**311,880**
Additions – recognition	0	0	0	0	0	0	0	**0**	**0**
Additions - programmed investment	62,685	26,660	5,507	104,174	3,014	1,970	15,597	**219,607**	**48,185**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	535	(8,586)	0	0	465	499	0	**(7,087)**	**(2,341)**
Revaluation increases / (decreases) to Surplus / Deficit on the Provision of Services	277,877	(37,477)	0	0	(16,614)	482	0	**224,268**	**(1,847)**
De-recognition – disposals	(10,158)	(61,762)	(305)	0	(296)	(10,426)	0	**(82,947)**	**0**
De-recognition – other	0	0	0	0	0	0	0	**0**	**0**
Reclassification and transfers	795	11,774	0	0	(17,522)	9,411	(7,206)	**(2,748)**	**0**
At 31 March 2017	**1,245,721**	**604,584**	**94,940**	**975,023**	**4,126**	**99,253**	**74,364**	**3,098,011**	**355,877**

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Movements in 2016/17 (Continued)

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total PPE £000	Total PFI Assets included in PPE £000
Accumulated Depreciation and Impairment:									
At 1 April 2016	0	(38,741)	(24,564)	(199,162)	0	(18)	0	**(262,485)**	**(12,627)**
Depreciation charge	(16,908)	(17,680)	(6,170)	(26,192)	0	(233)	0	**(67,183)**	**(8,899)**
Depreciation written out to the Revaluation Reserve	164	12,151	0	0	0	17	0	**12,332**	**1,306**
Depreciation written out to the Surplus / Deficit on the Provision of Services	16,742	7,909	0	0	0	3	0	**24,654**	**0**
Impairment (losses) / reversals recognised in the Revaluation Reserve	(183)	0	0	0	0	0	0	**(183)**	**0**
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	183	0	0	0	0	0	0	**183**	**0**
De-recognition - disposals	2	4,403	273	0	0	0	0	**4,678**	**0**
De-recognition - other	0	0	0	0	0	0	0	**0**	**0**
Reclassification and Transfers	0	1,215	0	0	0	(5)	0	**1,210**	**0**
At 31 March 2017	**0**	**(30,743)**	**(30,461)**	**(225,354)**	**0**	**(236)**	**0**	**(286,794)**	**(20,220)**
Net Book Value:									
At 31 March 2017	1,245,721	573,841	64,479	749,669	4,126	99,017	74,364	**2,811,217**	**335,657**
At 31 March 2016	913,987	635,234	65,174	671,687	35,079	97,299	65,973	**2,484,433**	**299,253**

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Movements in 2015/16 – Comparative Information

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment (VPFE) £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total PPE £000	Total PFI Assets included in PPE £000
Cost or Valuation:									
At 1 April 2015	904,586	670,181	88,695	767,898	34,889	123,167	8,854	**2,598,270**	**264,481**
Additions - recognition	0	0	0	0	0	0	4,888	**4,888**	**0**
Additions - programmed investment	67,869	37,357	1,080	102,951	2,554	2,561	50,312	**264,684**	**47,404**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	87	3,759	0	0	546	8,052	14,073	**26,517**	**0**
Revaluation increases / (decreases) to Surplus / Deficit on the Provision of Services	(48,645)	(5,496)	0	0	(4,914)	(20,912)	(395)	**(80,362)**	**(29)**
De-recognition – disposals	(8,604)	(34,276)	(37)	0	(112)	(10,112)	(11,860)	**(65,001)**	**0**
De-recognition – other	0	0	0	0	0	0	0	**0**	**0**
Reclassification and transfers	(1,306)	2,450	0	0	2,116	(5,439)	101	**(2,078)**	**24**
At 31 March 2016	**913,987**	**673,975**	**89,738**	**870,849**	**35,079**	**97,317**	**65,973**	**2,746,918**	**311,880**

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Movements in 2015/16 – Comparative Information (Continued)

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total PPE £000	Total PFI Assets included in PPE £000
Accumulated Depreciation and Impairment:									
At 1 April 2015	0	(32,037)	(18,599)	(176,042)	0	(1,636)	0	**(228,314)**	**(4,916)**
Depreciation charge	(17,117)	(16,879)	(5,989)	(23,120)	0	(713)	0	**(63,818)**	**(7,711)**
Depreciation written out to the Revaluation Reserve	265	3,225	0	0	0	938	56	**4,484**	**0**
Depreciation written out to the Surplus / Deficit on the Provision of Services	16,857	1,671	0	0	9	42	0	**18,579**	**0**
Impairment (losses) / reversals recognised in the Revaluation Reserve	(498)	1,888	0	0	0	1,002	0	**2,392**	**0**
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	498	52	0	0	0	8,888	0	**9,438**	**0**
De-recognition - disposals	0	3,125	24	0	0	90	197	**3,436**	**0**
De-recognition - other	0	0	0	0	0	0	0	**0**	**0**
Reclassification and Transfers	(5)	214	0	0	(9)	(8,629)	(253)	**(8,682)**	**0**
At 31 March 2016	**0**	**(38,741)**	**(24,564)**	**(199,162)**	**0**	**(18)**	**0**	**(262,485)**	**(12,627)**
Net Book Value:									
At 31 March 2016	913,987	635,234	65,174	671,687	35,079	97,299	65,973	**2,484,433**	**299,253**
At 31 March 2015	904,586	638,144	70,096	591,856	34,889	121,531	8,854	**2,369,956**	**259,565**

Depreciation

Depreciation is charged on a straight line basis over the useful life of the asset.

Depreciation is not charged in the year of acquisition. Likewise, depreciation on revaluations is only charged at the revised amount in the year following valuation.

Capital Commitments

At 31 March 2017 the Council has entered into a number of construction contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 onwards. Future years committed costs are £238.5m. The major commitments are:

31 March 2016 £000		**31 March 2017 £000**
12,437	Schools Refurbishment	39,574
70,902	Decent Homes / Council Housing	41,093
68,229	Highways Infrastructure	39,832
123,652	Leisure *(includes MSF payments)*	108,919
31,080	Regeneration	7,394
0	Other Infrastructure	1,696
306,300	**Total**	**238,508**

Revaluations

The Council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at Fair Value, is revalued at least every five years. All valuations were carried out by Sheffield City Council Property Section under the supervision of Angela Glentworth (MRICS / Registered Valuer – Acquisitions and Disposals Manager) who has overall responsibility. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices, with the exception of the waste incinerator which requires a specialist plant valuation, carried out by Charterfields International Asset Consultants.

Individual asset lives were assessed having regard to the structural condition of the building, age and state of repair, compliance with current legislation and suitability for existing use.

Council Dwellings are measured at Existing Use Value - Social Housing based on freehold vacant possession values by Beacon and adjusted by a regional adjustment factor, determined by Communities and Local Government (CLG). The adjustment factor has been increased to 41% in 2016/17 (31% in 2015/16). Resulting in the reversal of previous impairments on Council Dwellings, which has contributed to the net increase in the Council’s fixed assets.

Since 2005 there has been a programme of modernisation and improvement work to bring the properties up to the Government‘s Decent Homes Standards. Currently 37,782 dwellings, approximately 95% of the current stock meet the Decent Homes Standards. As part of the 5 year Rolling Programme 20% of the Beacons have been revalued this year on the basis that the properties have been improved.

Where the Decent Homes programme has fallen behind there was a potential shortfall in the 5 yearly revaluation programme affecting the 2,148 properties not yet improved. To address this Sheffield City Council Property Services has valued these properties on the assumption they have met Decent Homes Standards then applied a deflator of 12.5% to reflect that they are still unimproved. This deflator was derived from analysis of the mean percentage increase of the properties improved this year. The general market adjustment of 4.27% has then been applied to these figures to give a value as at 31 March 2017.

For those categories reported at Fair Value or Current Value, the Council re-values the assets at least every five years, on a rolling programme of valuations. The following statement splits the value of those asset categories, into the years the assets were most recently valued. De-minimis assets, valued at under £25k, are carried at historic cost.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Total
	£000	£000	£000	£000	£000
Carried at Historical Cost	**0**	**4,415**	**1,880**	**615**	**6,910**
Valued at Fair Value as at:					
31 March 2017	1,245,721	175,690	4,348	6,207	1,431,966
31 March 2016	0	76,575	54,589	90,534	221,698
31 March 2015	0	74,629	1,781	569	76,979
31 March 2014	0	109,908	1,841	713	112,462
31 March 2013	0	132,624	40	379	133,043
Total Cost or Valuation	**1,245,721**	**573,841**	**64,479**	**99,017**	**1,983,058**

Fair Value Hierarchy – Surplus Assets

Following the 2015/16 implementation of IFRS 13, Fair Value Measurement, the Council's surplus assets have been revalued to fair value as at 31 March 2017.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorized within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 – unobservable inputs for the asset.

Details of the Council's Surplus Assets and information about the fair value hierarchy are as follows:

2016/17				
Recurring fair value measurements using:	**Quoted prices in active markets for identical assets (Level 1)**	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value as at 31 March 2017**
	£000	**£000**	**£000**	**£000**
Assets valued by Market Approach	0	96,967	102	97,069
De-minimis Assets	0	214	1,734	1,948
Total	0	97,181	1,836	99,017

2015/16 – Comparative Information				
Recurring fair value measurements using:	**Quoted prices in active markets for identical assets (Level 1)**	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value as at 31 March 2016**
	£000	**£000**	**£000**	**£000**
Assets valued by Market Approach	0	95,392	0	95,392
De-minimis Assets	0	156	1,751	1,907
Total	0	95,548	1,751	97,299

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels during the year.

Valuation Techniques used to Determine Level 2 and 3 Fair Values for Surplus Assets

Significant Observable Inputs – Level 2

The Fair value for the surplus assets has been based on market approach using current market evidence including recent sale prices / rentals achieved and other relevant information for similar assets within the local authority area. Market conditions are such that similar properties have actively sold or let and the level of observable inputs are significant leading to properties being categorized at level 2 in the fair value hierarchy.

De-minimis (Assets valued under £25k)

Of the surplus assets that are considered de-minimis, 56 are categorised at level 2 in the fair value hierarchy as they have been valued as part of the rolling programme on the same basis as other surplus assets above.

A further 723 de-minimis assets are categorised at level 3 in the fair value hierarchy. Some of these valuations are historic and / or based on unobservable inputs and these assets have been identified as requiring review as part of a wider improvement project for the asset register.

18. Heritage Assets

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

2016/17	Reported at Cost				Reported at Valuation				
	Museums and Galleries £000	**Civic Collections £000**	**Archives and Libraries £000**	**Public Realm £000**	**Museums and Galleries £000**	**Civic Collections £000**	**Archives and Libraries £000**	**Public Realm £000**	**Total Assets £000**
Cost or Valuation:									
At 1 April 2016	22	48	0	20	58,700	1,000	3,278	0	**63,068**
Additions	52	0	0	47	0	0	0	0	**99**
Revaluation increases / (decreases) in the Revaluation Reserve	0	0	0	0	(8,700)	0	0	0	**(8,700)**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provisions of Service	(52)	0	0	(47)	0	0	0	0	**(99)**
Transfers in	0	0	0	0	0	0	0	0	**0**
At 31 March 2017	22	48	0	20	50,000	1,000	3,278	0	**54,368**
Depreciation and Impairment:									
At 1 April 2016	(4)	0	0	0	0	0	0	0	**(4)**
Depreciation	0	0	0	0	0	0	0	0	**0**
At 31 March 2017	(4)	0	0	0	0	0	0	0	**(4)**
Net Book Value:									
At 31 March 2017	18	48	0	20	50,000	1,000	3,278	0	**54,364**
At 31 March 2016	18	48	0	20	58,700	1,000	3,278	0	**63,064**

2015/16 Comparative Information	Reported at Cost				Reported at Valuation				
	Museums and Galleries £000	Civic Collections £000	Archives and Libraries £000	Public Realm £000	Museums and Galleries £000	Civic Collections £000	Archives and Libraries £000	Public Realm £000	Total Assets £000
Cost or Valuation:									
At 1 April 2015	22	48	0	20	58,500	1,000	3,182	0	**62,772**
Additions	26	0	0	148	0	0	0	0	**174**
Revaluation increases / (decreases) in the Revaluation Reserve	0	0	0	0	200	0	96	0	**296**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provisions of Service	(26)	0	0	(254)	0	0	0	0	**(280)**
Transfers in	0	0	0	106	0	0	0	0	**106**
At 31 March 2016	22	48	0	20	58,700	1,000	3,278	0	**63,068**
Depreciation and Impairment:									
At 1 April 2015	(3)	0	0	0	0	0	0	0	**(3)**
Depreciation	(1)	0	0	0	0	0	0	0	**(1)**
At 31 March 2016	(4)	0	0	0	0	0	0	0	**(4)**
Net Book Value:									
At 31 March 2016	18	48	0	20	58,700	1,000	3,278	0	**63,064**
At 31 March 2015	19	48	0	20	58,500	1,000	3,182	0	**62,769**

There were no significant acquisitions or disposals in 2016/17 or 2015/16.

Museums and Galleries

Museums Sheffield

Sheffield's collections are of local, regional and national importance and are used in research, displays, exhibitions and public programmes. Over a million objects are stored at a purpose-built facility and displayed across four sites. The collections comprise:

- **Designated Metalwork Collection** – some 13,000 items and the most extensive grouping of finished Sheffield made cutlery, flatware and hollowware in existence. The collection has national significance reflected in its Designation status and is a powerful illustration of the City's world leadership in metalwork design, production and innovation.

- **Decorative Art Collection** – including approximately 16,000 examples of art, craft and design, British ceramics, glass, horology and an outstanding collection of Chinese carved ivories.

- **Visual Art Collection** – comprises over 6,000 items of British and European Art dating from the 1500s to the present, of which the most significant area is the Modern British collection. This includes key acquisitions by artists including Marc Quinn, Sam Taylor-Wood, Hew Locke, Sutapa Biswas and Czech artist Katerina Seda.

- **Social History Collection** – has strong family and community connections with the people of Sheffield and comprises around 25,000 objects including ephemera, personalia, costume, domestic items, furniture, and approximately 1,500 watercolours, drawings, prints and oil paintings documenting the changing city.

- **Coins, Medals and Token Collection** – number around 8,000 items and owe their origin to the Sheffield Literary and Philosophical Society. It dates from Roman and Greek pieces to 20th century coins from all over the world.

- **Arms and Armour Collection** – consists of Japanese and Indo-Iranian swords, shields and helmets alongside 200 European military, practical and sporting guns from the late 1600s onwards.

- **Archaeology Collection** – is of regional and national importance and comprises material dating from pre-history to the 20th century and includes the Anglo Saxon Benty Grange Helmet.

- **Natural Sciences Collection** – is of major regional significance and comprises: Botany, Entomology, Geology, Osteology, Zoology and extensive data relating to collectors, field recording and meteorology comprising over 60,000 biological and geological records.

- **World Cultures Collection** – was acquired by nineteenth century Sheffield travellers and contains 2,000 items from across the globe.

Sheffield Industrial Museums Trust

Sheffield Industrial Museums Trust has a wide collecting remit covering the major manufacturing industries of Sheffield.

Kelham Island Museum

Kelham Island Museum collects, preserves and interprets material relating to the people, products, manufacturing processes and the histories of these industries:

- **Heavy Industries Collections** – cover the Iron and Steel Industry, the Armaments Industry, the Transport Collection, Scientific and Technological Research, Extraction and Refractory Industries and engineering. The museum holds a comprehensive collection of about 6,000 items which relate to the general production of steel and other metals and the manufacture of metal, particularly steel, products.

- **Light Trades Industries Collections** – are represented by items relating to cutlery manufacture, hollowware and tool making industries.

- **General Trades Collection** – covers a range of non-metal working industries, such as brewing, retail and food production. The collection numbering about 550 items represents Sheffield's other manufacturing industries, including, button making, bookbinding and printing, snuff making, watch and clock making, shoemaking and needle and pin manufacture.

- **Library, Archive and Ephemera Collections** – include the historic documents and plans, the historic photographs, paintings and films, published books and journals and the personal and ephemera of local peoples and companies.

Abbeydale Industrial Hamlet

The Hamlet is a collection of buildings, associated machinery and objects relating to the manufacture of edge tools, especially scythes. The site is a Grade 1 Listed building and a Scheduled Ancient Monument. The buildings and machinery include a crucible shop, water powered tilt hammers, grinding hull, scythe riveting shop, blacking shop along with workers cottages and a manager's cottage.

The collection of edge tools consists of some 450 scythes, sickles, saws - some finished and some work in progress. Other material consists of 600 items of furniture, textiles, ceramics, cutlery and other social history items. These are displayed in the two cottages and the counting house which make up part of the site. In addition there are a number of plans and photographs amounting to approximately 550 items.

Shepherd Wheel

A restored example of a waterwheel that powered grinding workshops for table, domestic, pocket and pen knives. The wheel is 5.5 metres high by 2 metres wide and made of cast and wrought iron, elm and oak and bronze. The water to turn the wheel comes from the large dam where water is diverted from the River Porter. The waterwheel turned twenty grindstones and several ‘glazing’ stones. The grindstones were used to create a fine, sharp cutting edge on the blade. The final smoothing of the blade was done on the glazing stones, before they left Shepherd Wheel for polishing.

Bishops House

Bishops House is a surviving example of a timber-framed house from the fifteenth century, typical of a large farmhouse or small manor house and is a Grade II listed building. Located at the top of Meersbrook Park, ownership passed to Sheffield City Council in 1886 and was used by the Parks authority until 1974. The house was then restored and has been open as a museum since 1976. It is run by the Friends of Bishops House voluntary group.

Civic Collections

The Civic Collections include commemorative items and gifts of silverware and paintings given to the city. There are also examples of products manufactured by Sheffield’s industries. The artefacts are displayed throughout the Town Hall and include the statue of the first Lord Mayor of Sheffield, the 15th Duke of Norfolk and a marble bust of Queen Victoria located on the main staircase.

Archives and Libraries

Sheffield Archives acts as the archive repository for the City Council and its predecessors from the 13th century to date. It is also an appointed Place of Deposit (POD) by the Ministry of Justice for the storage and management of archives from central government including the NHS, HM Courts and HM Coroner. In addition it is the repository for historical records of South Yorkshire Police, the Diocese of Sheffield and the Roman Catholic Diocese of Hallam. Also stored are the records of the South Yorkshire Archive Service which is funded by all four local authorities. Under the Local Government Act 1972 it also stores private records on loan or gifted to the City Council. Two large collections are held on behalf of the Department of Culture, Media and Sport (DCMS) under the Treasury's Acceptance in Lieu of Inheritance tax scheme. There are also significant collections of printed material from the 17th century onwards within the Central Library collections.

Public Realm

The city's historic parks, grounds, woodlands and cemeteries are categorised as community assets for the purposes of these accounts but the many statues, monuments and archaeological features within, and throughout the city, are classed as Heritage Assets.

There are several Grade II listed monuments. Examples include the 1832 Cholera Monument in the Cholera Monument Grounds and the Jubilee Monument and Obelisk, and statue of Queen Victoria in Endcliffe Park. There are also many listed buildings, lodges, monuments and structures in Hillsborough Park, Firth Park, Graves Park, Weston Park (Trust), Norfolk Heritage Park, Sheffield General Cemetery and the Botanical Gardens (Trust).

There are many war memorials and plaques located around the city, including the cenotaph in the city centre and the Sheffield Battalion Memorial and Sheffield Memorial Park in the village of Serre in Western France.

Wincobank Hill and woods includes the site of an iron-age hill fort, with many other archaeological features recorded in the woodland and the Roman Ridge. Ecclesall Woods, as well as a local designated nature reserve for wildlife, contains a number of prehistoric and early historic monuments. Wheata Woods are also of archaeological importance, with sites ranging from bronze-age field systems, Romano-British settlements, post medieval quarry pits and bomb craters.

There are many contemporary pieces of public art in the city centre resulting from the on-going regeneration projects. The 'Cutting Edge' sculpture is an 81 metre long blade of polished stainless steel and art glass. Located in Sheaf Square, the station gateway, it is one of the largest stainless steel sculptures in the UK and was fabricated using Sheffield steel. Other important water features include the Barkers Pool fountain and 'Rain', nine stainless steel spheres, coated with a constant thin film of water which was commissioned in 2003 for Millennium Square. The prominent 'Goodwin Fountain' outside the Town Hall is dedicated to the philanthropists Sir Stuart and Lady Goodwin and has 89 individual jets of adjustable heights. There are many other examples of public art in the public realm, including sculptures, murals, decorative gates and railings.

19. Investment Properties

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

2015/16 £000		2016/17 £000
(267)	Rental income from investment property	(526)
(267)	Net gain/(loss)	(526)

The assets held as Investment Properties are small and large format advertising hoarding contracts. The Council has separate contracts for each format, both of which derive a rental income and places the responsibility on the company to pay the rates liability in respect of each site. The small format contract also affords the Council space to utilise the advertising space to promote City based events and activities.

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

2015/16 £000	Cost or Valuation	2016/17 £000
1,495	Balance at 1 April	21,555
20,060	Revaluations	400
21,555	Balance at 31 March	21,955

Gains or losses arising from changes in the fair value of the investment property are recognised in Surplus or Deficit on the Provision of Services – Financing and Investment Income and Expenditure line.

Fair Value Hierarchy

To conform with the requirements of IFRS 13, Fair Value measurement, details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2017 are as follows:

2016/17				
Recurring fair value measurements using:	**Quoted prices in active markets for identical assets (Level 1)**	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value as at 31 March 2017**
	£000	**£000**	**£000**	**£000**
Advertising Hoardings	0	21,955	0	21,955
Total	**0**	**21,955**	**0**	**21,955**

2015/16 – Comparative Information				
Recurring fair value measurements using:	**Quoted prices in active markets for identical assets (Level 1)**	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value as at 31 March 2016**
	£000	**£000**	**£000**	**£000**
Advertising Hoardings	0	21,555	0	21,555
Total	**0**	**21,555**	**0**	**21,555**

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels during the year.

Valuation Techniques used to Determine Level 2 Fair Values for Investment Properties

Significant Observable Inputs – Level 2

The fair value for the investment properties, i.e. the small and large advertising hoarding contracts, has been measured using the income approach. It has been established by taking the net direct revenue payable under the contract for the unexpired term of each Contract multiplied by a yield determined by market conditions, contractual terms and the covenant strength of the contracted party. They have been categorised at Level 2 in the fair value hierarchy as both Contracts have been subject to individual competitive tender exercises and the resulting revenues are the rate at which the specific sector assesses to be ‘market value’.

Highest and Best Use of Investment Properties

In estimating the fair value of the Council’s investment properties, the highest and best use of the properties is their current use.

Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

Valuation Process for Investment Properties

The fair value of the Council’s investment property is measured annually at each reporting date. All valuations were carried out by Sheffield City Council Property Services under the supervision of Angela Glentworth (MRICS / Registered Valuer – Acquisitions and Disposals Manager) who has overall responsibility. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

20. Financial Instruments

The borrowings and investments disclosed In the Balance Sheet are made up of the following categories of financial instruments:

Current 31 March 2016 £000	Long Term 31 March 2016 £000		Current 31 March 2017 £000	Long Term 31 March 2017 £000
(18,249)	(721,715)	Financial liabilities (Principal amount)	(21,799)	(724,916)
(7,537)	0	Accrued Interest	(7,632)	0
0	(7,493)	Accounting Adjustments	0	(7,430)
(25,786)	(729,208)	Financial liabilities at amortised cost	(29,431)	(732,346)
(25,786)	**(729,208)**	**Total borrowing**	**(29,431)**	**(732,346)**
(13,838)	(381,391)	PFI and finance lease liabilities	(10,746)	(415,410)
(39,624)	**(1,110,599)**	**Total other long term liabilities**	**(40,177)**	**(1,147,756)**
15,000	0	Loans and receivables (principal amount)	8,000	0
37	0	Accrued Interest	75	0
15,037	0	Loans and receivables (at amortised cost)	8,075	0
71,709	0	Cash and Cash Equivalents	76,682	0
86,746	**0**	**Total investment**	**84,757**	**0**
0	**351**	**Soft Loans Provided**	**0**	**240**

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

Note 2 - Sheffield Galleries and Museums Trust Loan

The Council made a £650k cash flow loan to Sheffield Museums and Galleries Trust (SMGT) in 2010/11 at 0% interest, which was less than market rates of approximately 5.5% and therefore must be accounted for as a soft loan. When soft loans are made, 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 at a marginally higher effective rate of interest than the rate receivable from SMGT, 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 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 is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement).

The detailed soft loans information is shown in the table below:

31 March 2016 £000		31 March 2017 £000
456	Opening Balance	351
25	Increase /(Decrease) in the Discounted Amount	19
(130)	Loan Repayment	(130)
351	**Balance Carried Forward**	**240**
390	**Nominal Value Carried Forward**	**260**

Note 3 – Capitalisation of Interest

We have chosen to apply IAS32 by capitalising borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of those assets: in line with our accounting policy for Property, Plant & Equipment set out in note 1.

The policy states that borrowing costs are capitalised for capital projects that take a substantial period of time to get ready for intended use, determined as a construction / development period of two years or more and until the construction is complete. However, this policy does not apply to projects that are predominantly grant funded.

In accordance with this policy, we have capitalised interest of £2.276m (2015/16 £1.553m) using a capitalisation rate of 4.15% in relation to the on-going development of the Sheffield Retail Quarter.

Financial Instrument Gain / Losses

The Financial Instrument gains and losses recognised in the Comprehensive Income and Expenditure Statement are:

2015/16 Financial Liabilities	2015/16 Financial Assets Loans and Receivable	2015/16 Total		2016/17 Financial Liabilities	2016/17 Financial Assets Loans and Receivable	2016/17 Total
£000	**£000**	**£000**		**£000**	**£000**	**£000**
(33,824)	0	(33,824)	Interest expense	(34,184)	0	(34,184)
(36,850)	0	(36,850)	Interest on PFI scheme liabilities	(39,773)	0	(39,773)
(70,674)	**0**	**(70,674)**	**Interest payable and similar charges**	**(73,957)**	**0**	**(73,957)**
0	1,177	1,177	Interest income	0	1,021	1,021
0	**1,177**	**1,177**	**Interest and investment income**	**0**	**1,021**	**1,021**
(70,674)	**1,177**	**(69,497)**	**Net gain / (loss) for the year**	**(73,957)**	**1,021**	**(72,936)**

Fair Value of Assets and Liabilities Carried at Amortised Cost

The borrowings and investments disclosed in the Balance Sheet are shown at amortised cost. Their fair value can be assessed by calculating the net present value (NPV) of the cash flows that take place over the remaining life of the instruments which provides an estimate of the value of payments in the future in today's terms. The calculations have been made using the following assumptions:

- The discount rate used was the market rates as at 31 March (using bid prices where applicable) for instruments with the same duration (i.e. equal to the outstanding period from valuation date to maturity), loan structure and terms as that of the comparable instrument.

- For loans from the PWLB payable, new borrowing rates from the PWLB have been applied to provide the fair value under PWBL debt redemption procedures. This is because the premature repayment rate includes a margin which represents the lender's profit as a result of rescheduling the loan, which is not included in the fair value calculation since any motivation other than securing a fair price should be ignored.

- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures.

- As the purpose of the fair value disclosure is to provide a comparison with the carrying value in the Balance Sheet, accrued interest has been included in the fair valuation calculation as this is also reflected in the carrying amount. The accrued interest figure is calculated up to and including the valuation date.

- For loans receivable, the prevailing benchmark market rates have been used to provide the fair value.

- No early repayment or impairment has been recognised.

- Interest is calculated using the most common market convention ACT/365 (366 days in a leap year with the exception of PWLB which are charged on a 365 day basis regardless of leap years).

- Where an instrument has a maturity of less than 12 months, the fair value is taken to be the carrying amount.

- Where interest is paid / received every 6 months on a daily basis, the value of interest is rounded to 2 equal instalments.

- For fixed term deposits it is assumed that interest is received on maturity, or annually if duration is > 1 year.

- The interest value and date has not been adjusted where a relevant date occurs on a non-working day.

The fair values calculated are:

31 March 2016			**31 March 2017**	
Carrying Amount £000	**Fair Value £000**		**Carrying Amount £000**	**Fair Value £000**
(354,678)	(440,940)	PWLB debt	(377,101)	(496,325)
(400,316)	(511,126)	Non-PWLB debt	(384,238)	(582,394)
(754,994)	**(952,066)**	**Total Financial Liabilities**	**(761,339)**	**(1,078,719)**

The table above reflected the aggregate position of Sheffield City Council's loan portfolio as at the Balance Sheet date. The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates applicable to similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2017) arising from the commitment to pay interest to lenders above current market rates.

The fair value of the Public Works Loan Board (PWLB) loans of £496.3m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreement with the PWLB against what would be paid if the loans were at the prevailing market rates.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £377.1m would be valued at £496.3m. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging an additional premium for the additional interest that will not now be paid. The exit price for the PWLB loans, based on premature repayment rates including the penalty charge, would be £575.3m.

31 March 2016			31 March 2017	
Carrying Amount £000	**Fair Value £000**		**Carrying Amount £000**	**Fair Value £000**
15,037	15,048	**Total Loans and Receivables**	8,075	8,080

The Council held one fixed term investments with Qatar National Bank of £7.5m (previously one fixed term investments with Bank of Scotland of £15m) at 31 March 2017 with a maturity date of 25th April 2017. It also holds £0.5m in a 95 day call account with Barclays Bank plc. There are no other fixed term investments.

Other deposits were held in instant access deposit accounts and Money Market Funds (MMFs) and are classed as Cash or Cash Equivalents.

The fair value of the assets is greater than the carrying amount because the Council's portfolio of investments includes a number of fixed term investments where the interest receivable is higher than the rates available on similar investments in the market at the balance sheet date. This shows a notional future gain (based on the economic conditions at 31st March 2017) arising from a commitment from borrowers to pay interest above current market rates.

21. Nature and Extent of Risks Arising from Financial Instruments

Key Risks

The Council's activities 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 be required to renew a financial instrument on maturity at disadvantageous interest 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 and stock market movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on resources available to fund services.

The procedures for risk management are set out through a legal framework 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 Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- By formally adopting the requirements of the CIPFA Code of Practice on Treasury Management.

- By the adoption of a Treasury Policy Statement and treasury management clauses within the Council's Financial Regulations / Standing Orders / Constitution.

- By approving annually in advance prudential indicators for the following three years limiting:

  - The Council's overall borrowing.
  - The maximum and minimum exposures to fixed and variable rates.
  - The maximum and minimum exposure in regard to the maturity structure of debt.
  - The maximum annual exposures to investments maturing beyond a year.

- By approving an investment strategy for the forthcoming year setting out the criteria for both investing and selecting investment counterparties in compliance with Government guidance.

The prudential indicators are reported and approved as part of the Council's annual budget setting process. 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 six monthly and annually to Members.

As the investment rates during 2016/17 were lower than the cost of borrowing the Council used accumulated investment balances and short term temporary borrowing (as this is significantly cheaper that long term borrowing) where possible to fund capital expenditure rather than incurring any new long term external borrowing. This reduced the Council's exposure to higher debt charges during the year and also reduced the Council's risk exposure to banks and other financial institutions during a time of economic uncertainty.

The Council maintains written principles / policies (the Treasury Management Practices or TMPs) for overall risk management, as well as covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash. These TMPs are a requirement of the Code of Practice; which are updated and implemented by the Treasury Management and Banking team.

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 the meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Rating

Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The Council uses the creditworthiness service provided by Capita Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies (Fitch, Moody's and Standard and Poor's) forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies.

- Credit Default Swap spreads to give early warning of likely changes in credit ratings (a CDS is the market perception of credit risk for financial institutions).

- Sovereign ratings to enable the Council to only select counterparties from the most creditworthy countries.

This modelling approach combined credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system which indicated the relative creditworthiness of counterparties. From this the Council was able to determine the maximum amounts and durations to invest with institutions. This approach ensured that the Council only invested with the very highest rated institutions, from countries with a strong creditworthiness.

The credit rating of counterparties is monitored regularly. The Council is alerted to changes to ratings by all three agencies through its use of the Capita Asset Services' creditworthiness service. On occasions ratings were downgraded when an investment had already been made. The criteria used are such that minor downgrades are extremely unlikely to affect the full receipt of the principal and / or interest.

If a downgrade resulted in the counterparty / investment scheme no longer meeting the Council's minimum criteria, it was immediately removed from the list. New counterparties which met the criteria were also added to the list.

In addition to the use of Credit Ratings the Council is advised of information in movements in Credit Default Swaps (CDS) against a defined benchmark range (the iTraxx benchmark) and other market data on a weekly basis. Changes in the CDS outside of the benchmark would potentially result in the downgrade of an institution or removal from the Council's lending list.

Sole reliance was not placed on the use of this model. In addition the Council also used market data and market information, information on government support for banks and the credit ratings of the government that supports them to inform decisions on which institutions to invest with.

The following analysis summarises the Council's potential maximum exposure to credit risk as at 31 March 2017, based on experience of default assessed by the rating agencies and the Council's past experience, adjusted to reflect current market conditions.

	Amount at 31 March 2017	Historical Experience of Default	Adjustment for conditions at 31 March 2017	Estimated Maximum Exposure to Default
	£000			**£000**
Deposits with A+ rated counterparties	7,500	0%	0.005%	0.4
Deposits with A- rated counterparties	500	0%	0.017%	0.1
	8,000			0.5
Customers**	21,568	1.6%	1.6%	345
	29,568			**345.5**

As per the Code guidance the percentage for financial instruments in terms of both historical default are calculated by looking at Sheffield City Council's actual experience of default rather than the general position in the market. In the case of Sheffield there has been no past experience of default and the Council has no exposure to Iceland so the percentage used is 0%. As at 31 March 2017 the Council held £7.5m as fixed term deposits with Qatar National Bank who were rated A+ at this time. The Council also held £0.5m with Barclays Bank plc who were rated A- at this time. The adjustment for conditions at 31 March 2017 reflects the risk on this deposit at that date as determined by Credit Rating Agencies.

The figure used for customers in terms of both historical default and adjustment for conditions were calculated by using the 2016/17 write offs as a % of the total amount of invoices raised in 2016/17.

As at 31 March 2017 the Council held £7.5m in fixed term deposits with Qatar National Bank, which matures on 25th April 2017. A small default risk was attached to this deposit of 0.005% at 31 March 2017. The Council also held £0.5m in a 95 day call account with Barclays Bank plc; which has a small default risk of 0.017%

Other funds held at the year-end (£76.7m) were deposited with AAA Money Market Funds (MMFs) and an instant access account. As these funds offer instant access these deposits have been classified as Cash and Cash Equivalents in the accounts.

The table below shows that the Council's outstanding investment balance as at 31 March 2017 was £8m, and there was £15m investment at 31 March 2016.

31 March 2017			
Financial Institution	**Rating of Counterparty**	**Country**	**Amount £000**
Qatar National Bank	A+	Qatar	7,500
Barclays Bank	A-	UK	500

31 March 2016 – Comparative Information			
Financial Institution	**Rating of Counterparty**	**Country**	**Amount £000**
Bank of Scotland plc	A	UK	15,000

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to its deposits. During the reporting period the Council held no collateral as security.

The Council does not allow credit for customers therefore the value of £21.6m for 2016/17 (£23m for 2015/16) shown in the following table are all debtors which are past their due date for payment. The past due amounts can be analysed by age as follows:

31 March 2016 £000		31 March 2017 £000
16,202	Less than three months	13,168
765	Three to six months	1,253
2,003	Six months to one year	1,705
3,990	More than one year	5,442
22,960	**Total**	**21,568**

The Council's bad debt impairment at 31 March 2017 is £58.5m (£60.9m for 2015/16) of this £3.4m (£6.2m for 2015/16) relates to the above outstanding debt.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through comprehensive cash flow management system; as required by the CIPFA 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 needs and whilst the PWLB provides access to longer term funds, it 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 through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

All sums owing to the Council from funds deposited in MMFs and instant access account is £71.7m as at 31 March 2017 and offer instant repayment.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the Treasury Management and Banking team address the operational risks within the approved parameters. This includes:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is:

2015/16 Principal £000	2015/16 Accrued Interest £000	2015/16 Principal plus Interest £000		2016/17 Principal £000	2016/17 Accrued Interest £000	2016/17 Principal plus Interest £000
18,249	17,278	35,527	Less than 1 year	21,799	14,624	36,423
21,799	0	21,799	Between 1 & 2 years	5,000	0	5,000
32,173	0	32,173	Between 2 & 5 years	36,498	0	36,498
45,694	0	45,694	Between 5 & 10 years	53,068	0	53,068
622,049	0	622,049	More than 10 years	630,350	0	630,350
739,964	**17,278**	**757,242**	**Total**	**746,715**	**14,624**	**761,339**

The maturity analysis of financial assets is:

2015/16 Principal £000	2015/16 Accrued Interest £000	2015/16 Principal plus Interest £000		2016/17 Principal £000	2016/17 Accrued Interest £000	2016/17 Principal plus Interest £000
15,000	37	15,037	Less than 1 year	8,000	75	8,075
15,000	**37**	**15,037**	**Total**	**8,000**	**75**	**8,075**

Cash and Cash Equivalents are not shown in the above table.

All trade debtors and other payables are due to be paid in less than one year and are not shown in the above table.

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, e.g. a rise in variable and fixed interest rates would have the following effects:

- Borrowing at variable rates — The interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- Borrowing 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.
- Investments at fixed rates — The fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund. Movements in the fair value of fixed rate instruments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum limits for fixed and variable interest rate exposures. The Treasury Management and Banking team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns and the drawing of longer term fixed rate borrowing would be postponed.

In order to minimise the Council's exposure to loan interest functions the Council will only have a maximum of £178m worth of variable rate debt. At the 31 March 2017, the amount of variable rate debt was £130m

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

	£000
Increase in interest payable on variable rate borrowings *	1,300
Increase in interest receivable on variable rate investments **	(1,085)
Increase in government grant receivable for financing costs	0
Impact on Surplus or Deficit on the Provision of Services	215
Share of overall impact debited to the HRA***	84
Decrease in fair value of fixed rate investment assets****	0
Impact on Other Comprehensive Income and Expenditure *****	0
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	159,676

Notes:

*All borrowings raised from the PWLB and £188m of Market loans were at fixed rates in 2016/17 and, as a result, a change in interest rates would have no effect on the interest payable on these loans, the amount of government grant received and on the Comprehensive Income and Expenditure Statement or HRA.
There are a number of LOBO loans (£130m) which have moved out of their 'fixed' period and onto calls which are shown in the accounts as variable - although in reality they are fixed at each call period until the next call, so are only affected by a change of interest rates when the loan was 'called' at which point the Council would have the option to repay the loan without any premiums being payable. There were no LOBOs called during 2016/17. For the purposes of this note the average rate of these loans (5.20%) has been inflated by 1% to show the impact this may have.

** Based on a 1% increase on the weighted average interest rate and investment balance for 2016/17.

*** HRA share is 39.17% of total interest payable which is charged to the HRA. Note that under self-financing it is assumed that no investment balances are attributable to the HRA and therefore they do not benefit from any increase in interest receivable.

**** There were two fixed term investments – one for £7.5m held with Qatar National Bank and another for £0.5m held with Barclays Bank at the year end.

Other investments held by the Council at the year-end were deposited with Money Market Funds (MMFs) and a deposit account which offer instant access to funds and therefore classified as Cash or Cash Equivalents on the Balance Sheet.

***** All Sheffield City Council assets are classed as loans and receivables and therefore this figure is zero as there is no impact on the Comprehensive Income and Expenditure Statement.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the note – Fair Value of Assets and Liabilities carried at Amortised Cost.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore no exposure to loss arising from movements in exchange rates.

22. Long Term Debtors

The following is an analysis of Long Term Debtors:

31 March 2016		31 March 2017
£000		**£000**
6,186	Up Front Contributions for Private Finance Initiative (PFI) Schemes	5,747
75	Housing Advances	70
118	Charges Over Assets	118
39	Barnsley Council Transferred Debt	25
64,191	Sheffield City Trust Prepayment	55,021
	Loans to Third Parties:	
190	- Sheffield City Region Local Enterprise Partnership	190
362	- Sheffield Galleries and Museum Trust	252
4,025	- Sheffield International Venues Ltd	2,800
2,000	- Doncaster Council (LEP Growing Places Fund)	1,010
(3,178)	- Loan Provision for LEP Growing Places Fund	(4,588)
70,940	- Sheffield City Trust	99,976
1,178	- Gallium Finance	1,178
1,501	- Manor and Castle Development Trust	1,501
0	- Chesterfield Borough Council	2,400
147,627	**Total**	**165,700**

Sheffield City Trust

There are two Long term Debtor balances relating to Sheffield City Trust, a prepayment and a debtor.

In 2013 the Council advanced Sheffield City Trust £101m to part fund the repayment of bank debt. Repaying the bank debt freed the Trust from the expensive leases that would have otherwise run to 2024, and which were funded by the Council via annual grant. This prepayment is being amortised over ten years in line with the original lease arrangements. The total current value of the prepayment is £64.2m (£73.3m in 2015/16), £55.0m (£64.2m in 2015/16) is included above as a long term debtor and £9.1m (£9.1m in 2015/16) is shown as a short term debtor.

The debtor of £100m (£70.9m in 2015/16) represents the current value of the Major Sporting Facilities property assets, which were revalued in 2016/17 and which are currently held by Sheffield City Trust.

23. Short Term Debtors

The following is an analysis of Debtors:

31 March 2016 Restated £000		**31 March 2017 £000**
12,612	Central Government Bodies	18,239
0	Less Impairment for Bad Debts	0
12,612	**Central Government Bodies (Net of Impairment)**	**18,239**
6,722	Other Local Authorities	3,250
0	Less Impairment for Bad Debts	0
6,722	**Other Local Authorities (Net of Impairment)**	**3,250**
3,027	NHS Bodies	3,607
0	Less Impairment for Bad Debts	0
3,027	**NHS Bodies (Net of Impairment)**	**3,607**
8,846	Housing Tenants	8,565
(6,158)	Less Impairment for Bad Debts	(6,181)
2,688	**Housing Tenants (Net of Impairment)**	**2,384**
37,596	Local Taxpayers and NNDR	42,595
(36,590)	Less Impairment for Bad Debts	(36,254)
1,006	**Local Tax Payers and NNDR (Net of Impairment)**	**6,341**
12,737	Capital Project	13,239
0	Less Impairment for Bad Debts	0
12,737	**Capital Projects (Net of Impairment)**	**13,239**
9,170	Sheffield City Trust Prepayment	9,170
0	Less Impairment for Bad Debts	0
9,170	**Other Entities and Individuals (Net of Impairment)**	**9,170**
103,712	Other Entities and Individuals	70,656
(18,111)	Less Impairment for Bad Debts	(16,028)
85,601	**Other Entities and Individuals (Net of Impairment)**	**54,628**
194,422	**Total Debtors (Gross)**	**169,321**
(60,859)	**Less Total Impairment for Bad Debts**	**(58,463)**
133,563	**Total Debtors (Net of Impairment)**	**110,858**

24. Cash and Cash Equivalents

The following is an analysis of Cash and Cash Equivalents shown on the Balance Sheet:

31 March 2016 £000		31 March 2017 £000
12,155	Cash at Bank	8,411
77	Petty Cash Floats	61
71,682	Short Term Investments	76,666
0	Other	(24)
83,914	**Total**	**85,114**

25. Assets Held for Sale

The following table summarises the movement in Assets Held for Sale over the year:

2015/16 Current £000		2016/17 Current £000
29,541	Balance at 1 April	30,022
18,119	Assets newly classified as Held for Sale from Property, Plant and Equipment	14,961
(7,465)	Assets declassified as held for sale	(13,422)
(10,173)	Assets sold	(4,790)
30,022	**Balance at 31 March**	**26,771**

26. Short Term Creditors

The following is an analysis of Creditors:

31 March 2016 £000		31 March 2017 £000
(20,483)	Central Government Bodies	(14,382)
(4,031)	Other Local Authorities	(4,255)
(4,207)	NHS Bodies	(2,965)
(19)	Public Corporations and Trading Funds	(19)
(3,118)	Housing Tenants	(3,292)
(6,711)	Local Taxpayers and NNDR	(15,263)
(11,963)	Capital Projects	(12,685)
(9,248)	Accumulated Absences	(9,554)
(70,298)	Other Entities and Individuals	(82,775)
(130,078)	**Total**	**(145,190)**

27. Provisions and Deferred Credits

The Council maintains the following provisions:

	Insurance	Digital Region	Termin-ation Benefits	HRA - Week 53 Rent Deferred Credit	Other	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2016	**(7,500)**	**(225)**	**(1,252)**	**(1,935)**	**(20,201)**	**(31,113)**
Additional Provisions	0	(2,170)	(183)	0	(8,583)	**(10,936)**
Amounts Used	997	1,937	1,083	484	7,780	**12,281**
Unused Amounts Reversed	0	0	3	0	115	**118**
Balance at 31 March 2017	**(6,503)**	**(458)**	**(349)**	**(1,451)**	**(20,889)**	**(29,650)**
Comprising of:						
Short Term	(5,400)	(458)	(349)	(484)	(9,447)	**(16,138)**
Long Term	(1,103)	0	0	(967)	(11,442)	**(13,512)**
	(6,503)	**(458)**	**(349)**	**(1,451)**	**(20,889)**	**(29,650)**

Insurance

The Council operates an Internal Insurance Account covering a variety of risks.

The Council does not in general insure against the theft of the contents of its buildings and other property, although it does provide theft cover for computers in schools and for Art and Museum exhibits on loan to the Council.

Digital Region

The provision covers costs, attributable to the Council when it was a shareholder of Digital Region Limited. In June 2015, a liquidator was appointed to oversee the closure of the company and the provision is currently being drawn down.

Termination Benefits

This provision is for individuals who the Chief Officer Panel have approved to leave the Council via voluntary early retirement and voluntary redundancy. However, as at 31 March 2017 they have not yet left the Council.

HRA - Week 53 Rent Deferred Credit

This account is used to annualise HRA rent. It is used to equalise out the 52 / 53 week years, giving greater stability to the HRA.

Other

This balance represents the Council's other provisions and includes provisions for equal pay claims, business rates appeals, grant claw back, risks relating to the waste contract and various other smaller provisions.

28. Other Long Term Liabilities

The Other Long Term Liabilities figure on the Balance Sheet is made up of:

31 March 2016 Restated £000		31 March 2017 £000
(15,570)	Deferred Liabilities – South Yorkshire Council Debt	(12,215)
(103,264)	Deferred Liabilities – Sheffield City Trust	(91,091)
(118,834)	**Total**	**(103,306)**

Deferred Liabilities

The Council has a proportionate share in the interests of the former South Yorkshire Council Debt. As at 31 March 2017 the deferred liabilities of Sheffield City Council amounted to **£15.6m** (£18.6m in 2015/16), comprising **£3.4m** (£3.0m in 2015/16) maturing within one year, which has been disclosed in Short Term Creditors Note (within Other entities and individuals) and **£12.2m** (£15.6m in 2015/16) after that date.

The Council also has a Long Term Creditor for Sheffield City Trust, reflecting the obligation to provide £140.4m of funding between 2014 and 2024 for the repayments of the bond financing for the Major Sporting Facilities. The outstanding liability as at 31 March 2017 is **£103.3m**, (£114.7m as at 31 March 2016) of which **£91.1m** (£103.3m in 2015/16) is shown in this note, and **£12.2m** (£11.4m in 2015/16) in Short Term Creditors Note as due within 12 months.

29. Usable Reserves

The following table summarises the Usable Reserves balances:

31 March 2016 £000		31 March 2017 £000
	Capital Reserves:	
(44,980)	Capital Receipts Reserve	(53,111)
(71,827)	Major Repairs Reserve	(69,311)
(23,444)	Capital Grants Unapplied Reserve	(20,461)
(140,251)		(142,883)
	Revenue Reserves:	
(12,599)	General Fund	(9,689)
	Earmarked General Fund Reserves**:**	
(17,005)	Schools Reserves	(16,150)
(468)	Revenue Grants and Contributions	(1,033)
(151,928)	Other Earmarked Revenue Reserves	(125,833)
(8,176)	Housing Revenue Account Balance	(9,199)
(3,713)	Earmarked Housing Revenue Account Reserve	(4,107)
(193,889)		(166,011)
(334,140)	**Total**	**(308,894)**

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Note 13.

General Fund

The General Fund is the statutory fund into which all the receipts of a Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund, which is not necessarily in accordance with general accounting practice. The General Fund therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. The balance is not available to be applied to fund HRA services.

The table below provides a breakdown of the General Fund:

31 March 2016		31 March 2017
£000		**£000**
(12,599)	General Balances Available	(9,689)
(12,599)	**Total**	**(9,689)**

The General Fund was £9.7m at 31 March 2017, representing only 2.4% of the 2016/17 net budget requirement of £406.1m. This has fallen below the minimum prudent level recommended by the Executive Director of Resources, mainly as a result of the £2.3m overspend in 2016/17. This reserve is to be returned to the minimum recommended level of £12.6m or approximately 3% of net revenue expenditure during 2017/18. If the reserve was ever used, it would have to be replaced as soon as possible as the Council will always need a minimum level of emergency reserves.

Earmarked General Fund Reserves

The table below provides a breakdown of the earmarked reserves balance:

31 March 2016		31 March 2017
£000		**£000**
(17,005)	Schools Reserves	(16,150)
(468)	Revenue Grants and Contributions	(1,033)
	Other Earmarked Revenue Reserves:	
(10,653)	- Insurance Fund Reserve	(11,102)
(38,008)	- Major Sporting Facilities	(42,516)
(5,527)	- New Homes Bonus (NHB)	(11,567)
(28,310)	- PFI Future Expenditure	(14,882)
(1,032)	- Public Health	(1,032)
(10,474)	- Service Area Reserves	(10,024)
(57,924)	- Other Earmarked Reserves	(34,710)
(169,401)	**Total**	**(143,016)**

Earmarked reserves are set aside to meet known or predicted future liabilities, such as equal pay claims. These liabilities mean that the earmarked reserves are not normally available to fund the budget or other measures.

Earmarked reserves are available to fund capital or revenue expenditure following approval by Cabinet. Expenditure is charged to the revenue or capital account when it is incurred and is financed by an appropriation from the reserve through the Movement in Reserves Statement.

A list of earmarked reserves, their purpose and proposed use are set out below.

- Schools Reserves**:** Schools' Earmarked Reserve consists of money that has been allocated under Local Management of Schools legislation, and which remains unspent at the year end. This reserve is not available to support General Fund expenditure.

- Revenue Grants and Contributions: Where a revenue 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 has been transferred to the Revenue Grants and Contributions reserve to support future spend.

- Major Sporting Facilities: The Major Sporting Facilities (MSF) reserve exists because of the need to smooth the future significant payments due for the MSF debt (re: Ponds Forge, the Arena, Don Valley Stadium and Hillsborough Leisure Centre).

- PFI Future Expenditure: The PFI reserve exists due to Government funding being received in advance to pay future years' liabilities. This income is set aside in a reserve until needed to ensure sufficient funds are available to cover the cost of contracts in future years. During 2016/17 £17.1m of these reserves were used temporarily to fund the Pension Deficit early payment to deliver £5.0m of savings. These funds will be fully repaid during 2018/19 when they will be needed for their primary purpose.

- New Homes Bonus: The Government is paying all Councils "New Homes Bonus" to incentivise them to bring empty properties back into use or encourage new housing to be built. The Council has agreed to use the payments to create a Growth Investment Fund for projects that promote housing and economic growth. This reserve sets aside the payments until required for agreed projects.

- Insurance Fund Reserve: This reserve contains funds required to cover the Council against potential litigation claims, for which, there is not enough certainty to create a provision in the accounts. The balance on the reserve as at 31 March 2017 is £11.1m.

- Other Earmarked Reserves: Other Earmarked reserves include funds which are set aside to cover predicted liabilities such as business rates appeals, redundancies, Equal Pay claims, social care pressures and items earmarked for use by particular services. During 2016/17 £48m of these reserves were used temporarily to fund the Pension Deficit early payment to deliver £5.0m of savings. These funds will be fully repaid during 2017/18 to 2019/20 ensuring they are available when needed for their primary purpose.

Housing Revenue Account Reserves

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority Council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

The table below shows the balance of the Housing Revenue Account Reserves:

31 March 2016 £000		31 March 2017 £000
(8,176)	Housing Revenue Account Balance	(9,199)
(3,713)	Earmarked Housing Revenue Account Reserve	(4,107)
(11,889)	**Total**	**(13,306)**

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

The table below shows the balance of the Capital Receipts Reserve:

31 March 2016 £000		31 March 2017 £000
(44,980)	Capital Receipts Reserve	(53,111)
(44,980)	**Total**	**(53,111)**

Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources required to be used on HRA assets or for capital financing purposes. The balance on the reserve shows the resources that have yet to be applied at the year end.

The table below shows the balance of the Major Repairs Reserve:

31 March 2016 £000		31 March 2017 £000
(71,827)	Major Repairs Reserve	(69,311)
(71,827)	**Total**	**(69,311)**

Capital Grants Unapplied Reserve

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and / or the financial year in which this can take place.

The table below shows the balance of the Capital Grants Unapplied Reserve:

31 March 2016 £000		31 March 2017 £000
(23,444)	Capital Grants Unapplied Reserve	(20,461)
(23,444)	**Total**	**(20,461)**

30. Unusable Reserves

The following table summarises the Unusable Reserves balances:

31 March 2016 £000		31 March 2017 £000
	Capital Reserves:	
(395,316)	Revaluation Reserve	(366,559)
(826,957)	Capital Adjustment Account	(1,130,776)
(53)	Deferred Capital Receipts Reserve	(53)
(1,222,326)		(1,497,388)
	Revenue Reserves:	
35,100	Financial Instruments Adjustment Account	34,297
795,982	Pensions Reserve	897,558
(854)	Collection Fund Adjustment Account	(3,541)
9,248	Accumulated Absences Account	9,554
839,476		937,868
(382,850)	**Total**	**(559,520)**

Capital Reserves

Capital Reserves are not available for revenue purposes and certain ones can only be used for specific statutory purposes.

Revaluation Reserve

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

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

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

2015/16 £000		£000	2016/17 £000
(385,624)	**Balance at 1 April**		**(395,316)**
(50,632)	Upward revaluation of assets	(25,880)	
16,943	Downward revaluation of assets and impairment losses	29,517	
(33,689)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		3,637
6,959	Difference between fair value depreciation and historical cost depreciation	6,619	
15,916	Accumulated gains on assets sold or scrapped	18,501	
22,875	Amount written off to the Capital Adjustment Account		25,120
1,122	Other Adjustments		0
(395,316)	**Balance at 31 March**		**(366,559)**

Capital Adjustment Account

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

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 17 Property, Plant and Equipment (PPE) provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2015/16			2016/17
£000		£000	£000
(795,520)	**Balance at 1 April**		**(826,957)**
	Reversal of items relating to capital expenditure debited or credited to the CI&ES:		
63,819	Depreciation of non-current assets	67,184	
0	Impairment of non-current assets	0	
51,218	Revaluation losses of non-current assets	(277,435)	
(20,060)	Movement in fair value of Investment Properties	(400)	
8,549	Revenue expenditure funded from capital under statute	27,849	
71,736	Non-current assets written off on disposal	83,059	
175,262			(99,743)
	Adjusting amounts written out of the Revaluation Reserve:		
(6,959)	Difference between fair value depreciation and historical cost depreciation	(6,619)	
(15,916)	Accumulated gains on assets sold or scrapped	(18,501)	
(22,875)			(25,120)
(643,133)	Net written out amount of the cost of non-current assets consumed in the year		(951,820)
	Capital financing applied in the year:		
(14,583)	Use of the Capital Receipts Reserve to finance new capital expenditure	(16,372)	
(60,582)	Use of the Major Repairs Reserve to finance new capital expenditure	(57,487)	
(74,207)	Capital grants and contributions credited to the CI&ES	(66,994)	
(3,973)	Application of grants and contributions from the Capital Grants Unapplied Reserve	(5,436)	
(29,296)	Statutory provision for the repayment of debt	(32,640)	
(1,178)	Voluntary provision for the repayment of debt	(27)	
(183,819)			(178,956)
(5)	Other		0
(826,957)	**Balance at 31 March**		**(1,130,776)**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2015/16		2016/17
£000		£000
(56)	**Balance at 1 April**	**(53)**
3	Transfer to the Capital Adjustment Account	0
(53)	**Balance at 31 March**	**(53)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund to the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund in accordance with statutory arrangements for spreading the burden on Council Tax. In the Council's case, this period is either the unexpired term that was outstanding on the loans when they were redeemed or the term of the replacement loan.

2015/16 £000		2016/17 £000
35,906	**Balance at 1 April**	**35,100**
(721)	Proportion of premiums incurred in previous financial years to be charged against the General Fund in accordance with statutory requirements	(803)
(25)	Soft Loan Amortisation	0
(60)	Other movements	0
(806)	Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements	(803)
35,100	**Balance at 31 March**	**34,297**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2015/16 £000		2016/17 £000
856,407	**Balance at 1 April**	**795,982**
(99,469)	Actuarial (gains) or losses on pensions assets and liabilities	147,281
70,396	Reversal of items relating to retirement benefits debited or credited to the CI&ES	52,757
(31,352)	Employer's pensions contributions and direct payments to pensioners payable in the year	(98,462)
795,982	**Balance at 31 March**	**897,558**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and National Non-domestic Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2015/16 £000		2016/17 £000
(7,029)	**Balance at 1 April**	**(854)**
6,175	Amount by which Council Tax and Non-domestic Rate income credited to the CI&ES is different from Council Tax and Non-domestic Rates income calculated for the year in accordance with statutory requirements	(2,687)
(854)	**Balance at 31 March**	**(3,541)**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund is neutralised by transfers (to) or from the Account.

2015/16 £000		2016/17 £000
10,390	**Balance at 1 April**	**9,248**
(1,142)	Amount by which officer remuneration charged to the CI&ES is different from remuneration chargeable in the year in accordance with statutory requirements	306
9,248	**Balance at 31 March**	**9,554**

31. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2015/16 £000		2016/17 £000
1,367	Interest Received	994
(97,445)	Interest Paid	(93,190)

Adjustment for items in the net surplus / (deficit) on the provision of services for Non-Cash Movements

The following table provides a breakdown of the adjustment for non-cash movements figure shown in the Cash Flow Statement:

2015/16 £000		2016/17 £000
63,819	Depreciation	67,184
51,500	Impairment and downward valuations	(278,042)
(9,057)	Increase / (Decrease) in creditors	3,345
(28,715)	(Increase) / Decrease in debtors	23,207
(27)	(Increase) / Decrease in inventories	(2)
39,044	Movement in pension liability	(45,703)
71,737	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	83,058
(29,081)	Other non-cash items charged to the net surplus or deficit on the provision of services	(1,801)
159,220	**Total**	**(148,754)**

Adjustment for items in the net surplus / (deficit) on the provision of services that are investing or financing activities

The following table provides a breakdown of the adjustment for items that are investing or financing activities figure shown in the Cash Flow Statement:

2015/16 £000		2016/17 £000
95,000	Proceeds from short-term and long-term investments	52,000
(74,207)	Any other items for which cash effects are investing or financing cash flows	(69,448)
(27,114)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(28,554)
(6,321)	**Total**	**(46,002)**

32. Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

2015/16 £000		2016/17 £000
(219,941)	Purchase of property, plant and equipment, investment property and intangible assets	(171,925)
(65,000)	Purchase of short and long term investments	(38,905)
(3,234)	Other payments for investing activities	(3,410)
27,117	Proceeds from the sale of property, plant and equipment, investment property, intangible assets and deferred capital receipts	28,554
82,159	Other receipts from investing activities	98,320
(178,899)	**Net cash flow from investing activities**	**(87,366)**

33. Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

2015/16 £000		2016/17 £000
66,000	Cash receipts of short and long term borrowing	25,000
(15,088)	Cash payments for the reduction of outstanding liabilities relating to finance leases and PFI contracts	(16,132)
(18,576)	Repayment of short and long term borrowing	(32,745)
(7,751)	Other payments for financing activities	6,117
24,585	**Net cash flow from financing activities**	**(17,760)**

34. Trading Operations

On 2 January 2000 Section 21 of the Local Government Act 1999 repealed the compulsory competitive tendering provisions requiring Direct Service Organisations (DSO) accounts and replaced them with the provision of trading accounts under the Service Reporting Code of Practise (SeRCOP).

The Council has established a number of trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. The main trading units are:

Sheffield Markets Operation

The provision of the city and district markets service including operational and staffing costs associated with wholesale permanent and temporary internal and external venues.

Commercial Estate (Property)

Management and delivery associated with the Council's Agricultural, Property and Land estate.

Transport Services

The Transport service is responsible for the procurement and management of the Council's transport fleet (including maintenance) for the benefit of the Council departments, partners and members of the public.

Schools Property Traded Service

Provision of property services provided to schools on a traded basis.

Capital Delivery Service (previously Design and Project Management)

Capital Delivery Service consists of a number of disciplines, Architects, Quantity Surveyors, Structural Engineers, Mechanical and Electrical Engineers, and Project Managers who provide a consultancy service to both internal and external clients.

2016/17	Income	Expenditure	Operating (Surplus)/ Deficit	Accounting Adjustments	Accounting (Surplus)/ Deficit
	£000	£000	£000	£000	£000
Sheffield Markets Operation	(3,038)	4,077	1,039	(179)	860
Commercial Estates (Property)	(1,676)	587	(1,089)	776	(313)
Transport Services	(9,031)	9,101	70	186	256
Schools Property Traded Services	(1,623)	1,161	(462)	1,218	756
Capital Delivery Service (previously DPM)	(3,862)	3,780	(82)	198	116
	(19,230)	**18,706**	**(524)**	**2,199**	**1,675**

2015/16 Comparative Information	Income	Expenditure	Operating (Surplus)/ Deficit	Accounting Adjustments	Accounting (Surplus)/ Deficit
	£000	£000	£000	£000	£000
Sheffield Markets Operation	(2,243)	3,357	1,114	(2,195)	(1,081)
Commercial Estates (Property)	(1,548)	482	(1,066)	633	(433)
Transport Services	(1,056)	867	(189)	309	120
Schools Property Traded Services	(1,460)	1,012	(448)	0	(448)
Capital Delivery Service (previously DPM)	(405)	387	(18)	199	181
	(6,712)	**6,105**	**(607)**	**(1,054)**	**(1,661)**

Trading operations overall reported surpluses on controllable income and expenditure. Accounting adjustments include charges for capital and pensions, which are managed corporately and not the responsibility of the Managers of the trading accounts.

35. Pooled Budget Arrangements

Section 75 of the National Health Services Act 2006 allows partnership arrangements between NHS bodies, Local Authorities and other agencies in order to improve and co-ordinate services. Generally each partner makes a contribution to a pooled budget, with the aim of focussing services and activities for a client group. Funds contributed are those normally used for the services represented in the pooled budget and allow the organisations involved to act in a more cohesive way.

NHS Sheffield Clinical Commissioning Group and Sheffield City Council entered into a new Section 75 agreement covering the Better Care Fund with effect from 1 April 2015. The pool is hosted by Sheffield City Council.

The Better Care Fund was announced by the Government in the June 2013 spending round, to ensure a transformation in integrated health and social care. It creates a local single pooled budget to incentivise the NHS and local government to work more closely together around people, placing their wellbeing as the focus of health and care services, and shifting resources into social care and community services for the benefit of the people, communities and health and care systems. The Sheffield Better Care Fund pool was constructed around six themes focussed around the different areas of integration.

The following table summarises the contributions made by Sheffield City Council and the NHS Sheffield Clinical Commissioning Group into pooled budget arrangements, along with details of previous year's comparatives:

Service Area	**2016/17**			**2015/16**		
	NHS Sheffield CCG	**Sheffield City Council**	**Total**	**NHS Sheffield CCG**	**Sheffield City Council**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
The Better Care Fund	175,008	113,806	288,814	180,478	102,065	282,543
Total	**175,008**	**113,806**	**288,814**	**180,478**	**102,065**	**282,543**

The memorandum account for the pooled budget is:

The Better Care Fund

	2016/17 £000	**2015/16 £000**
Income		
NHS Clinical Commissioning Group	175,008	180,478
Sheffield City Council	113,806	102,065
Total	288,814	282,543
Allocation of expenditure		
Theme 1 - People Keeping Well in their Local Community	(8,122)	(8,454)
Theme 2 - Active Support and Recovery	(52,161)	(53,358)
Theme 3 - Independent Living Solutions	(4,394)	(4,380)
Theme 4 - Ongoing Care	(162,315)	(154,438)
Theme 5 - Adult inpatient Medical Emergency Admissions	(59,230)	(59,385)
Theme 6 - Capital Grants	(2,592)	(2,528)
Total	(288,814)	(282,543)

36. Members' Allowances

The Council paid the following amounts to Council Members and Co-optees' during 2016/17:

2015/16 £000		2016/17 £000
	Councillors:	
982	Basic Allowance	984
236	Special Responsibility Allowance	242
29	Expenses	32
1,247		**1,258**
	Co-optees:	
6	Basic Allowance	4
1,253	**Total**	**1,262**

Further details of this, including the amount paid to each Member, will be published separately as required by Government Regulations.

37. Officers' Remuneration

Under the Accounts and Audit Regulations 2015, Local Authorities are required to disclose information on their employees' remuneration in two sections.

The first section must contain the details of those officers defined in the Regulations as senior employees whose salary is above £50,000 per annum. Senior employees are typically categorised as statutory chief officers (i.e. Chief Executive also known as the head of paid service, Director of Children's Services, Director of Adult Social Services, Section 151 Officer, etc.) or non-statutory chief officers. The latter category typically includes those officers who report directly to the Chief Executive (excluding those whose duties are solely secretarial). In addition, those senior officers whose salary is above £150,000 are required to be named in this section.

The second section must include a disclosure of the numbers of other staff whose total remuneration (i.e. salary plus overtime and allowances, etc.) is above £50,000.

The remuneration paid to the Council's senior employees is shown in the table below.

2016/17

Post Holder Information	Note	Salary - including Fees and Allowances £	Expenses Allowances £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
Chief Executive - John Mothersole		184,283	0	184,283	35,014	219,297
Executive Director - Communities (Interim)	1	132,541	0	132,541	25,183	157,724
Executive Director - Resources (Interim)		121,437	0	121,437	23,074	144,511
Executive Director - Place	2	129,254	456	129,710	21,828	151,538
Executive Director - Children Young People and Families	3	130,537	93	130,630	24,802	155,432
Director of Public Health		106,076	175	106,251	15,169	121,420
Director of Policy and Performance		82,066	0	82,066	15,593	97,659
Total		**886,194**	**724**	**886,918**	**160,663**	**1,047,581**

Notes:

1 The Interim Executive Director of Communities became Executive Director of Place as of 20th February 2017.

2 The Executive Director of Place left his position as of 19th February 2017.

3 The Executive Director of Children, Young People and Families is additionally the Executive Director of the People Portfolio as of 20th February 2017.

2015/16						
Post Holder Information	**Note**	**Salary - including Fees and Allowances £**	**Expenses Allowances £**	**Total Remuneration excluding Pension Contributions £**	**Pension Contributions £**	**Total Remuneration including Pension Contributions £**
Chief Executive - John Mothersole		184,588	0	184,588	34,701	219,289
Executive Director - Communities (Interim)		132,293	0	132,293	24,846	157,139
Executive Director - Resources (Interim)		119,984	0	119,984	22,008	141,992
Executive Director - Place		126,142	598	126,740	23,690	150,430
Executive Director - Children Young People and Families		119,984	233	120,217	22,534	142,751
Director of Public Health	1	7,491	0	7,491	1,071	8,562
Director of Public Health – (interim) Stephen Horsley	2	165,371	0	165,371	0	165,371
Director of Public Health (2)	3	11,216	0	11,216	1,585	12,801
Director of Policy and Performance		81,267	9	81,276	15,263	96,539
Total		**948,336**	**840**	**949,176**	**145,698**	**1,094,874**

Notes:

1 The Director of Public Health left the position as of 20th April 2015.

2 Interim Director of Public Health was in post 29/04/2015-29/02/2016.

3 Director Public Health (2) took up position with effect from 22/02/2016

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

2015/16				2016/17		
Teachers	**Other**	**Total**	**Remuneration Band**	**Teachers**	**Other**	**Total**
45	33	**78**	£50,000 - 54,999	31	32	**63**
51	48	**99**	£55,000 - 59,999	33	38	**71**
23	10	**33**	£60,000 - 64,999	23	9	**32**
23	12	**35**	£65,000 - 69,999	19	18	**37**
14	4	**18**	£70,000 - 74,999	8	4	**12**
8	3	**11**	£75,000 - 79,999	5	5	**10**
4	14	**18**	£80,000 - 84,999	6	10	**16**
2	4	**6**	£85,000 - 89,999	5	3	**8**
1	2	**3**	£90,000 - 94,999	0	3	**3**
1	2	**3**	£95,000 - 99,999	1	1	**2**
0	0	**0**	£100,000 - 104,999	0	2	**2**
3	0	**3**	£105,000 - 109,999	0	0	**0**
0	0	**0**	£110,000 - £114,999	0	0	**0**
1	1	**2**	£120,000 - 124,999	1	0	**1**
0	0	**0**	£135,000 - £139,999	0	1	**1**
0	0	**0**	£175,000 - £179,999	0	1	**1**
176	**133**	**309**	**Total**	132	127	**259**
176	**114**	**290**	**Total Excluding redundancies**	**130**	**110**	**240**

38. Termination Benefits

The Council terminated the contracts of a number of employees in 2016/17 incurring liabilities of £5.3m (£6.3m in 2015/16). This includes redundancy and pension payments.

This amount was payable to 202 people (293 people in 2015/16) from across the Council, who were made redundant as part of its strategy to reduce the workforce in order to achieve budget savings. This included 9 people whose termination benefits were funded by the Housing Revenue Account.

The numbers of exit packages with total cost per band are set out in the table below:

2015/16			2016/17	
Total number of exit packages by cost band	**Total cost of exit packages in each band**	**Exit package cost band (including special payments)**	**Total number of exit packages by cost band**	**Total cost of exit packages in each band**
	£000			**£000**
189	1,439	£0 - £20,000	125	1,060
55	1,521	£20,001 - £40,000	36	1,093
25	1,205	£40,001 - £60,000	17	861
11	745	£60,001 - £80,000	11	771
3	249	£80,001 - £100,000	6	529
10	1,169	£100,001 - £150,000	5	669
0	0	£150,001- £190,000	2	342
293	**6,328**	**Total**	**202**	**5,325**

The table above includes 7 people in 2016/17 who were made compulsory redundant with a total value of £125k (12 people in 2015/16 with a total value of £189k).

39. External Audit Fees

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

2015/16		2016/17
£000		**£000**
186	Fees payable with regard to external audit services carried out by the appointed auditor	187
31	Fees payable for the certification of grant claims and returns	26
6	Fees payable in respect of any other services provided over and above those listed above	22
223	**Total**	**235**

40. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2016. The Schools Budget includes elements for a range of educational services provided on an council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2016/17 are as follows:

2016/17	**Central Expenditure £000**	**Individual Schools Budget £000**	**Total £000**
Final DSG for 2016/17 before Academy recoupment	49,887	338,591	**388,478**
Academy figure recouped for 2016/17	0	(165,418)	**(165,418)**
Total DSG after Academy recoupment for 2016/17	49,887	173,173	**223,060**
Brought forward from 2015/16	6,543	0	**6,543**
Carry forward to 2017/18 agreed in advance			
Agreed initial budgeted DSG distribution in 2016/17	56,430	173,173	**229,603**
In year adjustments	(17,245)	16,461	**(784)**
Final budgeted distribution for 2016/17	39,185	189,634	**228,819**
Less Actual central expenditure	(31,880)	0	**(31,880)**
Less Actual ISB deployed to schools	0	(189,634)	**(189,634)**
Plus Council contribution for 2016/17			
Carry forward to 2017/18	**7,305**	**0**	**7,305**

2015/16 Comparative Information	**Central Expenditure £000**	**Individual Schools Budget £000**	**Total £000**
Final DSG for 2015/16 before Academy recoupment	52,039	331,270	**383,309**
Academy figure recouped for 2015/16	0	(148,867)	**(148,867)**
Total DSG after Academy recoupment for 2015/16	52,039	182,403	**234,442**
Brought forward from 2014/15	5,678	0	**5,678**
Carry forward to 2016/17 agreed in advance	0	0	**0**
Agreed initial budgeted DSG distribution in 2015/16	57,717	182,403	**240,120**
In year adjustments	(23,040)	21,816	**(1,224)**
Final budgeted distribution for 2015/16	34,677	204,219	**238,896**
Less Actual central expenditure	(28,134)	0	**(28,134)**
Less Actual ISB deployed to schools	0	(204,219)	**(204,219)**
Plus Council contribution for 2015/16	0	0	**0**
Carry forward to 2016/17	**6,543**	**0**	**6,543**

41. Grant Income

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

2015/16 £000		2016/17 £000
	Credited to Services:	
(8,829)	Clinical Commissioning Group	(20,069)
(11,509)	Department for Business Innovation and Skills	(7,051)
(10,439)	Department for Communities and Local Government	(6,610)
(1,260)	Department for Culture, Media and Sport	(963)
(271,784)	Department for Education	(258,179)
(1,053)	Department for Environment, Food and Rural Affairs	(765)
(198,949)	Department for Work and Pensions	(196,049)
(34,054)	Department of Health	(38,013)
(3,087)	English Local Government	(14,888)
(1,890)	Home Office	(1,744)
(1,069)	Ministry of Justice	(1,002)
(2,502)	Other	(2,511)
(546,425)	**Total**	**(547,844)**
	Credited to Taxation and Non Specific Grant Income:	
	Non-ring fenced Government Grants:	
(163,016)	Department for Communities and Local Government	(137,903)
(16,399)	Department of Health	0
(46,669)	Department for Transport	(47,788)
(23,975)	Education Funding Agency	(23,975)
(250,059)		**(209,666)**
	Capital Grants and Contributions:	
(2,604)	Department for Communities and Local Government	(1,110)
(6,579)	Department for Culture Media and Sport	(2,953)
(25,376)	Department for Education	(15,981)
(4,550)	Department for Environment, Food and Rural Affairs	(6,655)
(1,030)	Department for Transport	0
(11,868)	Sheffield City Region Combined Authority	(15,664)
(17,012)	Other	(7,410)
(69,019)		**(49,773)**
(319,078)	**Total**	**(259,439)**

The Council has received a number of 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 giver. The balances at year end are as follows:

31 March 16 £000		31 March 17 £000
	Revenue Grants Receipts in Advance:	
(5,245)	Department for Business Innovation and Skills	(3,326)
(400)	Department for Communities and Local Government	(256)
(1,473)	Department for Education	(965)
(3,370)	Department for Works and Pensions	(1,198)
0	Home Office	(443)
0	Department for Transport	(1,000)
(1,307)	Other	(335)
(11,795)	**Total**	**(7,523)**

31 March 16 £000		31 March 17 £000
	Capital Grants Receipts in Advance:	
(3,572)	Department for Culture Media and Sport	(3,558)
(8,096)	Department for Communities and Local Government	(4,720)
(12,667)	Department for Education	(23,717)
(487)	Department for Environment, Food, and Rural Affairs	(10)
(354)	Department for Transport	(2)
(1,506)	Department of Health	(2,044)
(677)	English Local Government	(2,161)
0	HM Treasury	(125)
(8,782)	Other	(15,775)
(36,141)	**Total**	**(52,112)**

42. Related Party Transactions

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

For Sheffield City Council, the main categories of related parties are other public bodies, or those organisations over which a Sheffield City Council Member or Chief Officer holds a position of general control or management. Sheffield City Council's material related party transactions in year amounted to net payments of £251m (£216m for 2015/16), with £4.2m receivable (£4.2m payable for 2015/16 accrued). All such material related party transactions are disclosed either individually or in aggregate below.

Council Members

In respect of financial year 2016/17 a number of Council Members had a position of general control or management in organisations which generated related party transactions with the Council. Positions of general control or management can arise by way of ownership, or by acting as a director, trustee, board member, or partner of an organisation.

2016/17

Related Party	**Notes**	**Receipts £000**	**Payments £000**	**Net Payments £000**	**Receivables £000**	**Payables £000**	**Net Assets £000**
Autism Plus	**1**	(2)	1,500	**1,498**	0	0	**0**
DLA Piper	**2**	0	3,872	**3,872**	0	0	**0**
Kier	**3**	(720)	31,335	**30,615**	11	0	**11**
Sheffield City Trust	**4**	(41)	18,519	**18,477**	8	0	**8**
Sheffield Futures	**5**	(115)	3,929	**3,813**	24	0	**24**
Sheffield Housing Company	**6**	(36)	12,166	**12,130**	15	0	**15**
Sheffield Industrial Museums Trust	**7**	(24)	591	**568**	0	0	**0**
The Source (Meadowhall)	**8**	(1)	213	**212**	0	(10)	**(10)**
Sheffield International Venues	**9**	(16)	2,504	**2,488**	1	(2)	**(1)**
Sheffield Theatres Trust	**10**	(262)	2,152	**1,891**	36	0	**36**
Shelter	**11**	(1)	1,345	**1,344**	0	0	**0**
SOAR	**12**	(4)	747	**743**	1	(47)	**(46)**
SYPTE	**13**	(10,592)	1,028	**(9,564)**	1,964	(2)	**1,966**
University of Sheffield	**14**	(2,856)	10,697	**7,842**	2,421	(89)	**2,510**

Notes relating to significant transactions:

1 Purchases within Learning Disabilities Commissioning.
2 Purchase of buildings within Sheffield Retail Quarter.
3 Repairs and maintenance contract payments.
4 £18.5m bond interest and principal.
5 £3.3m for Futures Core Contract.
6 £12.1m of payments for housing improvement contracts.
7 £0.6m payments under service agreements.
8 Predominately Skills Made Easy payments and funding agreement payments.
9 £3.2m grant funding paid.
10 £1.8m management service payment.
11 £1.3m payments for services in Housing Related Support.
12 Small projects.
13 £4.0m grant received relating to Bus Rapid Transport, £2.3m LTP funding received (£0.8m owed). Paid £0.6m for zero-fare bus passes, £0.2m safety camera partnership contribution.
14 £10m investment in Lightweighting project.

2015/16							
Related Party	**Notes**	**Receipts £000**	**Payments £000**	**Net Payments £000**	**Receivables £000**	**Payables £000**	**Net Assets £000**
Sheffield City Trust	**1**	(26)	18,596	**18,570**	3	0	**3**
Building Schools for the Future	**2**	0	11,533	**11,533**	0	0	**0**
DLA Piper	**3**	(7)	27,888	**27,881**	0	2	**2**
Kier	**4**	(85)	43,538	**43,453**	(42)	1	**(41)**
Sheffield Futures	**5**	(185)	5,245	**5,060**	16	(2)	**14**
Sheffield Housing Company	**6**	(98)	12,132	**12,034**	37	(136)	**(99)**
Sheffield Industrial Museums Trust	**7**	(28)	599	**571**	0	219	**219**
The Source (Meadowhall)	**8**	(1)	181	**180**	1	0	**1**
Sheffield Galleries and Museum Trust	**9**	(116)	2,050	**1,934**	76	436	**512**
Sheffield International Venues	**10**	(27)	6,544	**6,517**	(11)	(7)	**(18)**
SOAR	**11**	(17)	653	**636**	10	(10)	**0**

1 £18.6m bond interest and principal.
2 £11.5m Investment in rebuilding, refurbishment, ICT and equipment in schools.
3 Purchase of buildings for SRQ via solicitors.
4 Early payment of Repairs and Maintenance contract.
5 £5.2m payments for targeted youth support - Community youth teams and youth work.
6 £11.2m works on roofing, £0.8m loan.
7 Operating grant.
8 Grants predominantly Skills Made Easy and Vocational Skills Programme.
9 £2m payment of the operating grant.
10 £3.0m grant, £3.5m loan.
11 Small projects.

It may be noted that all members' pecuniary and non-financial interests which could conflict with those of the Council are open to public inspection as required by the Local Authority (Members Interests) Regulations 1992 (SI 1992/618) laid under section 19 of the Local Government Housing Act 1989. In addition all contracts are required to fully comply with the Council's Standing Orders.

Chief Officers

For the purpose of this disclosure the term 'chief officer' is defined as the Chief Executive, and the Executive Directors. The note also covers members of those officers' close families or households. None of the Council's chief officers declared a position of general control or management in a third party organisation during the financial year which was not disclosed elsewhere.

Transactions with Other Public Bodies

The UK Government exerts significant influence over Sheffield City Council through legislation and grant funding. Transactions with central government and precepts and levies raised on behalf of other public bodies are detailed in notes to the Consolidated Income and Expenditure Account and Collection Fund. However, the following table shows the significant transactions with public bodies in the area:

2016/17

Related Party	Notes	Receipts £000	Payments £000	Net Payments £000	Receivables £000	Payables £000	Net Accruals £000
South Yorkshire Pensions Authority	**1**	(16)	109,086	**109,070**	0	0	**0**
Sheffield City Region Combined Authority Group	**2**	(23,583)	29,405	**5,822**	2,334	(25,838)	**(23,504)**
South Yorkshire Police and Crime Commissioner	**3**	(109)	21,677	**21,568**	94	(2)	**92**
South Yorkshire Fire and Rescue Authority	**4**	(18)	11,257	**11,239**	0	0	**0**
NHS bodies	**5**	(5,151)	32,354	**27,202**	1,895	(901)	**995**
Other Local Authorities		(2,136)	16,924	**14,788**	321	(202)	**119**

Notes relating to significant transactions

1 £65.1m pension deficit early prepayment, £30.2m salary advances, £10.8m former employee pension costs.

2 Received following capital contributions: £10m Lightweighting Project, £2.5m relating to Sheffield Retail Quarter, £3.9m relating to Olympic Legacy Park, £2.1m Brookhill, £0.7m Grey to Green projects. Paid £25m PTA levy, £0.4m LEP subscriptions. £0.8m designated area rates retention payable.

3 £20.8m Council tax precept payment.

4 £2.3m share of NNDR, £8.9m Council tax precept.

5 £9.7 expenditure relates to SLA payments to Childrens' Hospital. Income relates to £0.8m for joint packages of care within Learning Disabilities.

2015/16

Related Party	Notes	Receipts £000	Payments £000	Net Payments £000	Receiva-bles £000	Payables £000	Net Accruals £000
South Yorkshire Pensions Authority	**1**	(16)	44,321	**44,305**	0	0	**0**
Sheffield City Region Combined Authority Group	**2**	(23,000)	35,194	**12,194**	5,184	(23)	**5,161**
South Yorkshire Police and Crime Commissioner	**3**	(78)	20,535	**20,457**	38	(43)	**(5)**
South Yorkshire Fire and Rescue Service	**4**	(23)	11,078	**11,055**	0	(7)	**(7)**
NHS Bodies	**5**	(28,210)	28,769	**559**	1,120	(2,839)	**(1,719)**
Other Local Authorities		(2,091)	10,091	**8,000**	286	(161)	**125**

1 £38.1m superannuation payments, £6.0m annual funding requirement.

2 Expenditure - £28.8m transport levy payment, Grant payments to PTE; Income Grants for capital transport projects, outstanding grant payments due for LSTF/LTP.

3 £19.9m Council Tax precept payment.

4 £8.9m Council Tax precept payment and £2.2m share of National Non-Domestic Rates.

5 £23.2m from Clinical Commissioning Group.

43. Capital Expenditure and Capital 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 / PPP contracts), together with the resources that have been used to finance it. Where capital expenditure cannot be paid for immediately and is to be financed in future years by charges to revenue as the 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.

2015/16 Restated £000		**2016/17 £000**
	Capital Investment	
264,684	Property, Plant and Equipment*	219,607
174	Heritage Assets*	99
10,763	Sheffield City Trust - prepayment	11,446
8,549	Revenue Expenditure Funded from Capital Under Statute	27,849
284,170		**259,001**
	Sources of Finance	
78,180	Government Grants and Other Contributions	72,430
47,206	PFI Lease Liability	47,059
60,582	Major Repairs Reserve	57,487
14,583	Capital Receipts Reserve	16,372
83,619	Borrowing	65,653
284,170		**259,001**
	Capital Financing Requirement	
1,233,022	Opening Balance	1,333,411
83,619	Borrowing in Year	65,653
(30,150)	Statutory / Voluntary provision for repayment of debt (MRP / VMRP)	(32,668)
47,206	PFI Liabilities recognised in year	47,059
(285)	Other Adjustments	608
1,333,411	**Closing Balance**	**1,414,063**

* These figures match to the additions lines in Notes 17, 18 and 25 detailing movements on the non-current assets balances.

44. Leases and Lease Type Arrangements

Council as Lessee

Finance Leases

The Council has not classified any leases as Finance Leases.

Operating Leases

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

2015/16 £000		2016/17 £000
403	Not later than one year	394
778	Later than one year and not later than five years	483
2,682	Later than five years	2,650
3,863	**Total**	**3,527**

The above principally consists of Council office accommodation leases and leases for vehicles, plant and equipment.

Council as Lessor

Finance Leases

The Council has not classified any leases as Finance Leases.

Operating Leases

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

2015/16 Restated £000		2016/17 £000
2,142	Not later than one year	2,070
8,095	Later than one year and not later than five years	7,496
80,165	Later than five years	73,317
90,402	**Total**	**82,883**

The above mainly consists of a large number of small value, long term leases, principally for the lease of land.

45. Private Finance Initiatives (PFI) and Public Private Partnership Arrangements (PPP)

PFI and Similar Contracts

At 31 March 2017 the Council had seven long term contracts under Private Finance Initiative (PFI) arrangements. No new contracts were entered into in 2016/17. The financing models have the same methodology as set up in 2012/13.

The first PFI contract is for the provision of office accommodation at Howden House for a period of 30 years from February 2001. Payments will continue for the duration of the contract, subject to availability and performance related deductions and to contractually agreed inflation adjustments.

Five other PFI contracts are for the provision of schools. Schools Phase One PFI contract is for the provision of two primary schools and four secondary schools that opened during the financial year 2001/02. The contract is for 25 years. The Schools Phase Two PFI contract is for the provision of two secondary schools. The contract is for 25 years and became fully operational during the financial year 2005/06. The Schools Phase Three PFI contract for the provision of three secondary schools, which is for 25 years, became operational during the financial year 2006/07. The Building Schools for the Future (BSF) Wave One contract is for the provision of one secondary school for 25 years. It became operational in January 2009. The Bradfield School PFI contract, which is for 25 years, became operational during the financial year 2012/13.

The seventh PFI is the Highways PFI which is for 25 years and became operational during the financial year 2012/13. It covers the improvement and on-going maintenance of the city's roads, footways, highway trees, traffic signals, street lights, street furniture and street name plates. It also covers street cleaning, winter gritting and landscape maintenance.

The Council has another long term arrangement that is not PFI funded. This is for the collection and disposal of municipal waste and was entered into in August 2001, originally for 30 years but extended during 2004/05 to 35 years. In general, future payments are projected to increase in line with inflation, expected waste tonnages and increases in Landfill Tax. In addition the contractor has introduced improved disposal facilities in order to meet statutory recycling and recovery targets, which resulted in peaks in the payments between 2005 and 2010 which have flattened out. The payments may be reduced by any shares in growth in the contractor's third party income and are subject always to any deductions for poor performance. This model has also been restated in year.

In accordance with the accounting policy for Private Finance Initiatives and Similar Contracts detailed in Note 1, the seven PFI contracts and the integrated waste management contract have been reviewed and accounted for in accordance with the provisions of IFRIC 12 – Service Concession Arrangements and other relevant CIPFA guidance. The fixed assets relating to these contracts and the liability for these fixed assets have been recognised on the Council's Balance Sheet.

Payments made during the Year

The payments made during the year are summarised in the table below:

2015/16	2016/17					
Total	Repayment of Current Liability	Interest Charge	Service Charge	Contingent Rents	Lifecycle Costs	Total
£000	£000	£000	£000	£000	£000	£000
118,410	16,133	40,477	43,351	5,170	1,052	106,183

PFI Assets

The assets held under PFI and similar contracts are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on Property, Plant and Equipment balance in Note 17.

PFI Finance Lease Liability

The value of liabilities resulting from PFI and similar contracts are as follows:

2015/16 £000		2016/17 £000
(363,112)	Value of the liability as at 1 April	(395,229)
(47,206)	Recognition of fixed assets	(47,059)
15,089	Finance lease rental	16,132
(395,229)	**Value of liability as at 31 March**	**(426,156)**
	Comprising of:	
(13,838)	Short Term	(10,746)
(381,391)	Long Term	(415,410)
(395,229)		**(426,156)**

PFI Payments Due to be Made

Details of the payments due to be made under PFI and similar contracts are as follows:

2015/16 Total £000		2016/17 Repay-ment of Current Liability £000	Repay-ment of Future Liability £000	Interest Charge £000	Service Charge £000	Contin-gent Rents £000	Lifecycle Costs £000	Total £000
124,039	Within one year	10,746	176	43,259	59,403	14,234	129	127,947
542,588	Between two and five years	54,167	766	167,049	240,393	83,877	1,471	547,723
742,737	Between six and ten years	100,488	2,110	171,042	337,544	123,031	4,654	738,869
756,233	Between eleven and fifteen years	115,180	2,650	119,522	338,061	155,885	4,143	735,441
700,395	Within sixteen and twenty years	136,599	4,973	52,113	305,787	135,567	15,478	650,517
142,742	Within twenty-one and twenty-five years	8,976	438	851	14,459	8,576	902	34,202
3,008,734	**Total**	**426,156**	**11,113**	**553,836**	**1,295,647**	**521,170**	**26,777**	**2,834,699**

The details of the payments due under PFI contracts above are shown based on an estimate of the cash amounts that will actually be paid. Figures for 2016/17 show the estimated payments due calculated by the models in 2016/17 for 2017/18 onwards to the end of the contract's life.

46. Long Term Contracts

In addition to the PFI and similar contracts disclosed in Note 45, the Council has a number of other Long Term Contracts in place.

With effect from 5 January 2009 the Council entered into a contract with Capita Business Services Limited to provide various professional support services including:

- HR Transactions
- Payroll Services
- Revenues and Benefits

- Financial Business Transactions
- ICT

The contract value was around £221m over the initial seven year period, with an option to extend or re-specify the current contract by up to a further six years, with break points every two years.

As the end of the initial seven year period – January 2016 – was fast approaching, negotiations began in 2014/15 to explore the possibility of an extension.

On 12 November 2014 Cabinet approved a report which recommended extending the current contract with Capita for a further six years, with break points every two years, for the continued provision of ICT, HR and Payroll, Financial Business Transactions and Revenues and Benefits processing. The report also recommended the transfer to the Council of the customer facing elements of Revenues and Benefits (this took place in January 2016), and the establishment of a Capita team to work alongside the Council on selected areas of Business Change and Transformation activity. The report set out a minimum level of savings associated with the contract extension that is helping to contribute to the Council's overall budget target from 2015/16 onwards. The Contract was subsequently restated from January 2015 with the new pricing structure commencing January 2016.

Payments to Capita Business Services Limited under the contract in 2016/17 totalled £28.8m (£31.7m in 2015/16).

With effect from 1 July 2009 the Council entered into a contract with Kier Limited to provide corporate property and facilities management services. The £55m contract wass for an initial period of seven years, with an option to extend by up to a further six years. Following a detailed investigation into the future provision of the duties within the Kier Asset Partnership contract, a Cabinet decision was made not to extend the current contract with Kier beyond its end date on 30 June 2016.

From the 1 July 2016, rather than an "integrated property related contract" (as with the Kier contract) the delivery areas have been split into five key areas (Property Services, Cleaning, Catering, Security & Events and Facilities Management Delivery). These individual services are being delivered by a mix of In-House and specialist contractors.

Payments to Kier Limited under the contract in 2016/17 totalled £1.9m (£8.0m in 2015/16).

Payments of £32.5m (£30.8m in 2015/16) were also made to Kier for delivery of the contract for Council housing repairs and maintenance. The contract commenced in April 2003 and ended in March 2017 when the housing repairs and maintenance service was transferred back to the Council.

In previous years the Council was in agreement with Sheffield City Trust (SCT) to meet the cost of arrangements that they had entered into with certain leasing banks in respect of the provision of funding for sporting facilities in the city. During 2013/14 the Council made prepayments of £101m to SCT in respect of this commitment with the objective of removing the bank from the revised arrangements. The revised arrangements comprise an annual payment of £18.5m from the Council to SCT which will continue for a further nine years. Payments to SCT in year are detailed in Note 42, Related Party Transactions.

47. Impairment Losses

In 2016/17 there were no impairment charges for Non-Current Assets, however a gain of £299.3m (£69.4m in 2015/16) credited the HRA for improvements in valuation of previously impaired assets.

48. Post-Employment Benefits

As part of the terms and conditions of employment of its employees, the Council offers post-employment benefits in the form of three pension schemes, which provide members with defined benefits related to pay and service. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

As outlined in the Statement of Accounting Policies (Note 1 VIII) the City Council makes contributions to the following pension schemes in respect of its employees.

Teachers' Pension Scheme

In 2016/17 the City Council paid £12.3m (£12.3m 2015/16) to Department for Education (DfE) in respect of Teachers' pension costs, which represented 16.48% (14.1% 2015/16) of Teachers' pensionable pay. In addition, the City Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2016/17 these amounted to £4.1m (£4.4m 2015/16), representing 5.65% (5.48% 2015/16) of pensionable pay.

The teachers' pension scheme is not the direct responsibility of the Local Education Authority. The teachers' pension scheme is an unfunded scheme with pension costs charged to the accounts based on a rate set by the DfE, supported by a five-year actuarial review. It is not possible to identify liabilities consistently and reliably between participant authorities.

NHS Pension Scheme

During 2013/14 public health staff were transferred from Primary Care Trusts (PCTs) to Local Authorities. These staff have maintained their membership in the NHS pension scheme.

In 2016/17 the City Council paid £165k (£212k 2015/16) to NHS pensions in respect of NHS pension costs, which represented 14.0% (14% 2015/16) of NHS pensionable pay.

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying scheme assets and liabilities with sufficient reliability. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

Local Government Pension Scheme

Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year:

2015/16 £000		**2016/17 £000**
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
45,937	Current service cost	41,500
4	Past service costs	62
(4,609)	(Gains) and Losses on Settlements	(18,725)
1,532	Curtailments	3,288
42,864	**Charge to (Surplus) / Deficit on Continuing Operations**	**26,125**
	Other Operating Expenditure:	
734	Administration expenses	724
734		724
	Financing and Investment Income and Expenditure:	
81,472	Interest cost on pension liabilities	85,865
(54,674)	Interest on plan assets	(59,957)
26,798		25,908
27,532	**Charge to the (Surplus) / Deficit on the Provision of Services**	**26,632**
	Other Post-Employment Benefits charged to the Comprehensive Income and Expenditure Statement:	
(99,469)	Re-measurements of the net defined benefit liability	147,281
(99,469)		147,281
(29,073)	**Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement**	**200,038**

2015/16 £000		**2016/17 £000**
	Movement in Reserves Statement	
(70,396)	Reversal of net charges made to the (Surplus) / Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(52,757)
	Actual amount charged against the General Fund for pensions in the year:	
31,352	Employer's contributions payable to scheme	98,462

The cumulative amount of actuarial (gains) and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2017 is a loss of £537.2m (£389.9m loss in 2015/16).

The employers' contributions payable to the scheme has increased from £31m in 2015/16 to £98m in 2016/17. During 2016/17 the Council made a significant early payment of the planned 2017/18 to 2019/20 pension deficit contributions in return for a significant reduction in the amount due.

Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

2015/16 £000		2016/17 £000
(2,585,920)	Opening Balance at 1 April	(2,498,584)
(45,937)	Current service cost	(41,500)
(81,472)	Interest cost	(85,865)
(11,846)	Contributions by scheme participants	(11,789)
138,614	Re-measurements	(412,017)
84,481	Benefits Paid	87,580
(4)	Past Service Costs	(62)
(1,532)	Curtailments	(3,288)
5,032	Settlements	21,271
(2,498,584)	**Closing Balance at 31 March**	**(2,944,254)**

Reconciliation of fair value of the scheme (plan) assets:

2015/16 £000		2016/17 £000
1,729,513	Opening Balance at 1 April	1,702,602
54,674	Interest on plan assets	59,957
(39,145)	Re-measurements	264,736
(734)	Administration expenses	(724)
31,352	Contributions by Employer	98,462
11,846	Contributions by scheme (plan) participants	11,789
(84,481)	Benefits paid	(87,580)
(423)	Settlements	(2,546)
1,702,602	**Closing Balance at 31 March**	**2,046,696**

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

The actual return on scheme assets in the year was a gain of £382m (£16m 2015/16).

Local Government Pension Scheme assets comprised:

	31 March 2016 £000	31 March 2017 £000
Equities:		
UK quoted	306,977	366,561
Overseas quoted	674,401	881,103
Bonds:		
UK Government Fixed	681	0
UK Government indexed	203,972	236,189
Overseas Government Fixed	46,311	55,670
UK other	84,109	90,669
Overseas other	23,326	36,636
Property:		
UK direct	172,644	165,578
Property Funds	26,390	26,198
Alternatives:		
Pooled investment vehicles	133,995	155,754
Cash:		
Cash accounts	29,796	32,338

Scheme History

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Present value of liabilities	(2,300,867)	(2,189,155)	(2,585,920)	(2,498,584)	(2,944,254)
Fair value of scheme assets	1,503,035	1,491,597	1,729,513	1,702,602	2,046,696
Surplus / (deficit) in the scheme	(797,832)	(697,558)	(856,407)	(795,982)	(897,558)

The liabilities show the underlying commitments that the Council has, in the long run, to pay post-employment benefits. The total liability of £898m (£796m 2015/16) has a substantial impact on the net worth of the Council as recorded on the Balance Sheet, reducing the balance from £1.8bn to £868m (£1.5bn to £717m 2015/16). The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2018 is approximately £30m.

Basis for Estimating Assets and Liabilities

The pension fund liabilities have been assessed by the actuaries Mercer Human Resourcing Ltd using the projected unit method. This involved making an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The main assumptions used in their calculations are as follows:

2015/16		2016/17
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
23 years	Men	22.9 years
25.7 years	Women	25.7 years
	Longevity at 65 for future pensioners:	
25.4 years	Men	25.1 years
28.5 years	Women	28.0 years
	Financial assumptions:	
2.0%	Rate of CPI inflation	2.3%
3.75%	Rate of increase in salaries	3.55%
2.0%	Rate of increase in pensions	2.3%
3.5%	Rate for discounting scheme liabilities	2.6%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit cost method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 2015/16.

Change in Assumptions at 31 March 2017	**£000**
Increase in life expectancy (1 year increase)	58,428
Rate of inflation (0.1% increase)	56,934
Rate of increase in salaries (0.1% increase)	9,059
Rate of discount (0.1% increase)	(55,853)

History of Experience Gains and Losses

The actuarial gains and losses identified as movements on the Pension Reserves in 2016/17 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2017:

	2012/13 %	2013/14 %	2014/15 %	2015/16 %	2016/17 %
Differences between the expected and actual return on assets	7.8	-3.7	8.3	-2.3	12.9
Experience gains and losses on liabilities	10.8	-7.6	13.5	-5.5	14.0

49. Contingent Liabilities

When it can estimate potential costs with some certainty, the Council accrues them into the financial statements. This note summarises contingent liabilities, which may result in future costs but cannot be estimated accurately or are considered sufficiently uncertain.

Guarantees

The Council has given various guarantees to financial institutions and to Central Government for European Regional Development Fund grants that have been made to the following bodies:

Exposure 2015/16 £000		Exposure 2016/17 £000
1,241	Sheffield City Trust City Hall	882
58	Sheffield Science Park Co Ltd	28
1,299		**910**

Should any calls be made on any of the guarantees detailed above, then the settlement required would be the exposure at the time of the call plus, in certain cases, related costs and any accrued interest outstanding.

Museums Sheffield

The Council has given a guarantee to Museums Sheffield to underwrite their overdraft at the bank to the value of £250k. Furthermore, if Museums Sheffield validly served a determination notice, the Council would have to pick up all of its assets and liabilities.

Academies

Before a school converts to an academy, its board of governors signs a Commercial Transfer Agreement with the Council. This agreement is intended to ensure that all information on the staff, assets and contracts that are transferring to the academy are recorded and transferred to the academy trust so that the appropriate arrangements for payment of salaries, pension contributions, etc. can be made. In relation to certain recent academy conversions, the Council has agreed to consider in good faith reasonable requests on an individual basis to indemnify the relevant academies against losses reasonably incurred in connection with various employment claims. At this stage, there is no indication that the Council is exposed to a specific liability.

Equal Pay

The Council has embarked upon a process of settlement negotiations in relation to back dated Equal Pay claims. This process will continue through 2017/18. However, due to being proactive in the settlement of claims the Council believes that only a small number may still be due for which a provision has been taken.

Grant Claw Back

The Council has undertaken the accountable body role, or has guaranteed that capital and revenue schemes funded by grant will continue to comply with their terms and conditions in relation to a number of projects. These projects have been funded from a variety of grant regimes including European Union sources and the Single Regeneration Budget. In the event of such projects not complying with their terms and conditions grants can be subject to ‘claw back’ by the funding organisations. These projects are subject to appropriate monitoring and in a situation where any liability of the Council is agreed, it will be disclosed and an appropriate provision made in the relevant year’s Accounts.

Pensions

There are a number of organisations, such as Kier Sheffield LLP, Museums Sheffield and Veolia, who have admitted body status with South Yorkshire Pension Authority (SYPA) for which the Council has guaranteed payments under the Local Government Superannuation Regulations 1995. This admitted body status is given, usually under TUPE (Transfer of Undertakings Protection of Employment) regulations, where the new employer of the staff transferred from the Council is not a Local Government Organisation and therefore not eligible to become an employing organisation within SYPA.

It is not possible to estimate the extent of the Council’s liability under these agreements and in the normal course of events the Council believes that no calls on this contingent liability will arise. The indemnity is in place in case of unforeseen events happening whereby the new employing organisation cannot meet its obligation to the fund. The financial performance of the organisation having admitted body status and SYPA are monitored as a result.

The Council has also issued a letter of support to Sheffield Health and Social Care NHS Foundation Trust (SHSCT) that subject to certain conditions it will guarantee the deficit in relation to the original transfer of staff to the Trust within the South Yorkshire Pension Fund.

Tax - Building Schools for the Future

The Council has indemnified Notre Dame Academy against the potential for Her Majesty’s Revenue & Customs (HMRC) to challenge the basis under which the school issued a VAT zero-rate certificate to the Council in September 2013. As part of the Building Schools for the Future (BSF) programme the Council, via a contractor, supplied new-build construction works to the school. These works can be supplied by the Council at the zero-rate for VAT purposes if the recipient of the works agrees to only use the new-build elements of the work for educational or charitable purposes for at least ten years. In issuing the certificate the school agreed to these provisions.

By issuing the certificate the school was able to mitigate paying £900k to HMRC in VAT costs. Had the certificate not been issued, the Council would have been obliged to fund this cost on the school’s behalf during the financial year 2013/14. HMRC have agreed the process by which the certificate was issued.

The contingent risk for the Council lies in the school’s continued commitment to only use the newly constructed buildings for charitable or educational purposes over the next ten years. Should the school not fulfil these commitments HMRC would seek to recover some of these VAT costs from the school. The indemnity passes this risk onto the Council. The Council’s contingent liability will decrease by 10% for every year the conditions of the certificate are complied with. At March 2017 this risk could be valued at £656k.

Termination Benefits

A provision has been recognised in the 2016/17 accounts for individuals whom the Chief Officer Panel have approved to leave the Council, via voluntary early retirement and voluntary redundancy, but as at 31 March 2017 have not yet left the Council (see Note 38). There will be further redundancies during 2017/18 which have not yet been confirmed. The Council holds a budget of £6.2m to cover such costs.

Business Rates Appeals

The Council is required to provide an estimate of how much business rates income it will collect and therefore how much it will rely upon in setting the budget every year. This involves the Council's own assumptions about the levels of refunds that may be given and the levels of outstanding appeals. Both of these carry significant risk and will involve assumptions about performance in 2017/18 that will be based on experience of recent years and the use of the most up to date information available.

The provision for losses due to appeals that was established in 2015/16 amounted to £23.9m and was based on information relating to the level of outstanding appeals, assumptions about the likely level of "success" for the claimant and potential further claims lodged. In 2016/17 the provision was adjusted to take account of known appeals according to the latest information available from the Valuation Office Agency (VOA) at the end of March. The provision has risen to £27.2m based on the increased value of appeals and specific threats such as GP surgeries, Virgin Media and ATM appeals.

It is extremely difficult to predict how many other appeals have been lodged since then, and what the likely level of success would be. Furthermore, the Council is affected by decisions taken at a national level due to case law, for instance the potential ruling on the transfer of a major telecommunications provider's properties from multiple local ratings lists to one local list or the Central ratings list. It is not possible to estimate with certainty what the probable cost of these issues will be.

Housing Revenue Account (HRA)

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

Housing Revenue Account Income and Expenditure Statement

2015/16 £000		Note	2016/17 £000
	Expenditure:		
33,366	Repairs and maintenance		35,960
52,189	Supervision and management		50,203
1,534	Rents, rates, taxes and other charges		1,350
49,151	Depreciation and impairment / losses of non-current assets	08 / 09	(278,425)
204	Debt management costs		210
1,147	Movement in the allowance for Bad or Doubtful Debts		1,063
137,591	**Total Expenditure**		**(189,639)**
	Income:		
(150,987)	Dwelling rents	11	(149,012)
(1,494)	Non-dwelling rents - garages, garage sites, shops	11	(1,494)
(7,551)	Charges for services and facilities		(6,419)
(1,039)	Contributions towards expenditure		(905)
(161,071)	**Total Income**		**(157,830)**
(23,480)	Net Income / Cost of HRA Services as included in the whole Council's Comprehensive Income and Expenditure Statement		**(347,469)**
535	HRA share of Corporate and Democratic Core		543
(22,945)	**Net Income / Cost of HRA Services**		**(346,926)**
	HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Account:		
(1,469)	(Gain) or loss on sale of HRA non-current assets		(6,086)
13,430	Interest payable and similar charges		13,314
(255)	Interest and investment income		(254)
(11,239)	**(Surplus) / Deficit for the year on HRA services**		**(339,952)**

Movement on the Housing Revenue Account Statement

2015/16 £000		Note	2016/17 £000
(12,841)	**Balance as at 1 April**		**(8,176)**
(11,239)	(Surplus) / Deficit on the HRA Income and Expenditure Statement		(339,952)
690	Other Comprehensive Income and Expenditure	01	(1,322)
(7,613)	Adjustments between accounting basis and funding basis under regulation	02	324,254
(18,162)	**Net (increase) / decrease before transfers to reserves**		**(17,020)**
22,827	Transfer to / from reserves	03	15,997
4,665	**(Increase) / decrease in year on the HRA**		**(1,023)**
(8,176)	**Balance as at 31 March**		**(9,199)**

Notes to the Housing Revenue Account

01. Other Comprehensive Income and Expenditure

2016/17

The 2016/17 figure represents a draw down and contribution to reserves.

2015/16

The 2015/16 figure represents a draw down and contribution to reserves.

02. Adjustments Between Accounting Basis and Funding Basis Under Regulation

2015/16 £000		2016/17 £000
(31,365)	Impairment / revaluation losses on HRA non-current assets	294,803
1,469	Net gain / (loss) on sale of HRA non-current assets	6,086
954	Difference between interest payable and similar charges (including amortisation of premiums and discounts determined in accordance with Statute)	954
21,302	Revenue Contribution to Major Repairs Reserve	22,384
27	Difference between any other item of income and expenditure determined in accordance with the Code and those determined in accordance with statutory HRA requirements	27
(7,613)	**Total**	**324,254**

03. Transfer to / (from) Reserves

This note sets out the amounts set aside from the HRA balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to the HRA to meet expenditure in 2016/17.

2015/16 £000		2016/17 £000
21,756	Transfer to / (from) the Major Repairs Reserve	15,603
1,071	Transfer to / (from) the HRA Earmarked Reserve	394
22,827	**Total**	**15,997**

04. Housing Stock

The Council was responsible for managing, on average 40,064 dwellings during 2016/17 (40,290 for 2015/16). The movement in stock can be summarised as follows:

2015/16		2016/17
40,383	Housing Stock as at 1 April	40,197
(300)	Less: Sales	(384)
(70)	Less: Demolitions and other deductions	(16)
184	Add: New build and acquisitions	133
40,197	**Housing Stock as at 31 March**	**39,930**

The housing stock can be analysed by type as follows:

2016/17	Flats and Maisonettes	Houses and Bungalows	Total
1 Bedroom	11,975	1,692	13,667
2 Bedrooms	5,619	8,686	14,305
3 Bedrooms	875	10,346	11,221
4 Bedrooms	14	357	371
5 Bedrooms	1	19	20
6 Bedrooms or more	1	3	4
Bedsits	340	2	342
Total	**18,825**	**21,105**	**39,930**

2015/16 – Comparative Information	Flats and Maisonettes	Houses and Bungalows	Total
1 Bedroom	12,001	1,692	13,693
2 Bedrooms	5,664	8,743	14,407
3 Bedrooms	896	10,474	11,370
4 Bedrooms	15	344	359
5 Bedrooms	1	18	19
6 Bedrooms or more	1	4	5
Bedsits	342	2	344
Total	**18,920**	**21,277**	**40,197**

The opening and closing balances of HRA fixed assets are as follows:

2015/16			2016/17	
Value at 1 April £000	Value at 31 March £000		Value at 1 April £000	Value at 31 March £000
904,586	913,987	Council Dwellings	913,987	1,245,692
8,874	8,365	Other Land and Buildings	8,365	8,413
34,479	32,019	Surplus Assets	32,019	30,926
4,278	6,079	Assets Held for Sale	6,079	5,568
952,217	**960,450**	**Total**	**960,450**	**1,290,599**

05. Vacant Possession

The vacant possession value of Council Dwellings as at 1 April 2016 was £2.96bn (£2.92bn at 1 April 2015).

The difference between the vacant possession value of dwellings and the Balance Sheet value represents the economic cost to government of providing council housing at less than open market rents.

06. Major Repairs Reserve

The Major Repairs Reserve was created on 1 April 2002 in accordance with the statutory provision (Section 3 Local Authorities Capital Finance and Accounts England Regulations 2000). This reserve is held to provide funding for the substantial future planned HRA Capital Investment Programme.

The table below shows the movement on the reserve:

2015/16 £000		2016/17 £000
(71,851)	Balance at 1 April	(71,827)
(17,500)	Transfers from the Capital Adjustment Account (re. Depreciation)	(16,985)
(21,302)	Transfers from the HRA (re. Revenue Contribution)	(22,384)
(21,756)	Transfers from the HRA (re. Additional Revenue Contribution)	(15,602)
60,582	Expenditure on capital assets	57,487
(71,827)	**Balance at 31 March**	**(69,311)**

07. Capital Expenditure

During the financial year total capital expenditure was £62.8m (£67.9m in 2015/16) split between houses £62.3m (£67.8m in 2015/16) and other property and land within the Housing Revenue Account £0.5m (£0.3m in 2015/16).

The table below provides details of how this expenditure was financed:

2015/16 £000		2016/17 £000
60,582	Major Repairs Reserve	57,487
6,179	Usable Capital Receipts Reserve	4,521
1,136	Capital Grants and Other Contributions	750
67,897	**Total**	**62,758**

Capital receipts amounting to £16.8m (£13.3m in 2015/16) were generated in the financial year from the disposal of land, houses and other property within the Council's HRA.

08. Depreciation

A depreciation charge of £17m (£17.5m 2015/16) was made to the HRA during the financial year. The spilt of the depreciation charge is detailed below:

2015/16 £000		2016/17 £000
17,117	Council Dwellings	16,904
328	Other Land and Buildings	70
55	Surplus Assets	11
17,500	**Total**	**16,985**

09. Impairment

There were no impairment charges in 2016/17 or 2015/16. However, there are reversals of previous impairments of £299.3m (£69.4m reversals in 2015/16) representing an improvement to a previous impairment value for Council Dwellings.

10. Rent Arrears

Rent arrears (excluding amounts collectable on behalf of other agencies) as at 31 March 2017 amounted to £8.6m (£8.8m as at 31 March 2016).

The provision for doubtful debts in respect of these rent arrears is £6.2m (£6.2m as at 31 March 2016).

11. Rent Income

The total rent income due for the year after allowance has been made for vacant property is as follows:

2015/16 Dwellings £000	2015/16 Non-Dwellings £000	2015/16 Total £000		2016/17 Dwellings £000	2016/17 Non-Dwellings £000	2016/17 Total £000
(154,610)	(2,524)	(157,134)	Gross rent income before allowances	(151,501)	(2,431)	(153,932)
3,623	1,030	4,653	Less vacant properties	2,489	937	3,426
(150,987)	**(1,494)**	**(152,481)**	**Gross rent income after allowances**	**(149,012)**	**(1,494)**	**(150,506)**

12. Dwellings Rents

This represents rent income due from tenants. The average rent per week at 31 March 2017 was £75.71 (50 week basis) compared with £76.47 per week at 31 March 2016, a decrease of £0.76 or 1.0%.

13. Rebates

Rent rebates are available through the Housing Benefits scheme. As at 31 March 2017, 65% (66% as at 31 March 2016) of Council tenants were receiving assistance from the scheme.

Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and National Non-domestic Rates (NNDR).

2015/16 Restated Non-domestic Rates	2015/16 Restated Council Tax	2015/16 Restated Total		Notes	2016/17 Non-domestic Rates	2016/17 Council Tax	2016/17 Total
£000	£000	£000			£000	£000	£000
			Income:				
0	(209,295)	**(209,295)**	Council Tax Receivable	01	0	(220,131)	**(220,131)**
(213,882)	0	**(213,882)**	NNDR Receivable	02	(217,720)	0	**(217,720)**
(213,882)	**(209,295)**	**(423,177)**	**Total Income**		**(217,720)**	**(220,131)**	**(437,851)**
			Expenditure:				
			Precepts and Demands:				
104,661	170,837	**275,498**	- Sheffield City Council		105,413	180,431	**285,844**
0	19,295	**19,295**	- SY Police Authority		0	20,256	**20,256**
2,136	8,637	**10,773**	- SY Fire and Rescue Authority		2,151	8,944	**11,095**
106,797	0	**106,797**	- Central Government share of NNDR		107,565	0	**107,565**
213,594	198,769	**412,363**			215,129	209,631	**424,760**
			Apportionment of Previous Years' Surplus:				
1,320	1,980	**3,300**	- Sheffield City Council		(4,893)	5,176	**283**
0	219	**219**	- SY Police Authority		0	585	**585**
27	98	**125**	- SY Fire and Rescue Authority		(100)	262	**162**
1,347	0	**1,347**	- Central Government share of NNDR		(4,993)	0	**(4,993)**
2,694	2,297	**4,991**			(9,986)	6,023	**(3,963)**
			Charges to Collection Fund:				
665	0	**665**	Non-domestic Transitional Protection Payments		506	0	**506**
			Non-domestic Rates Supplement:				
			Impairment of debts:				
2,044	5,172	**7,216**	- Write Offs	01	1,425	3,998	**5,423**
(636)	0	**(636)**	- Allowance for impairment Appeals		2,283	(1,013)	**1,270**
10,196	0	**10,196**	- Allowance for impairment		3,342	0	**3,342**
788	0	**788**	Cost of Collection		778	0	**778**
0	0	**0**	Renewable Energy Disregarded		1,069	0	**1,069**
292	0	**292**	Enterprise Zone Growth		783	0	**783**
55	0	**55**	Enterprise Zone Relief		0	0	**0**
1,806	0	**1,806**	New Development Deal Growth		0	0	**0**
14,545	5,172	**19,717**			10,168	2,985	**13,171**
231,498	**206,238**	**437,736**	**Total Expenditure**		**215,329**	**218,639**	**433,968**
17,616	**(3,057)**	**14,559**	**Movement on the Fund**		**(2,391)**	**(1,492)**	**(3,883)**
(337)	**(7,787)**	**(8,124)**	**Opening Fund Balance**		**17,279**	**(10,844)**	**6,435**
17,279	**(10,844)**	**6,435**	**Closing Fund Balance**		**14,888**	**(12,336)**	**2,552**

Notes to the Collection Fund

01. Council Tax

There are an estimated 243,038 (240,672 for 2015/16) residential properties in Sheffield and each is placed into one of eight valuation bands (A to H), by the Inland Revenue Valuation Office Agency, based on its assessed capital value at 1 April 1991. The totals for each band are converted and expressed in terms of a number of band D dwellings to give the tax base for the City of 132,253.72 for 2016/17 (130,231.44 for 2015/16). After allowing for non-collection, the calculation of Council Tax at band D is made so as to be sufficient to generate the estimated income required to be taken from the Collection Fund by the City Council and the South Yorkshire Joint Authorities. The amount of Council Tax set at band D is £1,581.27 for 2016/17 (£1,522.76 for 2015/16). This excludes parishes but includes Police and Fire and is converted to determine the level of Council Tax for the other seven bands.

Council Tax bills were based on the following proportions for bands A to H:

2016/17						
Band	**Number of Properties in Band**	**Exemptions and Reliefs**	**Chargeable Dwellings**	**Adjusted Chargeable Dwellings**	**Proportion of Band D Tax**	**Band D Equivalent Dwellings**
Disabled Band A		277	277	244.78	5:9	135.99
A	142,051	(37,583)	104,468	88,449.09	6:9	58,966.06
B	38,736	(4,977)	33,759	30,921.79	7:9	24,050.28
C	30,761	(3,766)	26,995	25,136.36	8:9	22,343.43
D	15,557	(1,664)	13,893	13,037.39	9:9	13,037.39
E	8,902	(449)	8,453	8,040.10	11:9	9,826.79
F	4,130	(49)	4,081	3,895.52	13:9	5,626.86
G	2,721	(58)	2,663	2,547.84	15:9	4,246.40
H	180	(50)	130	122.75	18:9	245.50
	243,038	(48,319)	194,719	172,395.62		138,478.70
Less: Allowance for non-collection						(6,231.54)
Add: Defence-exempt properties						6.56
Tax Base for the calculation of 2016/17 Council Tax						**132,253.72**

Those properties qualifying for Council Tax support are no longer included in the tax base figures from 2014/15.

2015/16						
Band	**Number of Properties in Band**	**Exemptions and Reliefs**	**Chargeable Dwellings**	**Adjusted Chargeable Dwellings**	**Proportion of Band D Tax**	**Band D Equivalent Dwellings**
Disabled Band A		295	295	259.43	5:9	144.13
A	140,733	(37,623)	103,110	86,995.02	6:9	57,996.68
B	38,260	(5,681)	32,579	29,761.92	7:9	23,148.16
C	30,498	(3,539)	26,959	25,098.76	8:9	22,310.00
D	15,417	(1,569)	13,848	12,991.87	9:9	12,991.87
E	8,804	(423)	8,381	7,954.79	11:9	9,722.52
F	4,092	(28)	4,064	3,880.03	13:9	5,604.49
G	2,691	(53)	2,638	2,524.33	15:9	4,207.22
H	177	(51)	126	119.75	18:9	239.50
	240,672	(48,672)	192,000	169,585.90		136,364.57
Less: Allowance for non-collection						(6,136.41)
Add: Defence-exempt properties						3.28
Tax Base for the calculation of 2015/16 Council Tax						**130,231.44**

The income of £216,1m for 2016/17 (£204.1m 2015/16), which is net of write offs, is receivable from the following sources:

2015/16 £000		**2016/17 £000**
(209,295)	Billed to Council Tax Payers	(220,131)
5,172	Write Offs	3,998
(204,123)	**Total**	**(216,133)**

02. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specified an amount of 48.4p in 2016/17 (48.0p 2015/16) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the ratepayers in its area but pays 50% to Government and 1% to South Yorkshire Fire and Rescue Authority.

The NNDR income of £217.7m for 2016/17 (£213.9m 2015/16) was based on a total rateable value for the Council's area of £534.9m for the year (£534.0m for 2015/16).

Glossary

Term	Definition
Abbreviations	The symbol ‘k’ following a figure represents £thousand. The symbol ‘m’ following a figure represents £million. The symbol ‘bn’ following a figure represents £billion.
Accounting Period	The period of time covered by the Council’s accounts. Normally 12 months, beginning on 1 April. Also known as the Financial Year.
Accounting Policies	These are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
Accruals Concept	Income and Expenditure are recognised as they are earned or incurred, not as money is received or paid.
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 City Council’s own policies.
Amortisation	An accounting technique of recognising a cost or item of income in the Comprehensive Income and Expenditure Statement over a period of years rather than when the initial payment is made. Its purpose is to charge / credit the cost / income over the accounting periods that gain benefit for the respective item.
Beacon	A group of Council dwellings / properties with similar characteristics, such as design, age, type and construction. A sample property, “the beacon” is selected, which is representative of the group, and a detailed inspection and valuation carried out.
Capital Expenditure	Expenditure that is incurred to acquire, create or add value to a non-current asset.
Capital Financing Requirement	It measures an authority’s underlying need to borrow or finance by other long-term liabilities for a capital purpose. It represents the amount of capital expenditure that has not yet been resourced absolutely, whether at the point of spend or over the longer term. Alternatively, it means capital expenditure incurred but not yet paid for.
Capital Receipts	The proceeds from the sale of capital assets which, subject to various limitations (e.g. Pooling Arrangements introduced in the Local Government Act 2003) can be used to finance capital expenditure, invested, or to repay outstanding debt on assets originally financed through borrowing.

Cash	Comprises cash on hand and demand deposits.
Cash Equivalents	These are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Co-optees	Individuals appointed to serve as members of committees of the Council, but who are not Members of the Council (i.e. not Councillors).
Collection Fund	A fund administered by the Council recording receipts from Council Tax, National Non-Domestic Rates and payments to the General Fund.
Community Assets	Non-current assets that the Council intends to hold forever and which may have some restrictions on their disposal, e.g. parks and historic buildings.
Consistency Concept	The consistency concept requires that there should be a consistent method of accounting treatment of like items within each accounting period and from one period to the next.
Contingency	A condition which exists at the Balance Sheet date, where the outcome will be confirmed only on the occurrence of one or more uncertain future events not wholly within the Council's control.
Council Tax	A banded property tax that is levied on domestic properties. The banding is based on assessed property values at 1 April 1991.
Credit Risk	The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss to the other party.
Creditors	Amounts owed by the Council for work done, goods received or services rendered, for which no payment has been made at the date of the Balance Sheet.
Debtors	Amounts owed to the Council for work done, goods received or services rendered, for which no payment has been received at the date of the Balance Sheet.
Defined Benefit Scheme	A pension or other retirement benefit scheme, other than a Defined Contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
Defined Contribution Scheme	A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in

	the current and prior periods.
Depreciation	The measure of the wearing out, consumption or other reduction in a non-current asset either as a result of its use, ageing or obsolescence.
Fair Value	Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Finance Lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.
Financial Instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term “financial instrument” covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivable (debtors) and trade payables (creditors) and the most complex ones such as derivatives.
General Fund	The total services of the Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by Council Tax, Government grants and National non-domestic rates.
Goodwill	The difference between the aggregate fair value of the net assets of a business and the value of the business as a whole. Goodwill can be internally developed or purchased.
Heritage Asset	A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.
Impairment	A reduction in the value of a non-current asset below its carrying amount on the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a fixed asset’s market value and evidence of obsolescence or physical damage to the asset.
Intangible Assets	Non-financial assets that do not have physical substance but are identified and are controlled by the entity through custody or legal rights. The two broad types of intangible non-current assets applicable to local authorities are goodwill and other intangible assets. Examples of other intangible assets might be patents or software licences.
International Financial Reporting Standards (IFRS)	Accounting standards developed by the International Accounting Standards Board which determine the standards to be adopted in the preparation and presentation of the Council’s accounting records.

Inventories	Inventories are assets: • in the form of materials or supplies to be consumed in the production process or consumed or distributed in the rendering of services • held for sale or distribution in the ordinary course of operations • in the process of production for sale or distribution
Investment Property	Property held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations.
Materiality	Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an Authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing Act 1989.
Net Book Value	The amount at which non-current assets are included on the Balance Sheet, i.e. their historical cost or current value less the cumulative amount provided for depreciation.
Net Current Replacement Cost	The cost of replacing or recreating the particular asset in its existing condition and in its existing use i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current position of the existing asset.
Net Realisable Value	The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses incurred in realising the asset.
National Non-Domestic Rates (NNDR)	These are often referred to as Business Rates, and are a levy on business properties based on a national rate in the pound applied to the 'rateable value' of the property. The Government determines the national rate multiplier and the Valuation Office Agency determine the rateable value of each business property. Business Rates are collected by the Local Authority and paid into their collection fund, this amount is then distributed 49% to the Local Authorities General Fund, 1% to the South Yorkshire Fire and Rescue Authority and 50% to Central Government. The Central Government share is then redistributed nationally, partly back to Local Authorities through Revenue Support Grant.
Operating Lease	A lease other than a Finance Lease. An agreement in which the Council derives the use of an asset in exchange for rental

	payments, though the risks and rewards of ownership of the asset are not substantially transferred to the Council.
Precepts	The amount levied by another body such as the South Yorkshire Police Authority that is collected by the Council on their behalf.
Private Finance Initiative (PFI)	A contract in which the private sector is responsible for supplying services that are linked to the provision of a major asset and which traditionally have been provided by the Council. The Council will pay for the provision of this service, which is linked to availability, performance and levels of usage.
Property, Plant and Equipment	Tangible assets that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.
Provisions	Amounts charged to revenue during the year for costs with uncertain timing, though a reliable estimate of the cost involved can be made.
Prudence Concept	Requires that revenue is not anticipated until realisation can be assessed. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.
Public Works Loan Board (PWLB)	A government agency, which provides loans to authorities at favourable rates.
Related Party	The definition of a related party is: A person or a close member of that person's family related to a reporting entity if that person: • has control or joint control over the reporting entity; • has significant influence over the reporting entity; or • is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
Remuneration	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 either employer or employee are excluded.
Reserves	Result from events that have allowed monies to be set aside, surpluses, decisions causing anticipated expenditure to have been postponed or cancelled, or by capital accounting arrangements.
Revenue Expenditure	Expenditure incurred on the day-to-day running of the Council, for example, staffing costs, supplies and transport.
Revenue Support Grant (RSG)	This is a Government grant paid to the Council to finance the Council's general expenditure. It is based on the Government's

	assessment of how much a Council needs to spend in order to provide a standard level of service.
Specific Government Grants	These are designed to aid particular services and may be revenue or capital in nature. They typically have specified conditions attached to them such that they may only be used to fund expenditure which is incurred in pursuit of defined objectives.
Termination Benefits	These are benefits payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.
Unsupported (Prudential) Borrowing	Borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

Annual Governance Statement

Scope of Responsibility

Sheffield City 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 efficiently, economically and effectively.

Sheffield City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Sheffield City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Sheffield City Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website: *https://www.sheffield.gov.uk/home/your-city-council/council-operates.* This statement explains how Sheffield City Council has complied with the code. It also meets the requirements of Accounts and Audit Regulations 2015, regulation 6(1), which requires all relevant bodies to prepare an Annual Governance Statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and also its activities through which it accounts to, engages with and leads the community. This framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Sheffield City Council policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Sheffield City Council for the financial year ended 31 March 2017 and up to the date of approval of the Sheffield City Council annual report and statement of accounts.

The governance framework of the Council is constantly being updated to take account of changes in legislation and working practices.

The Sheffield City Council Governance Arrangements

The governance arrangements of Sheffield City Council contains two key elements, the internal control arrangements of the Council and also how it demonstrates these arrangements to its citizens and service users. We have documented the key elements of the control environment and how these are communicated below.

Internal Control Environment

The system of internal control as described below has been in place at Sheffield City Council for the year ended 31 March 2017 and up to the date of approval of the Annual Report and Statement of Accounts.

In discharging its responsibility, the Council has a published constitution that specifies the business of the Council, as well as establishing the role of the Cabinet, Scrutiny Committees and Regulatory Committees. The Leader's Scheme of Delegation lays down the scheme of delegation by which Members of the Council and Officers can make Executive decisions on behalf of the Council to ensure the smooth operation of its business.

In order to illustrate the key elements of internal control, the control environment has been subdivided into six elements as outlined below;

1) Establishing and monitoring the achievement of the Council's business

The Council has developed its Corporate Plan 2015 – 2018 (agreed by Cabinet on 18 March 2015) which sets out its vision and corporate priorities. The current plan has been developed to clearly show the link between the key aims of the Council and the corporate priorities to achieve these. The Council has a business planning process that is designed to align service activity and objectives to the corporate priorities. A quarterly performance monitoring process continues to track progress against the Council's key priorities and to highlight any potential risks and issues in achieving these.

The Council's Executive Management Team (EMT) and elected Members have the responsibility for formulating the Council's medium term financial strategy in order to ensure that adequate resources are available to meet the Council's objectives.

Cabinet receives regular budget monitoring reports in addition to the Portfolio Leadership Teams. The Council's corporate systems for producing this information have been developed to provide timely and accurate reports for services and the Council as a whole on a consistent basis.

Performance management information about key corporate objectives is also provided regularly to Cabinet members, and may also be considered by Members at the Overview and Scrutiny Management Committee.

The Council has undertaken a number of initiatives to consult with interested groups and the wider citizens of Sheffield on its vision and priorities.

The Corporate Plan and minutes of Council meetings are publicly available through the Council's website – www.sheffield.gov.uk.

2) The facilitation of policy and decision-making

The Council's overall budget and policy framework are set by Full Council. Key decisions are taken by the Executive (Leader, Cabinet, individual Cabinet members, officers as appropriate), within the budget and policy framework set by Council.

The council has an Overview and Scrutiny function (including a call-in facility), which reports to the Cabinet and Full Council as appropriate.

A scheme of delegation is in place that allows decisions to be undertaken at an appropriate level, so that the functions of the Council are undertaken efficiently and effectively. The scheme includes the Leader's own scheme of delegation, supported by more detailed officer schemes of delegation corporately and within portfolios.

3) Ensuring compliance with established policies, procedures, laws and regulations

Procedures are covered by the Council's Constitution, backed up by Standing Orders, the Financial Regulations and Protocol, and procurement guidelines.

The Monitoring Officer carries overall responsibility for ensuring the lawfulness and fairness of decision-making and supporting and advising the Audit and Standards Committee. Her staff work closely with portfolios, to ensure the Council complies with its requirement to review and log all formal delegated decisions.

The Council has set out policies and procedures for people management in the managers' section of the Council's intranet. A formal staff induction process is in place that is designed to ensure that new employees are made aware of their responsibilities. The Interim Executive Director of Resources carries overall responsibility for financial issues, and his staff work closely with services to ensure that all reports are cleared for financial implications prior to submission to a Member forum.

The Council has a Risk Management Framework in place that has been agreed by Cabinet. The Council has appointed a Corporate Risk Manager who has reviewed and reconfigured the Council's risk management. He currently reports to EMT every quarter and to the Audit and Standards Committee on a 6 monthly basis. All Council reports include a section dealing with risk management. The risk management framework has been significantly updated and the focus of attention is now on developing our risk management practice maturity, both at an operational level and through close alignment and integration between the risk and performance management processes. This is to ensure that the processes used are simple and effective and meet the requirements of the Council. An e-learning module has been developed and will be integrated into the manager learning and development curriculum.

The Council has an Audit & Standards Committee which oversees the Council's Code of Conduct for Members. The Council has a Members' Code of Conduct and a procedure for dealing with complaints under the Code. Independent Persons have been appointed.

As part of the Council's commitment to the highest possible standards of openness, probity and accountability, the Council encourages employees and others with genuine concerns about any of the Council's work, to come forward and voice those concerns. A

Whistleblowing Policy is in place that is intended to encourage and enable employees to raise such concerns within the Council rather than overlooking a problem. This policy document makes it clear that employees can do so without fear of reprisals. The procedure accords with the requirements of the Public Interest Disclosure Act 1998 and is compatible with the conventions in the Human Rights Act 1998.

Review of services are undertaken on a periodic basis by Internal Audit and agencies including the Care Quality Commission (CQC) and the Office for Standards in Education (OFSTED).

4) Ensuring the efficient, economic and effective use of resources

The Council needs to make well informed decisions through business intelligence to enable it to make changes to the right things, in the right way.

The Corporate Plan 2015 – 2018 acknowledges that it's more important than ever to make the best use of public money. The Council will continue to ensure that it prioritises its efforts and resources for the greatest impact; by having an agreed, prioritised set of strategic changes that it will make, to achieve its long term goals.

5) Financial management of the Council

The effectiveness of the system of financial management is informed by:

- The work of Internal Audit.
- The external auditor's Annual Audit Letter and other reports.
- The role carried out by the Interim Executive Director of Resources under s151 Local Government Act 1972 responsibilities.
- The work of the Contract Management Teams in monitoring the work undertaken by Capita (the Council's contractor for financial business processes).

6) Performance management and its reporting

The performance management regime is an integral part of the Council's business planning process. The business planning process ensures that the Council defines clear priorities and outcomes in its Corporate Plan. Members and officers allocate the Council's resources in a way that aligns with these priorities and outcomes. Council services and commissioners then set clear objectives and targets that reflect the priorities, outcomes, and the level of resource allocated. The Council also has programme boards that commission specific projects to deliver step changes. The Council's performance reporting process ensures that managers and Members have a clear picture of how the Council is performing against the objectives and targets, and whether specific projects are on track. Risks to delivery are escalated and reviewed.

During the reporting period, Personal Development Reviews (PDRs) were launched (replacing IPR's) and will continue to be used for the current year ahead. These link into the Sheffield Development Hub and enable development of a formal learning plan. Learning and Development Consultants are supporting portfolios at respective People Boards to ensure that employee matters are central to the performance management of our organisation and during the period a Strategic Workforce Board was established at a corporate level to ensure that there is clear governance.

The Council has a core development programme for managers and employees to provide a consistent approach to managing resources, including its people, and to develop employee knowledge and skills across a range of subjects.

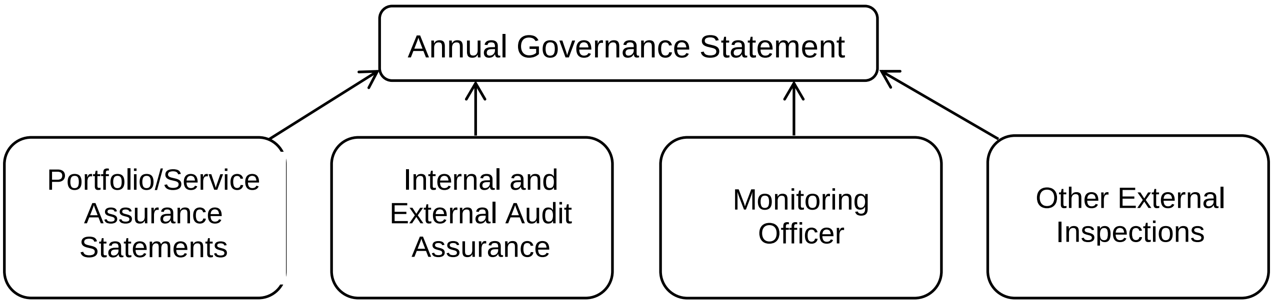
The Council also has a training programme in place, which is specifically tailored to the needs of elected Members in fulfilling their roles and responsibilities, including an induction programme for newly-elected Members.

Review of Effectiveness

Sheffield City Council has a duty to conduct at least annually a review of the effectiveness of its governance framework including the system of internal control, and to publish an Annual Governance Statement (AGS).

The review of the effectiveness of the Council's governance framework is informed by the work of the internal auditors and the senior managers within the Council. Senior officers are responsible for the development and maintenance of the internal control environment. The process is also informed by comments made by the external auditors and other review agencies and inspectorates.

The Council's EMT agreed a process of positive verification of the system of internal control in order to formally fulfil the requirements of the Accounts and Audit Regulations. The overall process has been summarised in the diagram below:



All Service Directors have provided written assurance to the effect that they are adhering to the Council's corporate policies, such as those relating to health and safety and personnel procedures, and are maintaining adequate control over areas of Council activity for which they have responsibility, e.g. service areas and control of specific contracts. The review of internal control has been adopted as a positive way forward. Some areas of control weakness have been identified through this process and management action to address them has commenced. Items raised by managers in the previous year's process have been followed up and confirmation has been received that action has been taken to progress the issues raised.

The role of the Council's internal auditors is to provide an independent appraisal function for the review of internal control systems. Internal Audit undertakes reviews of the main financial and operational systems of the Council, based on a risk analysis of the functions undertaken by service areas. Certain aspects of key financial systems are reviewed on an annual basis. Internal Audit also undertakes fraud investigations and other ad hoc responsive investigations relating to the Council's control framework. This element of its work also contributes to the maintenance of a sound system of internal financial control.

Internal Audit complies in all significant respects with the professional standards required of the service as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA). The service works closely with the external auditors (KPMG) and has undertaken a programme of preventative work to mitigate the potential for fraud.

There are some areas of control weakness that have been included under the section relating to governance issues. The Senior Finance Manager (Internal Audit) has confirmed that she is unaware of any other significant control weaknesses that have not been considered when compiling this statement. The Audit and Standards Committee is responsible for scrutinising the work undertaken by Internal Audit.

The Monitoring Officer has responsibility to monitor and review the operation of the Constitution to ensure that the aims and principles of the Constitution are working in practice. This review takes place annually. The Director of Legal and Governance as the Council's Monitoring Officer, has not raised any issues of significance that are contrary to the findings within this statement.

The Council is responsible for setting the overall objectives of the Council and for undertaking statutory duties such as agreeing the budget and setting the level of Council Tax. In the financial year 2016/17 all these duties have been performed.

A significant part of Sheffield City Council's risk liability is connected to its maintained schools, for example: School Finance, Health and Safety, Human Resources, and Premises Maintenance. Whilst the day to day management of these issues is delegated to School Governing Bodies and Head teachers, the Council retains residual liability for maintained schools where it is the employer and the owner of the property.

During the financial year 2016/17 the Council has been inspected by a number of external agencies. Reports of external inspection agencies are scrutinised to ensure that for any issues raised, the most appropriate senior officer within the Council has been given the responsibility to implement suitable corrective action.

For all of the inspections, where recommendations were made, assurance has been received through the annual governance declarations, that appropriate management action is being taken.

A number of schools within the city have been the subject of OFSTED inspections. The School Improvement Service follows up on each review to give advice and support to these schools.

The Council's external auditors, KPMG, issued an unqualified opinion on 20 September 2016 regarding the Council's Accounts for 2015/16.

The following significant inspection reports were received:

Service	Inspection	Date carried out - result
All Council	External Audit - Statutory Accounts 2015/16	July-September 2016 – unqualified opinion and certificate issued
Revenues & Benefits	External Audit – Housing Benefits	August-November 2016 – qualified opinion and certificate issued
CYP	External Audit – Teachers Pensions	November 2016 – Assurance Letter issued
Housing	External Audit – Pooling of Housing Capital Receipts	November 2016 – Assurance Letter issued
CYP	External Audit – Skills Funding Agency	May 2017 – Assurance Letter issued
All Council	External Audit - Statutory Accounts 2016/17	Interim Audit (part-year February 2017)

The Council has an Audit and Standards Committee that was formed in September 2016 and merged the functions of the former Audit and Standards Committees. The new Committee is made up of 7 non-Executive elected Members. 3 non-voting independent co-opted members are also appointed to the Committee to bring additional experience, independence and an external view to the Committee's work. In addition, the three Parish and Town Councils are invited to jointly send one representative when Standards matters are to be considered.

The Audit and Standards Committee has been set up to meet best practice guidelines. Its terms of reference include the need to consider the Council's arrangements for corporate governance and any necessary actions to ensure compliance with best practice. The Committee also considers the Council's compliance with its own and other published standards. The Committee has confirmed that it has a significant overview at the highest level of the Council's systems of internal control; so that it is assured that it fulfils the requirements of "those charged with governance" under the International Auditing Standards.

The Committee is also responsible for promoting high standards of conduct by Councillors and co-opted members, overseeing the Members' Code of Conduct and considering complaints where a Member may have breached the Code.

The Committee meets approximately six times per year and has a programme of work based on its terms of reference (covering Audit activity, the Regulatory Framework, Risk Management, Governance, Standards and the Council's Accounts) and other issues identified by the Committee during the year. This includes monitoring the financial and commercial risks of the Council's major external relationships and a process for consideration of all High Opinion Audit Reports. An Annual Report on the Committee's work is also submitted to Full Council. The papers and minutes for these meetings are available on the Council's website.

Development of the Governance Framework

The Council's control framework needs to evolve to take into account the changes that are taking place across the organisation. In the forthcoming year, several initiatives have been planned which will have an impact upon the control assurance mechanisms in place:

- The current financial climate has led to significant reductions in the money available for support services such as the finance service. However, the firm foundations laid in previous years of improvements to financial systems, controls and governance mean that the Council is relatively well placed to cope with these reductions and to report effectively on the budget and savings required.
- The Council continues to closely monitor its most significant external relationships in relation to risk and governance arrangements, and are incorporated within the reports on Risk Management Updates to the Audit and Standards Committee. Ensuring that appointed Members receive appropriate officer support remains an important area of activity.

Governance Issues

In a large and complex organisation such as Sheffield City Council, there will always be opportunities to improve services. In the financial year 2016/17, recommendations have been made by Internal Audit and agreed with relevant managers to address weaknesses identified in the internal controls of financial and other systems.

This review of effectiveness has highlighted the following that EMT consider are worthy of specific mention and/or require their attention this financial year.

1) Financial Overspend in Social Care: The reductions in central government funding and increasing demand for social care resulted in a financial overspend. Appropriate application of the systems of governance meant this was first highlighted in June 2016 and various mitigations were applied to reduce the final overspend. This remains one of the critical issues for the Council and plans have been developed to address the situation for 2018/19.

2) Application of the Public Sector Equality Duty (PSED): There was a Judicial Review finding of failure to demonstrate compliance with the PSED in relation to granting a license. The outcome of the case highlighted an issue that was not generally considered to be standard practice within this area of law. The specific license has been renewed and the PSED has been properly evidenced. Our procedures have been updated to ensure future compliance.

EMT will also continue to actively monitor and manage arrangements across the Council in:

3) Business Continuity: To remain assured that the Council's arrangements in the event of a disruption are robust, adequately resources and do not impact on its ability to deliver services.

4) Fraud Risk Management: That relevant staff are sufficiently trained to identify and minimise risks in this area.

EMT reviewed all High Opinion Audits from 2016/17 and considers the following as requiring specific follow up action:

5) Appointeeships: A report will be produced to ensure actions are put in place for future compliance.

6) Subject Access Requests: The Council was already aware of this issue and a strategic approach for document and records management and retention will be developed.

Significant Governance Issues

No significant control weaknesses have been identified through the Annual Governance process.

Statement

Over the coming year, Sheffield City Council proposes to take remedial actions to address the issues that have been identified. Regular updates on the progress of this work will be made available to the Council Leader.

We have been advised on the review of the effectiveness of the governance framework by the relevant Officers and a plan to enhance the Council's ability to identify and resolve weaknesses in its controls, whilst ensuring continuous improvement of the framework will commence.

We will monitor and review this implementation and operation of any new governance framework as part of our next annual review.

Signed: ………...................……………………………………Date……………………
Eugene Walker – Interim Executive Director of Resources (Section 151 Officer)

Signed: ………...................……………………………………Date……………………
John Mothersole - Chief Executive on behalf of Sheffield City Council

Signed: ....…………………………………………………Date………….............
Julie Dore - Council Leader on behalf of Sheffield City Council

Independent Auditor's Report

Due to the receipt of two objections to the accounts it is unlikely that the Council's external auditors will be able to complete their 2016/17 audit and provide an audit opinion, before the statutory deadline of 30th September 2017.

KPMG

External audit report 2016/17

Sheffield City Council

–

DRAFT

September 2017

Summary for Audit and Standards Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Sheffield City Council ('the Authority').

This report focusses on our on-site work which was completed in July-August 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 5-15.

We have identified three audit adjustments. Two of these were in relation to the restatement of the CIES which were caused by a formula error and the inclusion of internal recharges. Amendments were also made to the Payroll Banding Disclosure as the initial workings did not agree back to source documentation. See page 30 for details.

Based on our work, we have raised 9 recommendations, the majority of these relate to strengthening the valuation and impairment assessment of Property, Plant and Equipment. Details on our recommendations can be found in Appendix 1.

None of these recommendations impacted upon the reported General Fund balance or reserves. Hence, there is no impact on future council tax levels.

Due to the receipt of two objections to the accounts it is unlikely that the accounts will be signed prior to 30th September. Due to the outstanding work and objections received we are unable to anticipate the opinion to be issued. Our work on these objections is dependant upon the receipt of information from the Council which is still outstanding. Full details can be seen at Page 4.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Due to the objections received we are unable to finalise our conclusion at this time as our work around these objections may impact upon our final conclusion

See further details on page 16.

Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

We ask the Audit and Standards Committee to note this report.

The key contacts in relation to our audit are:

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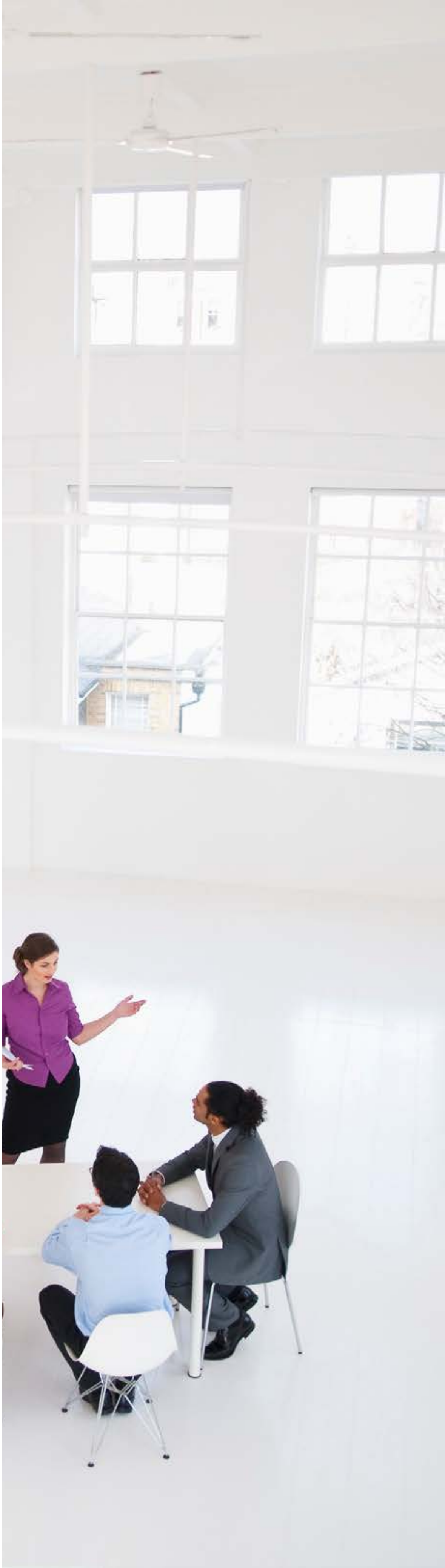
This report is addressed to Sheffield City Council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Timothy Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Status of the Audit



Objections

The public rights relating to local authority accounts, as set out in the Local Audit & Accountability Act 2014, include the right for a local elector to raise an objection to an item of account in the financial statements with the auditor.

On 25th July 2017 we received an objection from a local elector. This objection relates to the lawfulness of the Council's Lender Option Borrower Option (LOBO) loans. In the 2016/17 draft financial statements the Council has over £200 million of LOBO loans on its balance sheet. We accepted the objection on 4th August 2017, and have commenced our audit work.

We also received a second objection from another local elector. This objection relates to the lawfulness of the Council's Private Finance Initiative schemes. We have not yet completed our initial assessment and have not formally accepted the objection at the time of writing.

The audit process in investigating, concluding and reporting on objections can be lengthy, complex and time consuming, Public Sector Audit Appointments Ltd expect that auditors complete their work on objections within 9 months of accepting the objection. Consequently, due to the complexity and materiality of the issues subject to objection, we do not expect that we will be in a position to complete our 2016/17 audit, and provide our audit opinion, before the statutory 30 September 2017 deadline. This affects both the financial statement and value for money opinion.

Accounts Work Outstanding

As noted throughout this report there are still a number of audit areas outstanding. These are highlighted below:

- Property, Plant and Equipment;
- Testing of Capita data in relation to NNDR and Council Tax Receivable and Payable;
- Awaiting one external confirmation to support the Borrowings figures, which the council is actively chasing;
- Journals; and
- A number of queries on income and expenditure items.

Following the finalisation of the above queries outstanding we will review the updated financial statements.

Whole of Government Accounts

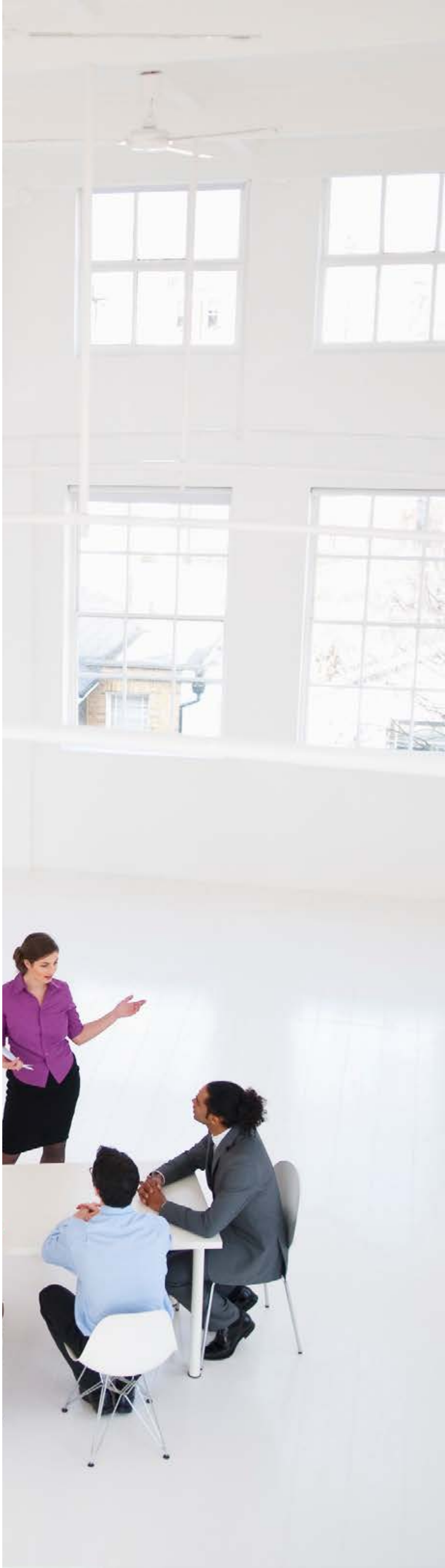
The submission was made by the Council on 19th July 2017, this was 12 working days late for the initial submission deadline of 30th June 2017. Audit work on WGA commences after the main audit is completed. The final audited submission deadline is 29th September and the Council are still working through audit queries on this.

Section one

Financial Statements

As listed on page 4 there are a number of outstanding items and objections of the accounts to be considered. Therefore, we are not in a position to anticipate the opinion to be given on the Authority's 2016/17 financial statements. Due to objections received to the accounts a timeframe for signing has not been agreed. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a surplus of £301m, this is largely due to the upward valuation of Council Dwellings. The impact on the General Fund has been a decrease in the General Fund.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation	**Why is this a risk?** During the year, the Local Government Pension Scheme for South Yorkshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by South Yorkshire Pensions Authority, who administer the Pension Fund. **Our work to address this risk** We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls, this has been done through consultation with the pension fund audit team. We have substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with the Pension Fund Auditors to gain assurance over the pension figures. We reviewed the report received by the actuary and benchmarked the assumptions to determine whether these were appropriate, this work was performed by a KPMG pensions specialist. We also assessed the capabilities and independence of the actuary. We then reviewed that the accounts accurately reflect the actuary report.

Significant audit risks	Work performed
2. Valuation of Property, Plant and Equipment	**Why is this a risk?** At 31 March 2016 the Authority was reporting Property, Plant and Equipment with a value of £2,484m, representing the large majority of assets held on the Balance Sheet. It is the Authority's policy to revalue assets at a minimum every 5 years on a rolling basis, ensuring that the value assets are held on the balance sheet is not materially different to the current value at year end. There is an element of judgement exercised by the authority in determining whether assets require a valuation in year and also with regards to the assumptions made by the valuer in determining a value for the assets. Given the materiality in value and the judgement involved in determining the carrying amount we have determined a significant risk with regards to this account. **Our work to address this risk** We have reviewed the competency of the Valuers, by assessing the qualifications and approach used. We reviewed the instructions provided to the valuation team and considered the appropriateness of the valuation basis adopted. We have challenged the assumptions used by the Valuers by consultation with KPMG valuation specialists, we are still awaiting on responses to a number of these. We have agreed the basis of material impairments and revaluation losses through our testing of the revaluation process and agreement of accounting entries. We have tested the accuracy and completeness of the Authority's asset register through an asset verification exercise and the inspection of any significant new addition records. We have reviewed the capitalisation of major expenditure in the year and obtained an understanding of the classification of significant assets under construction. However, we have not yet been able to gain assurance that the assets are free from impairment as we have a number of outstanding queries on the information which we have received. We are still considering for some of the assumptions used why these are applicable to local circumstances, in particular the use of the revised Regional Adjustment Factor that has had a significant impact upon the value of Council Dwellings.
3. Prepayment of Pension	**Why is this a risk?** The council has made a significant pension prepayment during the year (£65m). This prepayment is intended to be made towards the revised liability for the three years from April 2017 to March 2020 as a result of the triennial valuation exercise. This transaction is unusual in nature, and involves large values and potentially complex accounting. **Our work to address this risk** We reviewed the legal advice obtained and the accounting transactions to ensure the treatment was materially accurate and in line with CIPFA guidance.

Significant audit risks	Work performed
4. New core financial system	**Why is this a risk?** The general ledger used by the Council has changed in year. There has been a phased implementation of the new Integra system with the existing OEO system still being used for a number of feeder systems e.g. Accounts Payable and Receivable Ledgers. There is a risk that account balances are incorrectly transferred from the old ledger to the new ledger incorrectly leading to a misstatement. There is also a risk that account balances are inaccurately coded due to an unfamiliarity with the new coding structure. **Our work to address this risk** We reconciled the closing balance on the old ledger to the opening balance on the new ledger to ensure no transactions were lost or duplicated in the transfer. Through our testing of activity during the year we have verified that the correct mapping has been used both for the transfer and subsequent activity. KPMG specialists reviewed the controls around the new system to ensure users are appropriately recognised. This included a review of the 'link' between the old OEO and other feeder systems to the new ledger to ensure data is transferred as required. We have not yet been able to complete our journals testing and, therefore, we have not yet fully verified that all journals have transferred appropriately at year end

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of 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. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried 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.

There are no matters arising from this work that we need to bring to your attention.

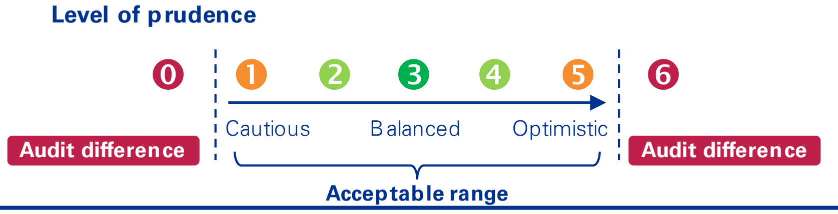
Other areas of audit focus

We identified one area of audit focus. These are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** During past years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how the Council's are funded and how they use their funding to serve the local population. The outcome of this project resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (Code) as follows: — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. **What we have done** We have assessed how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code. We reconciled the new analysis to internal reporting made to the governance structures of the organisation. For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the' Authorities general ledger and found no issues to note. It was noted that the new disclosure had been restated to include internal recharges, this was in line with initial guidance received from CIPFA and treatment made across the sector. However, upon further consideration by the auditing firms, it was deemed that this treatment did not comply with the Code's definition of income and expenditure where internal recharges do not meet the definitions as they are not an inflow/outflow of economic benefit, therefore, these were now excluded. Our testing of this restatement also identified that Children, Young People and Families income and expenditure had both been overstated by £193m due to a formula error. This had also been picked up by the Council's own Quality Account processes in June but was not corrected prior to submitting the draft accounts. Further details can be seen at Appendix Three.

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions	3	3	We have reviewed the assumptions and judgements which underpin the £43.5m of provisions highlighted in Note 27 of the accounts and we are satisfied that there is no risk of material misstatement in light of the assumptions used. The increase in year is due to disputes over the Waste Management Contract. Our testing identified that a £13m provision had been incorrectly classified, this has been reclassified within current liabilities to be displayed as a creditor.
NDR provisions	3	2	The NNDR provisions held at year end (£13.3m) are significantly less than our materiality level of £22m. We have reviewed the workings for the NNDR provisions and note that these have increased from the prior period based on the increased value of appeals and specific threats such as GP surgeries, Virgin Media and ATM appeals. The methodology behind this calculation is considered balanced and based accordingly upon recent historical trends and knowledge of current cases.
PPE: HRA assets	TBC	3	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised internal valuation experts to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The resulting increase is in line with guidance provided by DCLG and the 41% Regional Adjustment Factor deemed appropriate for the Yorkshire and Humber region. We are still awaiting evidence of work performed locally that justifies the utilisation of the 41% Regional Adjustment Factor, we have raised a recommendation at Appendix One that all indices used should be reviewed for local circumstances to ensure they are appropriate for the Council.
PPE: Other Land and Buildings	TBC	3	As per page 7, we currently have insufficient evidence to conclude on the judgements made around this, as we have outstanding queries on the impairment review performed by the Council.
Pensions: Actuarial Assumptions	3	3	We reviewed the pensions assumptions made by your actuary to ensure they were in line with our expectations. We substantiated the figures to your actuary's report and confirm that the accounting treatment of these within the account was correct. We have no indications that a balanced judgement has not been made.
MSF Debtor Value	3	3	This debtor value is based upon the reversionary value of MSF assets that the Council has a reversionary interest in (estimated value at 2024). The assets have been revalued in year by an independent specialist and discounted to the present value from when the assets are expected to transfer to the Authority in 2024. We have reviewed the assumptions used and the competence and experience of the valuer, no issues have been noted.

Proposed opinion and audit differences

There is currently a number of outstanding queries and work to be done on the objections received, therefore, we cannot currently anticipate the opinion to be given.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. 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.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £22 million. Audit differences below £2 million are not considered significant.

Our audit identified a total of two significant audit differences, which we set out in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements. These adjustments were in relation to the restatement of the CIES which had led to a formula error and the inclusion of internal recharges.

Amendments were also made to the Payroll Banding Disclosure as the initial workings provided by Capita did not agree back to source documentation.

Our testing identified the incorrect classification of a £13m provision which has been reclassified within current liabilities to be displayed as a creditor.

Our testing on property, plant and equipment identified an asset of £6.7m which had been incorrectly classified as a community asset.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

— It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*;

and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Introduction of KPMG Central

We introduced KPMG Central this year, which is a cloud-based document storage system to facilitate the secure transfer of large amounts of data between the Authority and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Authority's Closedown Team to efficiently share requested information. Although this tool was available the finance team reverted to using the previous electronic sharing facilities, moving forward to 2017/18 we will work with the Council to work on the most efficient way for sharing working papers.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

There were significant delays in the provision of some working papers, primarily in relation to the valuation and impairment of fixed assets, journals and payroll. This was primarily, although not exclusively, caused by understanding the new finance systems. The delays have meant that we spent additional time over and above that originally planned. We anticipate that the delays will have an impact on the final audit fee.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts on 12 June 2017, which was prior to the statutory deadline of 30 June. This was later than originally planned due to delays largely caused by the introduction of a new General ledger within 2017/18.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in January 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations. We followed this up with a meeting with Management in January 2017 to discuss specific requirements of the document request list.

The quality of audit evidence with relation to the impairment and valuation of fixed assets was insuffcient. This is in addition to the delays previously highlighted. The quality of audit evidence initially provided in this area did not align to our expectations which were set out in our Accounts Audit Protocol 2016/17. This has caused significant delays and placed additional pressures on the audit.

We will seek to have a thorough debrief with the finance team to ascertain actions for next year in order to meet the earlier deadline.

Response to audit queries

Some initial queries have been complex to answer and have taken over six weeks to resolve, in particular, impairments, accounts payable and payroll. This has caused significant delays to the audit process. This was particularly acute when queries were fielded to Officers outside of the core finance team.

This raises concerns over the Authority's ability to meet the early statutory deadlines in 2017/18. We will work with the Council to perform a thorough debrief of the audit and actions to take forward.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has fully implemented 3 out of the 6 recommendations in our ISA 260 Report 2015/16 and partially implemented the remaining 3 recommendations. The outstanding recommendations relate to regular completion of a reconciliation for Housing Benefits and the development of IT assurance and an IT strategy.

Appendix 2 provides further details.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Below we have highlighted exceptions in relation to controls:

Journals

— There are no application level controls which will ensure segregation of duties in the Journal process, meaning that any employee who has ledger access can post any journals without further authorisation. This means there is no review to ensure that journals posted are appropriate. We note that this is in line with previous practice at the Authority and was considered as part of the implementation of the new General Ledger.
This change in practice was raised in the 2013/14 ISA 260 memo, and discussed and agreed at the September 2014 Audit Committee, for the year in which it was implemented. The view was taken that the extra resources needed to authorise every journal could not continue to be justified. We have raised a recommendation that this decision should be revisited in light of implementation of the new system.

Housing Benefits

— There had only been one reconciliation performed during the year, as well as a reconciliation at year end. Due to the limited reconciliations completed we have concluded that these controls are not designed and implemented effectively. This relates to a prior period recommendation raised we have marked as partially complete, as procedures have now improved, see further details at Appendix 1.

Property, Plant and Equipment

— Our testing identified that there is an inadequate amount of evidence to support the impairment review performed by the Council.

Further detail and associated recommendations can be found in Appendix 1.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and have responded to the objections received we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Sheffield City Council and for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Sheffield City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Officer for presentation to the Audit and Standards Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have requested the following specific representations:

— That In line with IAS 36, the Council can confirm they have considered whether any of the assets should be impaired at the reporting date. That the Authority can confirm that there are no circumstances of which the Authority is aware which indicate that a material change in the value of the land and building assets has taken place during 2016/17, save for those indicated by the valuations provided by the Internal Valuation team as at 31 March 2017.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/7 financial statements.

Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Subject to the outcome of any investigations with regards to objections raised, we have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

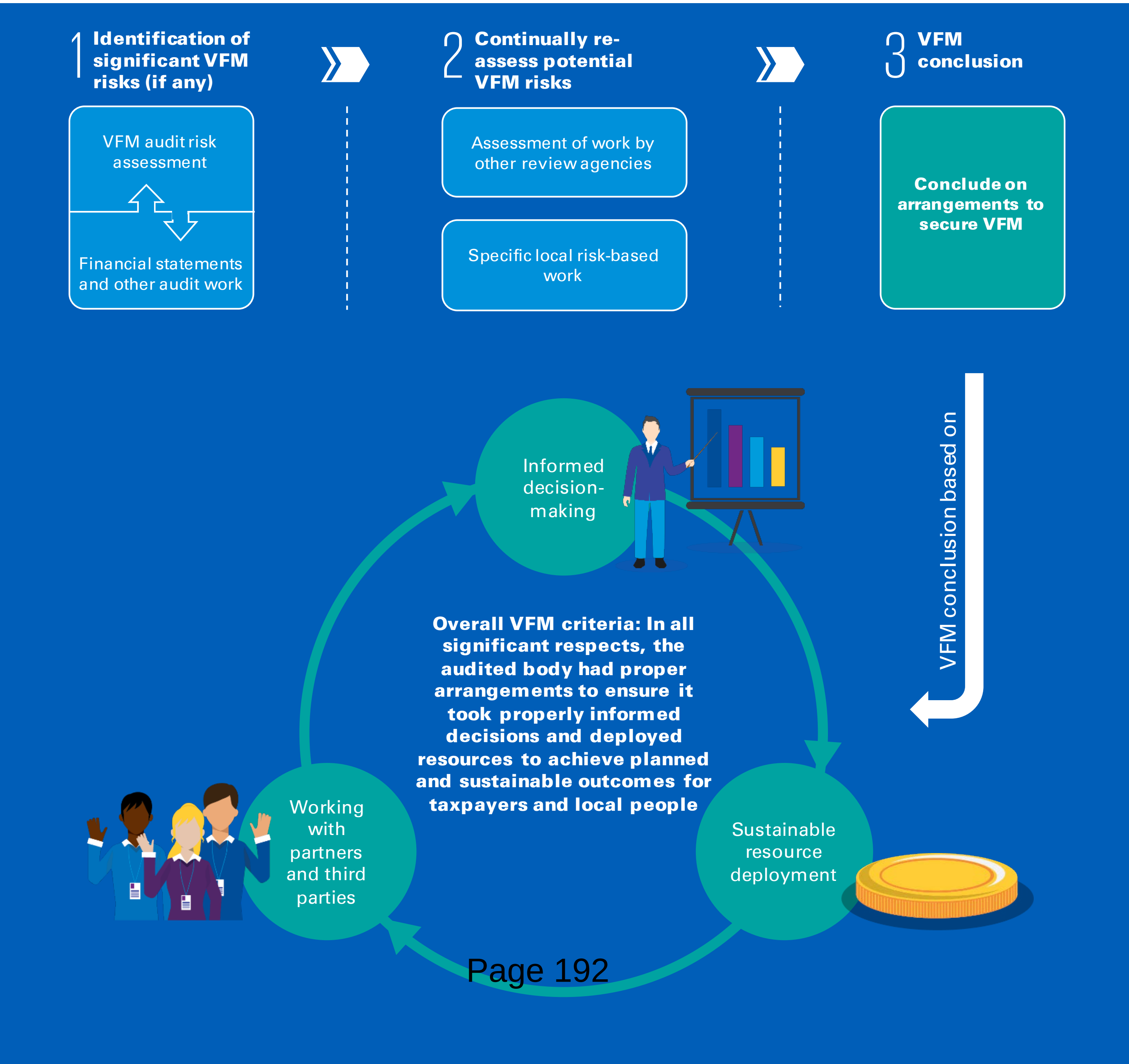
VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary

VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Financial Resilience with a particular focus on the performance of Social Care.	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

Significant VFM risks

We have identified one significant VFM risk, as communicated to you in our *2016/17 External Audit Plan*. We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
1. Financial Resilience with a particular focus on the performance of Social Care.	**Why is this a risk?** There is a general risk around the financial resilience of the Council. In particular focusing around social care and arrangements of financial management. During the financial year Internal audit have done various reviews on Social Care and opinions have stated that the risk of the activity not achieving its objectives is medium –high. We will consider whether these recommendations relate to front line services or financial resilience. We note also that as at month 10, the Children, Young People and Families portfolio was forecast to overspend on budget by circa £6.5m and the Communities portfolio by circa £6m. This is due to a number of service pressures, including an increase in the number of looked after children, Special Education Needs referrals and Learning Disability Services. The combination of a pressured service, a forecast overspend and control issues highlighted by internal audit has meant we have assessed an increased risk that value for money is not achieved. This is relevant to the informed decision making and sustainable resource deployment sub-criteria of the VFM conclusion. **Summary of our work** Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for social care services. We noted that regular reports continued to go to Cabinet highlighting the progress being made in terms of budget monitoring and cost controls. We noted that this work continues to be ongoing with the portfolio continually striving to improve. We also noted from budget and the final outturn reports that the position was reported upon throughout the year and was understood. The final overspend of £6.3m in the Children, Young People and Families Portfolio and £6.6m in the Communities portfolio was forecast and understood. As a result we have gained assurance that the position with regards to the overspends has been transparently reported, giving us assurance with regards to the 'informed decision making' criteria. We were satisfied from review and discussion of internal processes that there was relevant monitoring and actions with regards to the performance of the portfolio. We were satisfied that the level of internal scrutiny was appropriate to effectively manage the identified risk. We have also reviewed the recovery and change programmes in place which further incorporate how the Council should continue to work with the CCG more closely. These plans give us assurance that the Council continues to review the pressures and will redesign services to meet the demand pressures, thus demonstrating that sustainable resource deployment has taken place.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority — Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Medium priority — Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

Low priority — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary	
Priority	**Number of recommendations raised**
High	3
Medium	4
Low	2
Total	**9**

High priority

1. Impairment Review

The Council operates a five year rolling programme of valuations and thus there are a number of properties which have not been valued for a number of years, despite the Council seeing large revaluation decreases over the last two years.

The Council has inadequate information to demonstrate that a thorough impairment review has been performed to demonstrate that these assets are not materially misstated.

Recommendation

The Council needs to ensure that it has an effective control for monitoring possible impairment of its assets and that this is fully documented. This should include developing a revaluation policy, in line with accounting standards, that considers not just the assets appropriate for revaluation but also the remaining assets for signs of impairment. This should be done by as a desktop review of the estates and through a review of corporate decision making, looking at any future changes to be made to the assets.

Management Response

Partially accepted

The Council continues to conduct a five year programme of valuations, in accordance with the guidance set out in the CIPFA Code of Accounting Practice. We also review all those assets not valued at the balance sheet date for signs of impairment. It should be noted that this programme valued 72% by value of our fixed assets that require valuation as at 31 March 2017, and a further 11% at March 2016 (see accounts note 17 p67). Including infrastructure assets which are not held at current valuation only £322m out of £2.811bn (11%) of our fixed assets have a valuation more than one year old, significantly reducing the risk of the Balance sheet figure being materially mis-stated. We therefore consider that we have an accounting policy in line with accounting standards, but we do accept that our documentation of our approach could be updated to reflect the increasing requirements that have been applied by the auditors this year.

Owner

Acquisitions and Disposals Manager – Property Services

Deadline

March 2018

High priority

2. Rolling Programme of Valuations

The Council has not provided the audit team with adequate information available to demonstrate that the assets valued in year are proportionate to the assets held. Currently the revaluations are done solely a result of a rotational revaluation policy or significant additions rather than informed by estates information or corporate decision making.

Without a detailed analysis of the assets held and those to be revalued the Council can not be assured that it is revaluing a reflective proportion of assets each year.

Recommendation

The Council should look to review the rolling programme of valuations to ensure there is appropriate rationale for the properties to be valued each year and that this is reflective of the full asset base.

Management Response

We believe our rolling programme does reflect our asset base, and provides an adequate basis to provide reasonable assurance that our assets are fairly stated. We will revise our documentation to demonstrate this better, and reflect the increasing audit emphasis on this area.

Owner

Acquisitions and Disposals Manager – Property Services

Deadline

March 2018

High priority

3. Independence of Valuer

As the valuer is now in house, their independence needs to be clearly demonstrated.

During the current year the valuation team signed off a report which had included figures in provided by finance, without a detailed review of such figures.

Furthermore, the instructions do not make clear the obligations and responsibilities of both the valuation team and others in the Council.

Recommendation

The Council needs to ensure that there are appropriate measures in place to ensure that the valuers remain independent and that these are documented through clear, detailed instructions.

The valuation team should not include figures provided for other teams unless they have verified all calculations and assumptions used.

Management Response

The valuation team were taken back in-house from April 2016. We will look to ensure that our instructions reflect this change.

Owner

Head of Strategic Finance

Deadline

March 2018

Medium priority

4. Preparation and review of audit working papers

Our *Accounts Audit Protocol*, issued in January 2017 and discussed with the key finance officers, sets out our working paper requirements for the audit. During our final accounts visit, a number of delays were seen in relation to the queries raised. This was especially the case for areas outside of the finance team, for example, valuation and payroll.

We have not yet received a journal listing with which we can be satisfied with the completeness, this is due to finance understanding of the new system. However, the team should seek to ensure that all reports are accessible prior to our audit commencing.

The impact of this has been significant delays to the audit and incurred additional work.

Recommendation

The Authority should ensure that all key closedown staff receive and review the *Accounts Audit Protocol* prior to producing working papers for the audit and seek to use the Share Point tool provided by KPMG.

The finance team and KPMG will have a thorough debrief of the audit to identify how this can be better managed going forwards.

Management Response

The Financial Accounts team will continue to make improvements to the electronic working papers made available to our external auditors and are keen to work closely with them to identify how we can make further improvements going forward. Officers will explore further improvements when communicating and distributing the external auditor's Accounts and Audit Protocol with third parties outside of the core Financial Accounts team.

Owner

Head of Strategic Finance

Deadline

March 2018

Medium priority

5. Local Review of Indices

The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The resulting increase is in line with guidance provided by DCLG and the 41% Regional Adjustment Factor deemed appropriate for the Yorkshire and Humber region.

Whilst the adjustment factor had been provided by an external expert the Council had not assessed that this was appropriate for them to use.

There is a risk that assumptions and indices used are not effectively challenged and thus not appropriate for local use.

Recommendation

The Council should ensure that all external assumptions and indices used are critically analysed to ensure they are consistent and applicable locally to Sheffield and the relevant functions or assets held.

Management Response

The Financial Accounts team will ensure going forward that external assumptions and indices applicable to Sheffield are analysed and challenged and that such reviews are documented and accessible at the commencement of the audit.

Owner

Head of Strategic Finance

Deadline

March 2018

Medium priority

6. Revoke Leaver IT Access

Within the Integra system there were found to be 39 active accounts assigned to individuals who had left employment with the Council. In many cases this was due to backlogs within the HR / FSSG process but we noted two cases where accounts for individuals who had left the council in 2009 and 2013 had incorrectly been migrated from OEO. We confirmed that none of these accounts had been used after the stated leaving date

Recommendation

The Council should implement a periodic review of all user access to systems and confirm this remains appropriate for the individuals role.

Management Response

We have now deleted these accounts.

We will consider your suggestion to undertake a reconciliation of current employees to the Integra users, but at the present time this would be a huge task to undertake for the team. The FSSG team have said however, that there is potential for them to carry out this task once phases 2 and 3 have gone live and the resource is available.

Owner

Head of Strategic Finance

Deadline

March 2018

Medium priority

7. System Mapping Changes

Our testing of the mapping process from OEO to Integra identified that the same individual can make changes to the OEO / Integra mappings table within GL Link /AIM and apply them to the live system without requirement of review or approval.

Furthermore, it is not possible to confirm which user made changes to mapping and there are no periodic reviews of mapping changes to confirm appropriateness.

Recommendation

The Council should review whether approval of mapping changes should be sought prior to being applied to the live system or a periodic retrospective review to confirm any changes made were appropriate.

Management Response

The monthly reconciliations on budget monitoring and balance sheet were a back up to the mapping from OEO to Integra, during implementation to ensure that if there were any missing transactions then this monthly check would allow finance teams / services to check and challenge the actuals that had been posted. This recommendation will no longer be relevant once all phases have been completed.

This recommendation will no longer be relevant once all phases have been completed.

Low priority

8. Password Configuration

Password configuration is not aligned to good practice across the Council's IT systems, specifically there is no requirement for passwords to be changed periodically and multiple incorrect logins will not cause accounts to be locked.

Recommendation

The Council should consider updating its password configuration of IT systems to align with best practice.

Management Response

The password configuration is an issue within the Integra finance system and is currently being investigated by Capita Integration Business Solutions (CIBS). Officers will continue to investigate this issue to ensure a solution is identified.

Owner

Head of Strategic Finance

Deadline

March 2018

Low priority

9. Journal Controls

There are no application level controls which will ensure segregation of duties in the Journal process, meaning that any employee who has ledger access can post any journals without further authorisation. This means there is no review to ensure that journals posted are appropriate.

This diminution of control has been previously reported and accepted by the Audit Committee in 2014.

Recommendation

Whilst it is acknowledged that the Council uses its budgetary control to gain assurance over the journals posted the new ledger provides them with the opportunity to review access and whether there needs to be an additional review of journals with certain characteristics.

Management Response

This change in control was a deliberate choice from 2013/14 on cost grounds, i.e. we accept the diminution of controls of not having a second officer authorise journals separately to the preparer. This was reported to the Audit Committee in September 2014, who endorsed this approach. We recommend no change in processes is adopted.

Follow-up of prior year recommendations

In the previous year, we raised six recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has not implemented all of the recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	1	0	**1**
Medium	3	2	**1**
Low	2	1	**1**
Total	**6**	**3**	**3**

High priority

1. Housing Benefits Reconciliation (Private Housing)

Housing benefits transactions are posted to the OEO ledger system by Capita staff reflecting the source data from the Academy Housing Benefits system. Testing found that regular documented reconciliations are not performed by Authority officers to ensure that the ledger reflects the source data from Academy. Whilst officers do carry out adhoc reconciliations utilising a spreadsheet provided by Capita colleagues it was noted that this spreadsheet does not tie back to the data held on the Academy system due to a number of adjustments that are subsequently posted. Whilst satisfied that this has not resulted in a material misstatement, and any differences between the two systems may well be justified, without a reconciliation process we are unable to verify the reasonableness of any adjustments posted.

Recommendation

Roles and responsibilities with regards to the performance of reconciliations should be clarified between Capita and the Authority's own team. This should include an agreed timeframe and method for recording and adjusting transactions that might impact upon the reconciliation.

Management Response

The Revenue and Benefits service is managed by Capita on behalf of the Council. Their duties include submitting monthly reconciliations for the Academy system to the Council, which are then checked to the financial ledger by Finance Business Partner. Whilst there is no evidence of significant discrepancies, officers will work with Capita to clarify the roles and responsibilities and ensure that the process is complete and formalised for all stages of reconciliation (including submission of source data to support the monthly reconciliations), without duplicating the effort of the either party.

Responsible Officer

Assistant Director –Finance Business Partner (Resources)

Due Date

December 2016

KPMG's 2017 assessment

Partially implemented

We have only been able to test one reconciliation during the year and one at year end. Therefore, due to the limited reconciliations done this is not designed and implemented effectively.

Management's 2017 response

Agreed. This recommendation was received in September 2016, and since then we have completed reconciliations for quarter 3 and the year-end. From 2017/18 we are reconciling monthly, which should fully address this recommendation.

Medium priority

2. IT System Assurance

The Authority has a number of IT systems in place that have an impact upon the financial information reported. These systems include HR, payroll, housing benefits, council tax, NNDR and fixed assets.

The Authority has a number of operating models in place, depending upon the operational area in question. For instance, some services are wholly outsourced, some areas the service might be outsourced but the related IT system is managed internally, as well as other variations in operation.

Our audit work around IT systems in the year found that for a number of wholly outsourced systems a business decision had been taken not to commission ISAE3402 reports to offer assurances with regards to the IT control environment.

We also noted that for the systems we were to place reliance upon these had not been included in the year as part of the scope of internal audit's work.

As a result of all of the above, we noted that the Council does not have a clearly documented outline of which systems exist, who manages them and has overall service control, and how they gain assurance that the data inputs and outputs from the system are reliable.

Without this clear outline there is a risk that weaknesses in control and operations are not identified and/or managed appropriately leading to a reduction in data integrity.

Recommendation

The Authority should seek to develop an IT assurance framework that clearly highlights the ownership of a system, responsible officers and how assurance is gained regarding the integrity of the data produced.

Management Response

Corporately managed systems, which make up the majority of SCC's systems catalogue, are known and documented, though we agree that we could improve this and in that respect we have already started work aimed at developing a more complete enterprise architecture to include business systems wherever they are managed currently.

In addition, the council has recently approved a SCC-wide project to rationalise applications and put in place new governance that will enable a corporate view of systems to be held and managed, in part to prevent historic instances of future needless duplication.

As a part of our objective of having a complete enterprise architecture documented, we will adopt a consistent approach across all parts of the authority, to documenting systems and ensuring the appropriate assurance, controls and governance are in place. This will take the form initially of a SCC systems catalogue but will become a core resource to feed into work on the EA as that develops.

Given the current federated approach, collating this information and putting in place effective governance is likely to require input from many different areas, hence the timescales identified.

Responsible Officer

Assistant Director –ICT Service Delivery

Original Deadline

March 2017 (for a complete SCC systems catalogue, a review of systems in terms of controls, put in place SCC governance of ICT systems)

KPMG's 2017 assessment

Partially implemented

The Council has developed an Application catalogue which provides details of all applications and the responsible owner.

However, there is still no formal IT assurance framework in place which details how assurance is gained.

Management's 2017 response

The Council has developed an Application catalogue which provides details of all applications and the responsible owner. However, there is still no formal IT assurance framework in place which details how assurance is gained. BCIS are exploring options for commissioning ISAE 3402 reports on all system managed or partially managed by outsource providers.

Responsible Officer

Mike Weston

Delivery Date

31 December 2017

Low priority

3. IT Strategy

We noted that the Council does not currently have an IT strategy in place.

Without an IT strategy there is a risk that systems are weakened and the full benefits from systems that are used are not utilised. There is also a risk that systems are developed on an ad hoc basis that do not fit into a wider plan. We understand that the Council has recently drafted a Digital Strategy from which an IT strategy will be developed.

Recommendation

The Council should prioritise the development of an IT strategy in order to mitigate the risks identified above.

Management Response

The council has been developing a digital strategy (DS), which would set out a range of objectives that would then in turn lead to the development of new IT and IT Systems Strategies. Development of the DS was delayed due to limited engagement at various times but the principles agreed by the DS Board have been incorporated into key programmes and decisions on IT strategic plans.

There has been a Corporate Systems Strategy in place for some time, expected to be replaced or renewed as a result of the DS, but which recognises the federated approach outlined in the comments for Item 4. Individual portfolios have their own IT Systems Strategies, with limited visibility at a corporate level historically. Portfolios have previously indicated a wish to change this and the action above around a corporate governance for IT systems will enable us to address this in a more coherent and consistent manner.

In relation to the recommendation to require our partners to hold and maintain ISA3402 for relevant systems, we will review that as part of the action below for existing systems, and also consider whether we should ensure we include it as a standard requirement for all future relevant systems procurement decisions.

Action: Following the approval of the Digital Strategy (expected early Autumn 2016), develop an overarching SCC IT Strategy, encompassing also an IT Systems Strategy. Use the governance identified in Item 4 to provide an overview of the implementation of the IT Systems Strategy.

Responsible Officer

Assistant Director –ICT Service Delivery

Original Deadline

January 2017 (assuming DS is approved in the timescales expected

KPMG's 2017 assessment

Partially implemented

A draft IT Strategy is in development and is due to be published to Members at the end of September.

Management's 2017 response

A draft IT Strategy is in development and is due to be published to Members at the end of September.

Responsible Officer

Mike Weston

Delivery Date

30 September 2017

Appendix 3

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit and Standards Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

The following table sets out the significant audit differences identified by our audit of Sheffield City Council's financial statements for the year ended 31 March 2017.

Table 1: Adjusted audit differences (£'000)

No.	Adjustments made		Basis of audit difference
1	Dr Children, Young People and Families Gross Income £193,020	Dr Children, Young People and Families Gross Expenditure £193,020	Children, Young People and Families income and expenditure had both been overstated by £193m due to a formula error.
2	Dr CIES £118,000	Cr CIES £118,000	It was noted that the new disclosure had been restated to include internal recharges, this was in line with initial guidance received from CIPFA and treatment made across the sector. However, this treatment did not comply with the Code's definition of income and expenditure where internal recharges do not meet the definitions as they are not an inflow/outflow of economic benefit, therefore, these were now excluded.
3	Dr Provision £13,000	Cr Creditors £13,000	On review of the provisions it was noted that the provision in relation to a Waste Management Contract had been treated inconsistently within the accounts; part of the transaction had been treated as provision and the other part as a creditor. A review of the transaction determined that this should be classified as a creditor within the accounts and the Council as made this adjustment within Non Current Liabilities.

Audit differences

Additional disclosures

The following table sets out the additional disclosures required identified by our audit of the financial statements for the year ended 31 March 2017.

Table 2: Adjusted disclosures

No.	Area of Accounts	Amendments
1	Post Balance Sheet Event	A Post balance sheet disclosure is required to acknowledge the results of the Council's testing of its cladding following the incident at Grenfell Tower.
2	Post Balance Sheet Event	Since signing the accounts settlement agreements have been reached with regarded disputed contracts, this has led to an £18m payment. This should be disclosed as a Post Balance Sheet Event.
3	Trading Operations	The note to the accounts did not tie through to the general ledger and has been updated to reflect this.
4	Officers' Remuneration	Bandings were incorrect as data used for salary of Teachers from CAPITA was found to be incorrect when tested back to source data. This Note has been restated using new data from CAPITA and is now fairly presented. Individuals that previously had incorrect salaries in the CAPITA data are now correct.
5	Prior Year Debtors	Our testing identified that in the prior year £7.4m had been incorrectly classified as Debtors with Central Government bodies and this has been reclassified to debtors with other entities and individuals.
6	Community Assets	We queried the correct classification of community assets and identified one asset that had no charitable status or restrictions on disposal so did not meet the definition. Hence the asset was required to be reclassified from community assets to operational land and buildings, the total adjustment was £6,9 m.
7	Audit Fee Disclosure	The note to the accounts did not agree to the Council's supporting working paper and had excluded the Subcontractors Controls Assurance fee.

Unadjusted audit differences

We have not identified any unadjusted audit differences.

Materiality and reporting of audit differences

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.

[We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in April 2017.

Materiality for the Authority's accounts was set at £22 million which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit and Standards 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 and Standards Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* 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 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 £1 million for the Authority.

Where 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.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit and Standards Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Sheffield City Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Sheffield City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £186,998 plus VAT *(£186,998 in 2016/17)*, which is the same as the prior year.

An additional fee of £3,000 plus VAT was agreed with management and the PSAA due to additional IT systems audit work that was required to be undertaken in year. This work was required with regards to IT systems where we were unable to rely upon any assurance from other sources. Work was carried out over the general IT controls in place across these systems to give us assurance that data produced from the systems was both secure and could be relied upon for the purposes of our audit.

Further additional fee of £6,000 plus VAT was agreed with management and the PSAA in relation to IT controls work to review the data migration and the controls in the new finance system. This was to enable us to place assurance that data produced from the systems had transferred correctly and was both secure and could be relied upon for the purposes of our audit.

However, we propose to seek additional fee due to delays in receipt of an adequate impairment review performed by the Council and delays with the receipt of a complete Journal listing, currently these items have not yet been received by KPMG in order for us to finalise our opinion. The amount of additional fee is subject to agreement once work has been completed.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £19,840 plus VAT. Planned fees for other grants and claims which do not fall under the PSAA arrangements is £12,000 plus VAT (£12,000 in 2016/17), see further details below.

PSAA fee table

Component of audit	2016/17 *(actual fee)* £	2015/16 *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee set in [2014/15]	186,998	186,998
Additional IT work (note 1)	9,000	6,000
Subtotal	**195,995**	**192,995**
Housing benefits (BEN01) certification work		
PSAA scale fee set	19,840	19,840
Total fee for the Authority agreed by the PSAA	**215,835**	**212,835**

All fees are quoted exclusive of VAT.

Note 1: Additional IT work

Additional fee was due in the year due to additional IT controls work required around the implementation of the new Integra finance system. Furthermore, as in the previous period, due to the absence of service auditor reports from some outsourced providers a small additional fee for IT work around individual feeder systems (e.g. Housing Benefits) was also incurred.

Non-PSAA fees

Component of audit	2016/17 *(actual fee)* £	2015/16 *(actual fee)* £
Grant Certification Work		
Pooling Capital Receipt Return	2,750	2,750
Teachers Pension's Agency Return	3,250	3,250
SFA Subcontractor Controls Assurance	6,000	6,000
Total fee for the Authority outside of the PSAA contract	**12,000**	**12,000**

All fees are quoted exclusive of VAT.

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Audit and Standards

Committee Report

Report of:	Executive Director of Resources
Date:	14 September 2017
Subject:	Approach to budget and business planning
Author of Report:	James Henderson, Director of Policy, Performance and Communications

Summary: This report provides members of the Audit Committee with an overview of the Council's current approach to budget and business planning, and sets out the proposed approach to the next planning cycle.

Recommendations: It is recommended that the Audit Committee:

a. Note the Council's approach to budget and business planning described in this report
b. Comment on the proposed approach for the next planning cycle

Background Papers: None

Category of Report: Open

Statutory and Council Policy Checklist

Financial Implications
NO
Legal Implications
NO
Equality of Opportunity Implications
NO
Tackling Health Inequalities Implications
NO
Human rights Implications
NO:
Environmental and Sustainability implications
NO
Economic impact
NO
Community Safety implications
NO
Human Resources implications
NO
Property implications
NO
Area(s) affected
None
Relevant Cabinet Portfolio Member
Councillor Olivia Blake, Cabinet Member for Finance
Is the item a matter which is reserved for approval by the City Council?
NO
Press release
NO

Purpose

1. This report provides members of the Audit Committee with an overview of the Council's current approach to budget and business planning, and sets out the proposed approach to the next planning cycle.

Background

2. The Council is required by law to set a balanced budget for the forthcoming year; following a recommendation of Cabinet, this is approved by a meeting of Full Council that takes place in the March before the start of the new financial year.

3. As members of the committee will be aware the financial position of the Council remains challenging, caused by a number of years of reductions in the grants provided by central government, and increasing demand for the services we provide. This has meant that Members have had to make difficult decisions to reduce the level of funding allocated to some services. At the same time, it is also important that the organisation invests strategically in those initiatives that will support its continued sustainability and effectiveness in the future. It is important that the processes of budget and business planning are undertaken in an integrated and prioritised way, in order that the imperative of setting a balanced budget supports (rather than hinders) longer terms planning and decision making.

4. The planning process, both for the immediate year ahead, and in the longer term, has therefore assumed an even greater significance for the Council, necessitating a careful and deliberate approach that is based on making decisions aligned to the overall priorities set by the administration.

5. The Council's approach to budget and business planning has evolved in response to the changing threats and opportunities that the organisation faces. The Audit Committee has previously been made aware of the outcomes-based methodology that the council has used. Although now described in slightly different terms, the broad principles remain. These can be summarised as follows:

    a. Establish the overall broad outcomes that the organisation wishes to achieve over a multi-year time period (usually 3-5 years)
    b. Within each outcome area, identify the key metrics of success, and the milestones and objectives that will contribute to achieving successfully the overall outcome
    c. Identify the enabling features that need to be in place to deliver the above – this will include financial resources, workforce, technology and systems, partnerships etc. In parallel, develop and refine a clear

understanding of the key issues facing the Council that the plan needs to be able to respond to (e.g. the financial position, as described in the Medium Term Financial Analysis)

d. Individual services develop plans based on the contributions that they can make to the overall organisational outcomes, as well as identifying specific risks, opportunities or pressures for their areas. These should be aggregated and considered as part of a wider plan for each outcome, allowing potentially difficult and complex prioritisation decisions to be taken by Members.
e. Based on all of the above, budget proposals developed for consideration by Members in line with the overall plan, taking into account specific pressures.

6. Ideally, savings proposals should focus on those areas of the council's business that have least impact on delivering the outcomes defined at a. above. However, the extremely challenging nature of the financial position means that this is not always possible. Notwithstanding this, we seek to avoid putting forward proposals to Members that would have a negative impact on the longer term ambitions of the Council.

7. Similarly, ideally, budget planning should take place over a timescale commensurate with the achievement of the outcomes. In practice this has proved difficult to achieve because of the scale of the cuts that the organisation has had to make, and because of the lack of certainty from Government about the year on year reductions.

Current Position

8. The Council is due to embark upon a new planning cycle with the expiry of the current Corporate Plan in 2018. This will redefine the overall ambitions of the organisation, and will provide the basis for planning for the period ahead.

9. The precise approach to developing a new corporate plan is yet to be determined, but inevitably it will need to focus on Member priorities within the three overarching domains of the Council's work in the city – economy; housing; and health and care (including both adults' and children's). These are all areas where there is either significant opportunity or it is known that there will need to be a change in focus to respond to changing circumstances (particularly demand increases in social care services). It will also need to identify any known issues which will need to be resolved over its lifespan.

10. The new planning approach will also need to clearly identify where the major areas for change are going to be, and what these will mean financially (savings expected and investment required), for the workforce (what skills and

capabilities will our staff need), and for our underpinning technology and systems. Critically, it will also seek to set out how this will improve outcomes for the people of Sheffield and the experience they have of our services.

11. Once the core change areas have been identified – and we would expect that there should be no more than 15-20 of these – then our budget and other plans for future years should flow directly from them. As ever, it will remain important that, in line with our legal duties, we continue to consult with the public on our plans and proposals, and that we properly and fully consider any equality implications. This will allow Members to continue to make well evidenced and well informed decisions and ensure that Sheffield people continue to receive high quality public services.

12. It will be important that progress on the plan is properly monitored and reported, so that new emerging issues can be identified, and any slippage rectified. Reporting will be to Executive Management Team and Cabinet.

13. The approach described above will not negate the likelihood of extremely difficult decisions having to be made over the next few years. But, if properly implemented, it will enable the organisation to be confident that the decisions that it is taking are in support of the agreed long term ambitions.

Recommendations

14. It is recommended that the Audit Committee:
    a. Note the Council's approach to budget and business planning described in this report
    b. Comment on the proposed approach for the next planning cycle

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Audit and Standards Committee Report

REPORT OF	**Senior Finance Manager (Internal Audit)**	**DATE** 14/9/2017

SUBJECT Internal Audit Annual Report 2016/17

SUMMARY The purpose of this annual Internal Audit report to Members is to highlight the work that has been undertaken by Internal Audit during the year and supports the Council's Annual Governance Statement (AGS).

RECOMMENDATIONS

That the Audit and Standards Committee notes the content of the report and the opinion of the Chief Audit Executive (Senior Finance Manager).

FINANCIAL IMPLICATIONS	**No**	**PARAGRAPHS**
CLEARED BY	**K Inman**	

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS	**Kayleigh Inman**	**TEL NO. 273 4435**

CATEGORY OF REPORT

Open

Statutory and Council Policy Checklist

Financial implications
~~YES~~/NO Cleared by: K Inman
Legal implications
~~YES~~/NO
Equality of Opportunity implications
~~YES~~/NO
Tackling Health Inequalities implications
~~YES~~/NO
Human rights implications
~~YES~~/NO
Environmental and Sustainability implications
~~YES~~/NO
Economic impact
~~YES~~/NO
Community safety implications
~~YES~~/NO
Human resources implications
~~YES~~/NO
Property implications
~~YES~~/NO
Area(s) affected
Relevant Scrutiny Committee if decision called in
Not applicable
Is the item a matter which is reserved for approval by the City Council? ~~YES~~/NO
Press release
~~YES~~/NO

REPORT TO SHEFFIELD CITY COUNCIL AUDIT AND STANDARDS COMMITTEE
14th September 2017

Purpose of the Report

1. The purpose of this annual report to Members is to highlight the work that has been undertaken by Internal Audit during the year and supports the Council's Annual Governance Statement (AGS). The report provides a review of the performance of Internal Audit for the year 2016/17 and gives an opinion on the adequacy of the Council's system of internal control.

Introduction

2. It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that an annual report is produced on the work undertaken by the Internal Audit section. This report has been prepared by the Council's Senior Finance Manager (Internal Audit).

3. It is not the intention of this report to give a detailed summary of every audit that has been undertaken during the previous year, rather to give a broad review of the control arrangements.

4. The Executive Directors are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Services and Internal Audit assesses the adequacy of these arrangements. Internal Audit provides analyses, appraisals, recommendations, and advice concerning the activities reviewed.

Executive Summary of Audit Opinion

5. From the work undertaken by Internal Audit during the year (2016/17), as Senior Finance Manager, I am satisfied that the core systems include control arrangements which are currently adequate to allow the council to conduct its business appropriately.

6. The Council's Annual Governance Statement (AGS) previously circulated to the Audit and Standards Committee (July 2017) includes no areas of significant control weakness.

7. Internal Audit has investigated or assisted service managers to investigate other allegations of irregularity and associated disciplinary procedures throughout council services (refer to para 44-45 for further details).

8. Internal Audit carried out planned pro-active initiatives in areas of perceived high fraud risk to seek assurance that the selected processes contained robust counter fraud controls and made recommendations where vulnerability was identified.

9. The internal audit service co-ordinated the data review of data matches received from the Cabinet Office as part of the biennial National Fraud Initiative (NFI).

10. A detailed annual report on fraud and investigations was presented to the Audit and Standards Committee in July 2017.

11. A total of 14 audit assignments (compared to 13 for 2015/16) were given an audit opinion of high risk of failing to deliver objectives, and these have been reported to the Audit and Standards Committee. These audits will/have been subject to follow-up reviews to assess progress implementing agreed recommendations, and the outcomes of follow-up work are also reported to the Audit and Standards Committee via the high opinion recommendation tracker.

12. From the routine planned internal audit work undertaken and reported upon during 2016/17, management's response to control issues arising from individual reviews has been very positive overall, with actions to further enhance controls being agreed and formally accepted.

13. Implementation of agreed recommendations has generally improved during 2016/17. Follow-up work undertaken as part of progress monitoring for the Audit and Standards Committee highlighted that only 1% of recommendations followed up at July 2016 were still outstanding.

14. Assurance has been taken from the certification of internal control completed by Directors of Service under the AGS arrangements. Legal Services co-ordinated the compilation of the AGS on behalf of the Council whilst ensuring that responsibility for items included within the statement lies with the senior management of the Council.

15. As the Senior Finance Manager (Internal Audit) I am not aware of any other significant control weaknesses that have not been included within the Council's Annual Governance Statement.

Legislation Surrounding Internal Audit

16. Internal Audit is an independent appraisal function within the Council. The Internal Audit section is an integral part of the Finance Service, which contributes to satisfying the Executive Director – Resources' statutory responsibilities. There are two principal pieces of legislation that impact upon Internal Audit in local authorities, these are:

- Section 151 of the Local Government Act 1972 requires that "every local authority … make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs". The Council has designated the Executive Director - Resources as the Responsible Financial Officer in relation to this section and one of the ways he exercises responsibility for financial administration is through the work of Internal Audit.

- Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2006 (last updated 2011), which state in respect of Internal Audit that:

  “A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices”.

<u>Professional Requirements</u>

17. In addition to legislation, Internal Audit is governed by policies, procedures, rules and regulations established by Sheffield City Council (the council). These include the Council’s constitution, financial regulations, standing orders, and conditions of service, codes of conduct for members and officers and other procedural rules.

18. The Internal Audit section also has to meet the standards laid down by professional bodies such as the CIPFA and Chartered Institute of Internal Auditors (CIIA).

19. The PSIAS came into force on 1 April 2013, and replaced the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom*, 2006. The PSIAS include key principles that public sector internal audit functions must follow and cover a range of areas including governance, performance standards and reporting requirements. As part of the standards, Internal Audit is required to undertake annual self-assessments.

20. One area where Internal Audit differs from the PSIAS is that there is an expectation that the ‘chief audit executive’ (CAE) will report directly to a member of the management board (EMT).

21. At present the Senior Finance Manager (SFM) reports to the Head of Finance, who reports to the Director of Finance and Commercial Services, who subsequently reports to the S151 Officer (Executive Director – Resources). This point has previously been brought to the attention of the Audit and Standards Committee. The SFM does have unrestricted access to other senior officers, including the Chief Executive and to the members of the Audit and Standards Committee, where required.

22. The PSIAS also introduced a requirement for an external assessment of an organisation’s Internal Audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. We have undertaken ‘peer reviews’ within the core cities chief auditors group for the independent external assessments, and Leeds City Council Auditors conducted our PSIAS ‘peer review’ for 2016/17. The audit report and opinion was presented to the Audit and Standards Committee in April 2017, along with the revised Internal Audit Charter.

23. The opinion provided was that we ‘generally conform’ which means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. This is the highest assessment opinion that can be given.

24. Of the 349 questions within the PSIAS Local Government Application Note, the Internal Audit Service fully conforms in 311 areas, partially conforms in 28 areas and does not conform in 10 areas. In common with other core cities assessments, most of the areas of non-conformance are generally acceptable practice.

25. The Quality Assurance and Improvement Programme is included at Appendix A, which includes details in relation to both internal and external assessments.

Review by External Audit

26. External Audit continues to place some reliance on the work of Internal Audit for the purpose of certifying the Council’s published financial statement. External audit assesses the adequacy of any work undertaken by Internal Audit on which they place reliance.

27. Internal Audit have quarterly ‘liaison’ meetings with external audit representatives to discuss and share work programmes, progress of work and key findings and recommendations.

Internal Audit Resources

28. Internal Audit had an agreed budget for 2016/17 as outlined in the table below, which also summarises the end of year budget position.

2016/17	£	£	£
	Outturn	Budget	Variance
Total	494,318	524,900	(30,582)

29. The underspend for the financial year was a result of a number of officers acting up into temporary posts to support the implementation of a new finance system. Temporary vacancies are notoriously difficult to recruit to, and so agency appointments were engaged (see para 34).

30. Comparative statistics collated from the core cities’ local authorities in the past, showed that for the relative size of the council, the cost of the audit function in Sheffield is one of the lowest.

31. The core cities comparison for 16/17 has yet to be finalised and these will be reported to the Audit and Standards Committee members when they are released.

Structure

32. The Internal Audit structure has reduced significantly over the last 5 years to its current level of 10.98 FTE. This is considered to be the minimum level the authority can operate with in order to maintain an ‘adequate service’.

33. The current structure of the section is shown in Appendix B to this report. It should be noted that within the third quarter of 2016/17, a Finance Officer went on maternity leave (0.80 FTE).

34. To help alleviate the pressure on the delivery of the audit plan an agency member of staff was appointed for 10 months (full time from April until July 2016 and then part time from Sept until March 2017). Their main focus was to help deliver the main financial systems audits. In addition, the service was assigned an additional CIPFA trainee for the period August until December to assist with maternity cover.

35. The Internal Audit section strives to maintain high professional standards by employing and training appropriately qualified staff who are members of or actively studying for professional qualifications. The majority of internal audit staff are either professionally qualified, or are actively studying for relevant qualifications. The section includes members of the Chartered Institute of Public Finance and Accountancy (CIPFA), Chartered Institute of Management Accountants (CIMA), Association of Chartered Certified Accountants (ACCA), Chartered Institute of Internal Auditors (CIIA), and Association of Accounting Technicians (AAT).

Planning Processes and Performance Monitoring

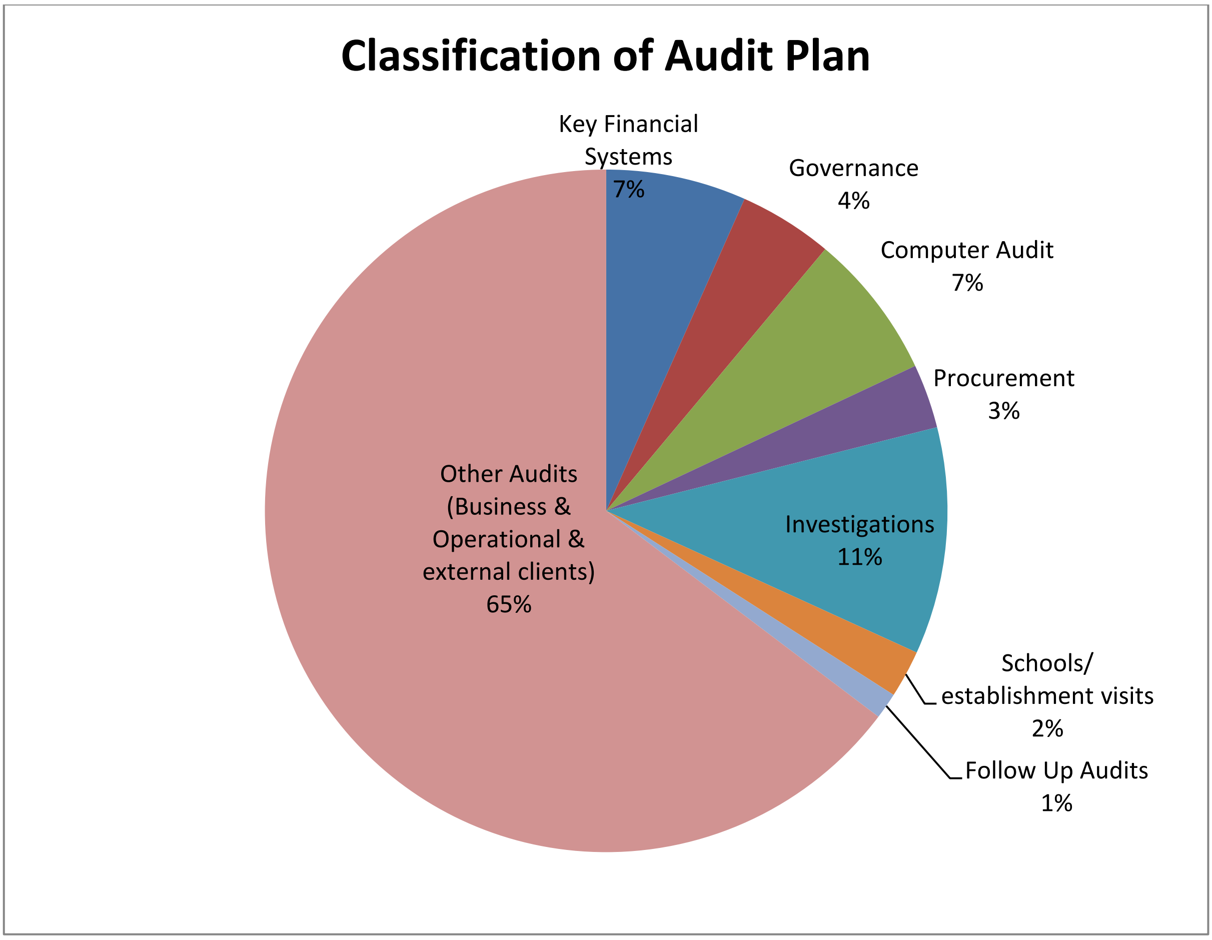
36. A report is submitted to the Audit and Standards Committee in April each year to outline how the annual plan is devised. The strategy for Internal Audit work is to focus on areas of high-risk activity in order to provide assurance that risk and internal control systems are being properly managed by Directors in service areas.

37. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of Internal Audit.

38. The audit plan is discussed with senior managers and ultimately agreed with the Executive Director - Resources.

39. It is anticipated that with a reduction in resources and an increase in demand in some service areas, that the risks faced by the Council in providing its services are likely to rise over the next few years. The plan is therefore subject to review and amendment during the year to allow the inclusion of any emerging relevant risk issues.

40. The 2016/17 original plan contained 139 reviews. At the mid-year point 23 reviews were deferred or deleted due to timing issues and/or other priority reviews being identified within portfolios. A further 17 new areas were added to the original plan during the year. The chart below illustrates the type and spread of audit work for 16/17.



41. The Internal Audit service uses a risk based approach to audit; this is now used almost exclusively for our reviews. This requires closer working with management to identify the risks inherent in the council's activities and then to test the controls that are in place to mitigate these.

42. Internal Audit moved to a 15 month model to measure the completion of the audit plan. This model assumes the completion of some audits in quarter 1 of the following year to allow for full coverage of the year being tested. The audit plan delivery for 2016/17 is as follows:

Audit Area	Original plan	Revised plan	Completed
Corporate	5	5	4
CYPF	33	34	33
Place	22	20	16
Communities	32	29	24
Resources & ICT	33	29	23
Main Financial Systems	7	7	7
Benefits	1	1	1
Pro-active Work & Reviews	6	8	9
Total (Planned Reviews)	**139**	**133**	**117**
Investigations			16
Total			**133**

43. A total of 117 reviews were completed out of a revised plan of 133 or 88%. Some reviews were deferred/deleted due to issues that only became apparent towards the end of the year after the plan had been agreed.

44. In addition, Internal Audit conducted 16 re-active investigations and assisted managers with a further 21 re-active investigations. These cases covered all areas of the Council from these false claims for services/benefits (blue badge applications) to theft and falsification of mileage claims. 10 of these cases related to the theft of, or from parking machines. This led to a number of dismissals and other appropriate sanctions. The Police were notified and involved where appropriate.

45. Internal Audit also co-ordinated the review and investigation of the data matches received from the Cabinet Office as part of the statutory biennial NFI (National Fraud Initiative). For 2016/17, the NFI has returned 14,244 data matches for the council, including 4,466 more significant recommended matches. So far the Council has managed to review 4,802 cases from the total data matches and closed these off.

46. As the Senior Finance Manager, I am satisfied that the coverage undertaken of the Council's activity by Internal Audit in the past year has been sufficient for me to be able to give an overall opinion on the Council's internal control system/environment.

Audit Reporting

47. Internal Audit reports are typically made up of a number of findings and recommendations. Dependent upon the nature of these findings, the recommendations are given one of four categories – critical, high, medium or efficiency/effectiveness.

48. All Internal Audit reports are then given an overall opinion as to the likelihood of the service/system under review being able to meet its objectives. There are four categories of opinion. These are:

- The risk of the activity not achieving its objectives is **high.**
  Internal Audit's overall opinion is that controls to manage the operational risks are not present or ineffective.
- The risk of the activity not achieving its objectives is **medium – high.**
  Internal Audit's overall opinion is that controls to manage the operational risks are inadequate or operating poorly.
- The risk of the activity not achieving its objectives is **medium – low.**
  Internal Audit's overall opinion is that the controls to manage the operational risks are mostly in place but there are some weaknesses in their operation.
- The risk of the activity not achieving its objectives is **low.**
  Internal Audit's overall opinion is that controls to manage the operational risks are in place and operating effectively.

49. The opinions relate to the system at the time of the review and do not take into account the effects of the agreed recommendations. Internal Audit follow-up on the recommendations made, in a process that increases in relation to the significance of the opinion.

50. To give an indication of the risk profile, for audits carried out following the standard risk based approach, results were:

High	14 reports
Medium High	28 reports
Medium Low	21 reports
Low	5 reports

51. In addition, Internal Audit undertook 23 pieces of productive work across the council that did not generate an opinion therefore do not appear in the breakdown above – for example grant work. Furthermore, 26 pieces of follow-up work were completed during 2016/17, which did not generate a revised audit opinion.

52. A summary of the key actions arising from the medium-high opinion audit reports are included in appendix D, as requested by members last year.

53. It should be noted that although the vast majority of recommendations made by Internal Audit are agreed by management, there are occasions where recommendations are not agreed. In such instances Internal Audit outline the potential risks. A judgement is drawn by management in Internal Audit and where the risk is significant this will always be escalated to senior management to ensure that they are aware of the decisions made. Ultimately non-agreement of recommendations can be reported to the Audit and Standards Committee to enable managers to justify their actions.

Reviewing the Service

54. Internal Audit is constantly striving to improve the service that it provides to the council. Listed below are the processes that the service undertakes to encourage improvement:

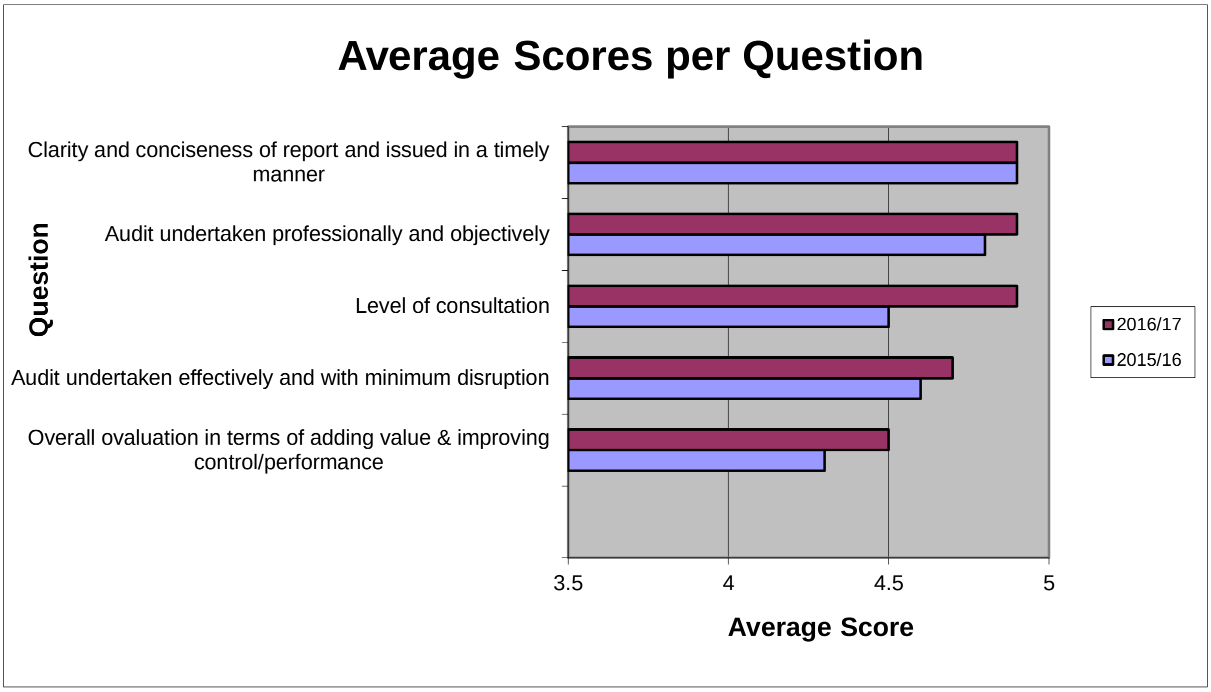
- Internal Audit work on the main financial systems is subject to some level of examination by the council's external auditors. They need to be assured that the service meets the standards required in order that they may place reliance on the work of Internal Audit for the final accounts audit.
- Internal Audit has a number of performance indicators which it uses to improve performance. The key targets are highlighted within the annual finance service plan and are shown below.
- All audit reports are issued with a standard questionnaire which requests client feedback on a number of aspects of the audit process including usefulness and conduct of the audit (see graph at para 57). The questions are analysed and used as part of the core cities comparisons.

55. The achievement of the performance targets is shown in the table below:

	2016/17 Target	2016/17 Achievement	2015/16 Achievement
PERFORMANCE TARGETS			
▪ Progress work to agreed work programme	90%	88%	88%
▪ Conduct a minimum of 4 pro-active fraud reviews	4	4	5
▪ Quality measures – average >85% scoring good or better on customer questionnaire (for details see graph overleaf).	85%	100%	100%

56. The figures above show we have sustained our 100% positive customer feedback questionnaires (25 questionnaires were returned in 2016/17).

57. Customer satisfaction questionnaires scores are seen to be excellent. Any low scores are followed up with the individual service managers and action is taken where appropriate to constantly strive to improve these. A blank copy of the full audit questionnaire is shown at Appendix C.



58. The individual scores for questions when compared with the previous year are higher and show improvements made by the section. In addition, the overall score is above target and Internal Audit will strive to maintain this position.

59. Internal Audit managers review the performance indicators on a quarterly basis and determine what action can be taken. The performance indicators are also discussed with all audit staff at service planning meetings, to help identify ways of improving service delivery and performance targets. They are also discussed during the Performance Development Reviews (PDR's) with individuals.

<u>Chief Audit Executive's (Senior Finance Manager's) Opinion</u>

60. The Council has a system of internal control designed to manage risk to a reasonable level. Internal controls cannot eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

61. With an organisation as large and complex as the Council, some controls will inevitably fail or some risk will materialise which could not reasonably be foreseen.

62. From the work undertaken by Internal Audit during the year however, I am satisfied that the core systems include control arrangements which are adequate to allow the Council to conduct its business appropriately.

FINANCIAL IMPLICATIONS

63. There are no direct financial implications arising from the report.

EQUAL OPPORTUNITIES IMPLICATIONS

64. There are no equal opportunities implications arising from the report.

RECOMMENDATIONS

65. That the Audit and Standards Committee notes the content of the report and the opinion of the Senior Finance Manager.

Kayleigh Inman
Senior Finance Manager

APPENDIX A

Sheffield City Council
Internal Audit
Quality Assurance and Improvement Programme

Introduction

Internal Audits Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of the service that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS), definition of internal auditing and code of ethics;
- Operates in an efficient and effective manner;
- Is adding value and continually improving internal audits' operation.

The Senior Finance Manager, Internal Audit, is ultimately responsible for the QAIP, which covers all types of internal audit activities. The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least every 5 years.

Internal Assessments

Internal assessments are made up of both ongoing reviews and periodic reviews.

Ongoing Reviews

Ongoing assessments are conducted through:

- Supervision of each audit assignment
- Regular, documented review of working papers during assignments by appropriate internal audit staff;
- Review of procedures used for each assignment to ensure compliance with the applicable planning, fieldwork and reporting standards as outlined in the quality procedures manual;
- Feedback from customer surveys on individual assignments;
- Analysis of key KPI's established to improve internal audit effectiveness and efficiency;
- Review and approval of all high opinion draft and final reports by the Senior Finance Manager;
- Review and approval of all medium-high, medium-low and low opinion draft reports by the Finance Managers.

Periodic Reviews

Periodic assessments are designed to assess conformance with Internal Audit's Charter, the Standards, the Definition of Internal Auditing, the Code of Ethics and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. Period assessments will be conducted through:

- Quality audits undertaken on a scheduled basis for performance in accordance with Internal Audit's Quality Procedures Manual;
- Review of internal audit performance KPI's by the Audit Management Team on a quarterly basis;
- Quarterly performance reporting to the Director of Finance and Commercial Services and annual reporting to the Audit and Standards Committee;
- Annual benchmarking exercise with core city authorities on cost and productivity.
- Annual self-reviews of conformance with the Public Sector Internal Auditing Standards.

Any resultant action plans will be monitored by the Senior Finance Manager (Internal Audit) on a quarterly basis.

External Assessment

External assessments will appraise and express a judgement about Internal Audits' conformance with the standards, definition of internal auditing and include action for improvement, as appropriate.

An external assessment will be conducted every 5 years by a qualified, independent assessor from outside the council. The assessment will be in the form of a self-assessment with independent external validation. The format of the external assessment will be discussed with the Audit and Standards Committee.

Reporting

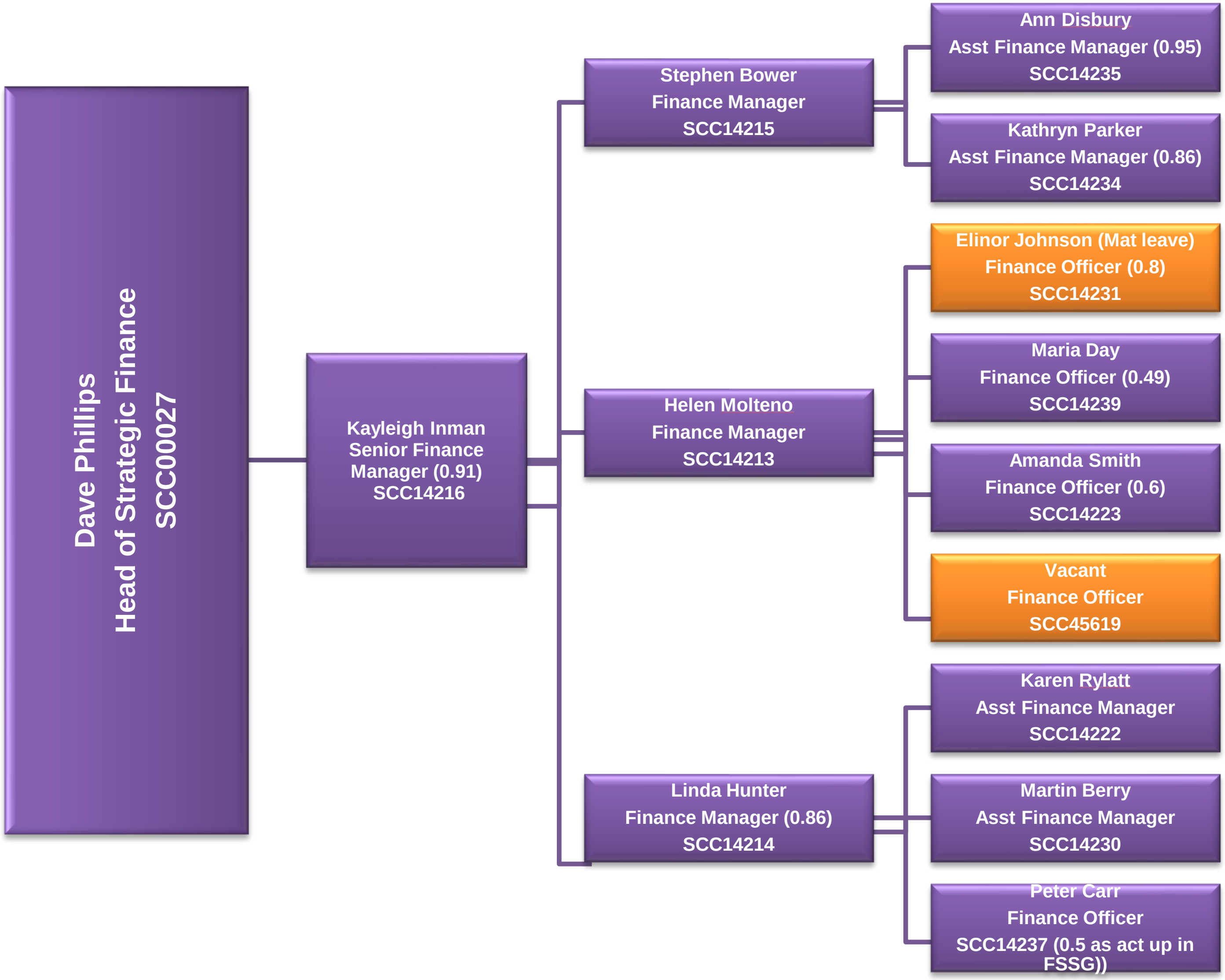
Internal assessments – reports on performance will be made to the Audit and Standards Committee on an annual basis.

External assessments – results of external assessments will be reported to the Audit and Standards Committee and Section 151 Officer at the earliest opportunity following receipt of the external assessors report. The external assessment report will be accompanied by an action plan in response to any significant findings and recommendations contained in the report.

Follow-up – the Senior Finance Manager, Internal Audit will implement appropriate follow-up actions to ensure that recommendations made in the report and actions plans developed are implemented in a reasonable timeframe.

Updated July 2017

Appendix B


Dave Phillips
Head of Strategic Finance
SCC00027
Kayleigh Inman
Senior Finance Manager (0.91)
SCC14216
Stephen Bower
Finance Manager
SCC14215
Helen Molteno
Finance Manager
SCC14213
Linda Hunter
Finance Manager (0.86)
SCC14214
Ann Disbury
Asst Finance Manager (0.95)
SCC14235
Kathryn Parker
Asst Finance Manager (0.86)
SCC14234
Elinor Johnson (Mat leave)
Finance Officer (0.8)
SCC14231
Maria Day
Finance Officer (0.49)
SCC14239
Amanda Smith
Finance Officer (0.6)
SCC14223
Vacant
Finance Officer
SCC45619
Karen Rylatt
Asst Finance Manager
SCC14222
Martin Berry
Asst Finance Manager
SCC14230
Peter Carr
Finance Officer
SCC14237 (0.5 as act up in FSSG))

APPENDIX C

INTERNAL AUDIT
POST AUDIT QUESTIONNAIRE

Audit:

Portfolio: Date of Issue:

Internal Audit is continuously looking at ways of improving the quality of service that we provide. Please could you complete this questionnaire to help us ensure that the service we provide is of the highest possible standard.

Evaluation

Please indicate a score of 1 - 5, with 1 being poor and 5 being good.

1.	Overall evaluation of the audit in terms of added value to your business area and improving control / performance.	☐
2.	The level of consultation during the audit.	☐
3.	The audit was carried out effectively with minimum disruption.	☐
4.	The auditors were professional, objective and worked well with your team.	☐
5.	The final report was clear, concise, addressed the key issues and was issued in a timely manner.	☐

Comments:

Form completed by:
Name: ______________________ Designation: ______________________

Signature: ______________________ Date: ______________________

Thank you for completing this questionnaire. Please return to:
Kayleigh Inman
Senior Finance Manager
Sheffield City Council
PO Box 1283
Town Hall
Sheffield S1 1UJ
Or Email to:Kayleigh.inman@sheffield.gov.uk

APPENDIX D

Summary of the key recommendations made in the medium-high opinion audit reports issued by Internal Audit during the 2016/17 financial year as requested by Audit and Standards Committee Members.

<u>City Wide Alarms</u>

High priority recommendations:

- Management to document what constitutes a 'service cost'
- Management to identify and calculate the service provision - including supply of equipment to registered social landlords and similar.
- Review the assumptions made in the Review of Charging for CWCA paper in light of the recent clarifying advice.
- Review and remodel the costs, charges and income target of the service.

<u>Sheltered Housing</u>

High priority recommendations:

- Implementation of real time monitoring
- Review of service charge

<u>Review and Reassessment in Adult Services and Learning Disabilities (LD)</u>

High priority recommendations:

- LD and Adults to consider increasing the review period over a 13 – 15 month period
- LD to consider options to reduce the backlog on reviews
- LD to improve their presence on the councils intranet; ensuring staff can be identified.

<u>Safeguarding in Sheffield Health and Social Trust (SHST)</u>

High priority recommendations:

- Management to ensure that there is a clearly named officer within SCC, who has safeguarding responsibilities and this to be included in the job description

<u>Social Care Accounts Services – Unspent Direct Payments Reclaimed</u>

High priority recommendations:

- Escalation policy and process of potential fraud/financial abuse
- Backlog of DP audits to be reviewed and addressed

Looked After Children (LAC) - Fostering

Executive summary

Controls to manage the operational risks were largely in place but further action is needed if the Fostering Service is to fully comply with its National Minimum Standards.

High priority recommendations:

- The Fostering Service Manager should update the Statement of Purpose annually, ensure that the Statement is reviewed and formally approved by Members and then published on the Intranet and the Council's external website.
- The budget and spend should be closely monitored towards the year-end.
- The 'Information about Payments to Foster Carers' document (which outlines the current payment rates) should be reviewed annually, submitted to Members/Lead Cabinet for approval and published on the Council's external website.
- The Fostering Service Manager should ensure that sundry debtor invoices are raised for overpayments of fostering fees and allowances, unless they are recoverable in the very short term.

Personalised Education Plans (PEP's)

Executive summary

The virtual school head (VSH) role has been a statutory responsibility since 2013. Since then the number of PEP's completed on time has increased from 30-93%. It should be noted that Internal Audit's opinion relates to an assessment of a random sample of 30 PEP's. It is acknowledged that the completion of these PEP's is the responsibility of the schools designated teacher and the child's social worker, however, the virtual school have agreed to take forward the recommendations contained within this report and therefore agreed actions and timeframes have been set with them. The virtual school will use this report to support further improvements in the quality of PEP's with schools designated teacher and social workers and help drive continued change and improvements. Positive steps and changes have already been made by the virtual school to improve the completion of the PEP's.

In line with our audit protocol this review has been assessed and independently verified and provided a medium-high audit opinion. A high opinion or medium-low opinion was not considered appropriate taking into account the findings and recommendations contained within this report (including an assessment of the residual risk levels and priority recommendation ratings).

High priority recommendations:

- Key critical fields, in particular the unique pupil number, pupil voice, targets and pupil premium details should be completed on all PEP's.

PEP's should be competed on a timely basis and regularly monitored.

Use of Consultants and Professional Services

Executive summary

Internal Audit's opinion is based on concerns raised against one of the six consultancy and professional services contracts reviewed as part of its testing sample as set out in the Audit Findings and Recommendations made in the report.

High priority recommendations:

- The Executive Director will carry out an investigation into the management of the Transport Capital Programme consultancy contracts to determine whether:
    - Invoice payments were valid for the services received;
    - Required outputs had been delivered;
    - The circumstances around the overspend and whether this warranted its extension;
    - Why the anticipated benefits remained outstanding.
- Contractors will not be given responsibility for establishing their own contract specifications.
- Consultants will not automatically be given responsibility for the implementation of recommendations arising from their own reviews.

Sickness Absence Monitoring

High priority recommendations:

- Sickness absence monitoring and reporting to be improved

Pro-Active Review – Right to Buy

Executive Summary

It is acknowledged that the Home Ownership Team (HOT) are experienced and aware of the weaknesses within the right to buy framework and the potential for fraud. The right to buy legislation whilst specific enough to ensure eligibility criteria is consistent nationally, there appears to be further scope for local authorities to carry out additional checks/ validation processes and request additional information beyond that specifically required under the Government Scheme .
Some Local Authorities are now using different approaches, resources and enhance processes when verifying a genuine RTB application.

From an Audit point of view whilst current processes in Sheffield meet the requirements of legislation, further enhancements could be implemented to make processes more robust. A significant number of Local Authorities across the country have sought to tackle fraud by implementing new approaches and validation processes. Sheffield should take the opportunity to share/ learn from the forerunners in terms of fraud prevention and seek to implement best practice.

In recent months, the Home Ownership Team (HOT) has taken a proactive approach to strengthening and enhancing existing controls and processes. There is ongoing liaison with other local authorities and SCC departments, including the housing tenancy team, to share best practice and utilise the information available to the Council.

During the period of the audit the use of Equifax has been introduced which has mitigated against the risk of falsely completing the insolvency declaration. Further information regarding the process improvements being made can be found under the ‘agreed actions’ section for each finding on pages 6-9 in this report.

Consideration could also be given for the scope to extending the use of Equifax for verifying previous out of Sheffield Right to Buy purchases. Currently the applicant self certifies on the application form that they have not had a right to buy previously (this would reduce the amount of discount available to them) and although the RTB team conduct validation checks, on all declared tenancies both in Sheffield and at other Local Authorities, if the application fails to declare a purchase in another area there is currently no mechanism /national network available to detect this. Moving forward the HOT team should evaluate any further scope to gain any further intelligence from Equifax and through the National Anti-Fraud Network to detect fraudulent declarations.

High priority recommendations:

- Insolvency declarations should be reviewed to ensure correct completion and RTB eligibility.
- Management should refer to best practices shared by other local authorities including Haringey.

<u>Review of Records Management</u>

Executive summary

It should be noted that the reasoning behind the ‘medium-high’ opinion relates, in part, to ineffective controls within Service areas across the Council. Often, services are not retaining good enough records of what is held in storage and continuity arrangements are poor when Officer’s responsible for records leave the Council or Services disband. The records management service is not responsible for actions taken within service areas; however, they can promote, through their existing processes, better records management wherever possible. Some of the recommendations in this report detail how they can help to do this. Internal Audit has recently undertaken a piece of work on data controls and has made recommendations in relation to better communicating and embedding the records lifecycle across the Council. These recommendations, when implemented, will support services to manage their records effectively and should be undertaken in conjunction with the recommendations in this report.

High priority recommendations:

- Secure the records storage area so that only SCC staff can access it.
- Update the records management service guidance notes to emphasise the importance of service's retaining detailed and robust records of information held in storage and the importance of appropriate hand over arrangements when staff leave the Council/Services disband.
- Consider the use of an intranet e-form to capture the data required when records are to be put in storage.
- Update the Transfer Sheet to include reference to the Council's obligations under Principle 5 of the Data Protection Act.
- Update the Transfer sheet to include details of appropriate senior management for escalation purposes when contact cannot be made regarding records in storage.
- Send out an annual report to business unit managers detailing monthly charges and requesting action where appropriate.

<u>Main Financial Systems (MFS) – Purchase 2 Pay Review</u>

High priority recommendations:
The Director Commercial Services should ensure that:

- all orders with a value above the tendering thresholds are subject to peer review;
- 10% of orders with a value above the threshold for written quotations are subject to peer review;
- all written quotations to be noted on OEO as an attachment to the purchase order prior to the procurement being approved;
- any agreed amendments to the P2P declaration form are noted on OEO by the officer approving the procurement;
- procedures are introduced within Commercial Services to ensure that all contracts and waivers are entered on their respective Register;
- all staff within Commercial Services should be reminded that it is their duty (under C.2.4.3) to report unauthorised breaches of CSOs, and that appropriate action will be taken where any instance of failure to report an unauthorised breach is identified.

<u>MFS – Combined Authority – Cash Book Testing</u>

Executive summary

Internal Audit acknowledged that the team had recently undergone an internal audit by Barnsley Metropolitan Borough Council internal audit and an external audit by KPMG as [part of the 2015/16 close of accounts. Additionally, the Combined Authority (CA) finance business partner team had low capacity due to vacancies and were under high pressure during the transactional period covered due to year end, and work was prioritised accordingly during this time.

It was clarified by management that the CA business partner team did not follow the same finance model as SCC; the governance/process arrangements differed in some instances due to business requirements not mirroring those of SCC. The findings surrounding the governance risk within the CA were found to be out of scope for this audit, therefore these will be shared with the BMBC internal audit team for future review.

High priority recommendations:

- Management should document the processes for the managing of grants
- Balance sheet reconciliations should be completed on a monthly basis

Housing Benefits Review

Executive Summary

In 2015/16 new claim assessments and error rate performance targets were not achieved. New claim assessment performance was disputed as to whether 26.3 days against a target of 26 days resulted in the target being achieved or not. This was later resolved as non-achievement. The error rate performance target was not achieved throughout 2015/16, with quarterly error rates of Q1-11.25%, Q2-13.10%, Q3-13.20% and Q4-15.13%.

No penalties / performance deductions for 2015/16 were made due to commercial reasons. A review of the error rates for 2016/17 was also undertaken. It identified that the error rate performance target had again not been achieved, with quarterly error rates of 19.3%, 16%, 14.6% and 18.1% respectively.

Discussion with Revenues and Benefits client team management revealed that a rectification plan regarding error rates has been formally requested from Capita.

To assist in the review of the effectiveness of the rectification plan the Housing Benefit review to be undertaken as part of the 2017/18 audit plan, which was originally due to cover 2016/17 assessment testing, will now focus on the outcomes of the rectification plan and the error rates achieved. This audit is planned for completion in October 2017.

High priority recommendations:

- Error rate rectification plan to be documented and implemented

Capita One Application Review

High priority recommendations:

- Update the Data Protocols Acknowledgement to reflect that staff have completed relevant training.
- Produce an Access Control Policy for the system.
- Develop the role based definitions profile for the system.
- Update user access from the monthly leaver information available on SharePoint.
- Review the functionality of the Audit Log facility on the One system with a view to establishing how this can be utilised going forward.

- Firm up and document business continuity arrangements.
- Update the OLA with Capita for the One system.
- Work with BCIS and Commercial Services to market test the application for best value.

Staff Utilisation

Executive summary

As part of the testing of agency staff utilisation internal audit excluded Housing and Neighbourhood Services, due to the ongoing, extensive MER scheme in place.

Additionally, since the commencement of the audit, new controls have been put in place by HR, in October 2016, to tighten the spending on recruitment. Internal audit note that certain categories of agency workers are exempt from the new process – one of these being social care (unqualified) – which from testing proved to be the biggest percentage of agency engagement in the portfolio. The recommendations in this report will aid in the monitoring of spend and activity of this category of agency worker.

High priority recommendations:

- Strengthen the monitoring of agency workers in each service, via some form of matrix proforma.
- Track the cost and reason for agency use.
- Review the monthly monitoring report from HR on a periodic basis to ensure that the hierarchy given is correct.

Schools Website – Publication of Governors Declaration of Interests and Pupil Premium Spend

Executive summary

Forty school websites were sampled for this internal audit review. The review was undertaken remotely with IA viewing each school's website. It was acknowledged that some entries as 'non-compliant' may, in effect, be 'not applicable'. In addition to this, some websites did not contain a clear site map, meaning some entries as 'non complaint' may, in effect, be compliant, but were not located at the time of the review.

At the time of review, all schools were part of the Local Authority, however, it is noted that some schools sampled may now be academies. The report was assigned a medium-high opinion due to the high number of recommendations being made.

Achieving Savings (Place) and (Resources)

Executive summary

Although the year-end budget position in both portfolios is forecast to be balanced, this has not been achieved by fully implementing the budget savings agreed by Cabinet at the start of the budget process. Within both portfolios , the overall position was monitored and managed where necessary through the implementation of alternative savings proposals. A medium-high opinion is given to reflect the fact that these alternative proposals helped achieve a balanced position.

High priority recommendations:

For Place:

- An escalation process will be established for the Executive Director to report on concerns to Cabinet.
- Action Plans to be put in place to ensure that outstanding savings proposals from 2016/17 are developed and delivered for the start of 2017/18.

For Resources:

- SharePoint to be updated to flag whether cross Portfolio impacts have been considered.
- Work on communicating the budget position across the Council to be undertaken with EMT and the Directors Group.
- Increase the use of SharePoint.
- Introduce in-year substituted savings process to ensure new/amended proposals are subject to sufficient scrutiny

<u>Deficit Recovery</u>

High priority recommendations

- The 'requirement' to have a recovery plan in place, needs to be consistently enforced across Sheffield Schools.

<u>Schools Financial Health-check</u>

11 schools were selected for the financial health-check by triangulating various information sets, i.e. information from the deficit group, previous Control Risk Self-Assessment reviews performed and responses collected, consultation with CYPF Business Partners and ad hoc information collected during the year.

The schools that were given a medium-high opinion were:

King Edward VII School
Carterknowle Junior School
Dobcroft Infant School
Hunters Bar Junior School
Parsons Cross CE School
Heritage Park Special School
Holgate Meadows Community School

High priority recommendations included:

- Governor meetings should be meaningful, challenging and comprehensive minutes taken to demonstrate action and progress.

- A Finance Policy Should be created as soon as possible and taken to Governors for ratification.
- A recovery plan should be produced and there is adherence to the terms and conditions of the arrangement.
- The budget monitoring spreadsheet should be reviewed and checked prior to being replied upon to set the budget going forward.
- Future purchasers made on purchasing cards should have a VAT receipt on file that matches back to a purchasing card transaction log.
- The school should correctly account for the supply of race tickets to the Teachers and ensure VAT is correctly accounted for.
- Staff events expenditure should not be ordered through the school.
- Key recruitment documents/ checks missing for staff and Governors, at the school, should be chased up until all documentation is on file.
- Additional hours/ overtime claimed by staff at the school should have appropriately authorised and completed documentation.
- There should be a clear and definable policy for dealing with supply cover/ agency staff at the school.
- The Head Teacher should ensure that all staff have a valid and up to date DBS certificate (issued within the last 3 years) as per the Guidelines in 'Your Statutory HR Duties: A Reference Guide for Community Schools' (see section 7.1), which states 'It is the schools obligation to ensure that appropriate DBS checks are in place at an enhanced level, with a barred list check (where eligible), recorded in the Single Central Record and renewed every 3 years'.
- A risk management plan should be created as soon as possible.
- An annual validation check should be performed between the inventory record and physical existence of the schools assets.

Agenda Item 9

Audit and Standards Committee Report

Report of:	The Monitoring Officer/Director of Legal and Governance
Date:	14 September 2017
Subject:	Update on Standards Complaints
Author of Report:	Dave Ross, Democratic Services (Tel - 0114 273 5033)

Summary:

The report provides a summary of the complaints considered under the Procedure for Dealing with Standards Complaints.

Recommendations:

The Committee is asked to note the contents of the report.

Background Papers:

Category of Report: OPEN

Statutory and Council Policy Checklist

Financial Implications
NO Cleared by:
Legal Implications
NO Cleared by:
Equality of Opportunity Implications
NO Cleared by:
Tackling Health Inequalities Implications
NO
Human rights Implications
NO:
Environmental and Sustainability implications
NO
Economic impact
NO
Community safety implications
NO
Human resources implications
NO
Property implications
NO
Area(s) affected
Not applicable
Is the item a matter which is reserved for approval by the City Council?
NO
Press release
NO

UPDATE ON STANDARDS COMPLAINTS

1. Introduction

1.1 This report provides a summary of the outcome of the complaints considered under the Procedure for Dealing with Standards Complaints regarding City, Parish and Town Councillors and Co-opted Members that was adopted by Full Council at its meeting on 25 March 2015. The Procedure is attached as an appendix to the report.

1.2 The Localism Act 2011 requires Councils to promote high standards of Member conduct, adopt a Code of Conduct and introduce a process for investigating complaints.

1.3 The Procedure sets out how the Council will deal with a complaint alleging a breach of the Members' Code of Conduct. To assist the Monitoring Officer and this Committee in dealing with complaints, the Council appointed three Independent Persons (Stuart Carvell, Marvyn Moore and David Waxman).

1.4 The first stage of the Procedure is the assessment of the complaint. Following consultation with the Independent Person, the Monitoring Officer will consider if the allegation constitutes a potential breach of the Code of Conduct and take one of the following courses of action:-

1) Take no action or
2) Take other action through informal resolution or
3) Refer the matter for investigation

2. Summary of Complaints

2.1 Of the 16 complaints received to date in 2017, the current position is:-

Take No Action – 11*

Informal Resolution – 1*

Referred for Investigation - 2

Not a valid complaint - 1

Not acting in an official capacity - 1

To be assessed - 1

(*Note: The assessment decision on one complaint was to take no action on part and an informal resolution on the other part)

2.2 In addition, two complaints from 2016 are due to be considered by the Consideration Sub-Committee in September 2017. One complaint was referred direct to the Sub-Committee as the complainant did not accept the proposed informal resolution. The second complaint was referred for investigation as the proposed informal resolution was not accepted by either the complainant or the member.

3.0 Recommendation

3.1 The Committee is asked to note the contents of the report.

Gillian Duckworth, Monitoring Officer/Director of Legal and Governance

SHEFFIELD CITY COUNCIL

PROCEDURE FOR DEALING WITH COMPLAINTS REGARDING CITY, PARISH AND TOWN COUNCILLORS AND CO-OPTED MEMBERS

1. Introduction

1.1 Under the Localism Act 2011, the Council has a duty to promote and maintain high standards of conduct for its elected and co-opted members and have arrangements in place to deal with complaints.

1.2 This Procedure sets out how the Council will deal with a complaint alleging a breach of the Members' Code of Conduct by:-

- Sheffield City Councillors or co-opted members of the Council
- Bradfield Parish Councillors
- Ecclesfield Parish Councillors
- Stocksbridge Town Councillors

(In this Procedure the term 'Member' is used to describe a Councillor or Co-opted Member)

1.3 In dealing with complaints we will be fair to both the complainant and Member and progress matters in accordance with the timescales set out in the Procedure. Complaints will be handled in the strictest confidence at all times.

2. Monitoring Officer

2.1 Gillian Duckworth, Director of Legal and Governance, is the Council's Monitoring Officer. This is a statutory role, responsible for ensuring that the Council, its Members and officers carry out their functions in a lawful and ethical manner. The role includes supporting the Audit and Standards Committee and the three Independent Persons in dealing with complaints alleging a breach of the Members' Code of Conduct.

3. Independent Persons

3.1 The Council appoints Independent Persons from outside the Council to assist the Monitoring Officer and the Audit and Standards Committee in considering complaints. Sheffield currently has appointed three Independent Persons - Stuart Carvell, Marvyn Moore and David Waxman.

3.2 The Independent Person must be consulted at various stages in the complaints process and also before the Audit and Standards Committee makes a finding as to whether a member has failed to comply with the Code of Conduct and decides on action to be taken in respect of a Member.

4. Making a Complaint

4.1 Complaints alleging a breach of the Members' Code of Conduct should be made in writing using the complaint form and sent to Gillian Duckworth, Monitoring Officer, Sheffield City Council, Town Hall, Sheffield S1 2HH or email gillian.duckworth@sheffield.gov.uk. The complaint form is available from:-

- Website - www.sheffield.gov.uk/standardscommittee
- Email - committee@sheffield.gov.uk
- Phone - 0114 273 5033

4.2 If you need advice or assistance in submitting a complaint please contact Dave Ross in Democratic Services (email dave.ross@sheffield.gov.uk or phone 0114 273 5033).

4.3 Details of the complaint, including the name of the complainant, will be shared with the Member. The complainant can request on the complaint form that their identity is kept confidential. Requests for confidentiality will be considered by the Monitoring Officer, in consultation with the Independent Person.

4.4 Anonymous complaints will not be considered.

5.0 Acknowledging the Complaint/Informing the Member

5.1 The Monitoring Officer will acknowledge receipt of the complaint in writing within 5 working days and provide the complainant with a copy of this Procedure and the Code of Conduct.

5.2 The Member will be informed in writing within 5 working days that a complaint has been made about them. This will include the name of the complainant and details of the complaint. They will also receive a copy of this Procedure and the Code of Conduct. To assist the Monitoring Officer in assessing the complaint, the Member will be invited to submit within 10 working days a written statement of fact in response to the complaint.

5.3 The Monitoring Officer will also inform the Leader of the relevant political Group, Group Whip and Chair of the Audit and Standards Committee that a complaint has been received and provide a summary of the complaint.

5.4 Where a complaint relates to a Parish or Town Councillor, the Monitoring Officer will also inform the Clerk of that Council of the name of the Member and details of the complaint. The Clerk will also be kept informed of the progress and the outcome of the complaint.

6. Assessment by the Monitoring Officer

6.1 Before assessment of the complaint, it may be necessary for the Monitoring Officer to request further information or clarification from the complainant and/or Member.

6.2 The Monitoring Officer, in consultation with the Independent Person, will consider the complaint, any remedy sought by the complainant, any written statement of fact submitted by the Member and any other information obtained. In assessing the complaint, the Monitoring Officer will take into account:-

- The seriousness of the allegation.
- The effectiveness of the remedies available.
- If a significant amount of time has elapsed since the events which are the subject of the complaint.
- If the allegation relates to a cultural or recurring issue relating to standards within the Council.
- If the matter should be dealt with by some other method, e.g. police investigation.
- If complaints have been made about the Member relating to similar issues in the past.
- The impact on the complainant or reputation to the Council caused by the conduct.
- If the complaint appears to be trivial or vexatious or is part of a series of complaints from the complainant.
- Whether the conduct occurred during political debate or could be regarded as a political expression of views or opinion.

6.3 Following consultation with the Independent Person, the Monitoring Officer will then consider if the allegation constitutes a potential breach of the Code of Conduct and take one of the following courses of action:-

(1) Take no action or
(2) Take other action through informal resolution or
(3) Refer the matter for investigation

6.4 The complainant and the Member will be informed in writing within 5 working days of the outcome and the reasons for the decision.

6.5 Where a complaint is not referred for investigation, the Monitoring Officer will seek to deal with the matter within 8 weeks.

7. Informal Resolution by the Monitoring Officer

7.1 Where the Monitoring Officer has decided to take other action this will seek to resolve the complaint informally and without determining if an actual breach of the Code has taken place. Both the complainant and Member will have to agree to the outcome of any informal resolution.

7.2 The Monitoring Officer, in consultation with the Independent Person, may take any of the following actions:-

- Take such steps as they think appropriate to prevent a future potential breach of the Code including training, guidance and introducing or amending policies/protocols.

- Ask the Whips to address the issue raised within their political parties or with an individual Member.

- Mediate between the parties involved to resolve the issues.

- Seek an apology from the Member.

- Any other action capable of resolving the complaint.

7.3 The complainant and Member will be informed in writing of the outcome of any informal resolution within 5 working days. The Chair of the Audit and Standards Committee and relevant Group Leader and Group Whip will also be informed that the complaint has been resolved.

7.4 Where a complaint relates to a Parish or Town Councillor, the Monitoring Officer will also inform the Clerk of that Council that the complaint has been resolved.

7.5 Where it has not been possible to agree an informal resolution, the Monitoring Officer, in consultation with the Independent Person, will refer the matter for investigation and inform the complainant and Member within 5 working days.

8. Investigation

8.1 If a complaint has been referred for investigation, the Monitoring Officer, in consultation with the Independent Person, will appoint a person to undertake the investigation and this may be either a Council Officer or an outside agent, depending on the complexity and subject of the complaint.

8.2 The Investigating Officer will inform the complainant and Member of the process and proposed timescale of the investigation. The investigation may involve interviewing both parties and possibly other witnesses, together with reviewing any relevant documentation or paperwork.

8.3 The Investigating Officer will prepare a draft report on the outcome of the investigation and provide the complainant and Member with a copy for review and comment.

8.4 The Investigating Officer will submit a final version of the report to the Monitoring Officer that will make a finding that either (a) there has been a failure to comply with the Code of Conduct or (b) there has not been a failure to comply with the Code of Conduct. The final report will also be sent to the complainant and Member.

8.5 The Monitoring Officer will submit the Investigating Officer's report to the

Consideration Sub-Committee.

8.6 An investigation will be completed within 12 weeks of a referral by the Monitoring Officer. The Consideration Sub-Committee will meet within one month of the final report being submitted to the Monitoring Officer.

9. Consideration Sub-Committee

9.1 The Sub-Committee will consider the Investigating Officer's report and, after taking the views of the Independent Person into account, can:-

(a) take no action where there is no evidence of a failure to comply with the Code of Conduct or

(b) take no action where there is no evidence of a failure to comply with the Code of Conduct but make a recommendation to the authority with a view to promoting and maintaining high conduct of standards in general (e.g. proposed changes to internal procedures or training for Members) or

(c) ask the Monitoring Officer, where possible, to seek a local resolution to the complaint or

(d) refer the matter to an Audit and Standards Committee Hearing.

9.2 The complainant and Member will be informed in writing within 5 working days of the outcome and the reasons for the decision.

10. Local Resolution

10.1 Where the investigation finds evidence of failure to comply with the Code of Conduct, the Monitoring Officer, in consultation with the Independent Person, may attempt a local resolution, avoiding the necessity of a hearing, and take any of the following actions:-

- Take such steps as they think appropriate to prevent a future potential breach of the Code including training, guidance and introducing or amending policies/protocols.
- Ask the Whips to address the issue raised within their political parties or with an individual Member.
- Mediate between the parties involved to resolve the issues.
- Seek an apology from the Member
- Any other action capable of resolving the complaint

10.2 Both the complainant and Member will have to agree to the outcome of any local resolution.

10.3 The Monitoring Officer will inform the complainant and Member in writing within 5 working days of the outcome of any agreed local resolution.

10.4 If a local resolution has not been possible, the Monitoring Officer, in consultation with the Independent Person and Chair of the Audit and Standards Committee, will refer the matter to an Audit and Standards Committee Hearing and inform the complainant and Member in writing within 5 working days.

11. Audit and Standards Committee Hearing

11.1 The Audit and Standards Committee Hearing Sub-Committee comprises 3 Councillors and 1 non-voting co-opted Independent Member.

11.2 The Sub-Committee will meet within two months of a referral by the Consideration Sub-Committee to consider the allegation and Investigating Officer's report and make clear findings as to the facts of the matter and whether a breach of the Code of Conduct has occurred.

11.3 The Hearing Sub-Committee will meet in public unless it decides that all or part of the meeting should be held in private in accordance with the Access to Information Procedure Rules in the Council's Constitution.

11.4 In advance of the Hearing there will be a pre-hearing process to allow matters at the Hearing to be dealt with more fairly and economically.

11.5 The complainant and Member will be given the opportunity to attend the Hearing and present witnesses. The Monitoring Officer, Investigating Officer and Independent Person will also attend. The procedure at the Hearing will include:-

- Making findings of fact
- Deciding if there has been a breach of the Code of Conduct
- Consider the remedies/sanctions available if there is a finding that the Member has breached of the Code of Conduct

11.6 Full details of the pre-hearing and hearing process are set out in the Procedure at Hearings. The Member and complainant will be provided with a copy of the Procedure.

11.7 <u>A Finding of No Breach of the Code of Conduct</u>

11.7.1 If the Sub-Committee finds that the Member did not breach the Code of Conduct no further action will be taken in respect of the complaint. However, the Sub-Committee can make a recommendation to the authority with a view to promoting and maintaining high standards of conduct in general (e.g. proposed changes to internal procedures or training for Members).

11.8 <u>A Finding of a Breach of the Code of Conduct</u>

11.8.1 If the Sub-Committee finds that a breach of the Code of Conduct has occurred they may make any of the following recommendations and may specify to whom they wish them to be directed:-

- Recommending to the Member's Group Leader (or in the case of un-grouped members, recommend to Council or to Committees) that he/she be removed from any or all Committees or Sub-Committees of the Council or Shadow Portfolio responsibilities.

- Recommending to the Leader of the Council that the member be removed from the Cabinet, or removed from particular Portfolio responsibilities.

- Instructing the Monitoring Officer to arrange training for the member.

- That policies/procedures are amended.

- That a briefing/information note be issued.

- That an apology be given.

- That the Member is censured in writing and a copy of the letter is published on the Council's website.

- Take no action where it is not considered appropriate in the circumstances to impose a sanction.

11.9 The Monitoring Officer will inform the complainant and the Member of the outcome from the Sub-Committee hearing in writing within 5 working days.

11.10 The findings and decision of the Sub-Committee will be also be available on the Council's website and copies will be supplied to the Chief Executive, Leaders of all the political Groups and the Group Whips.

11.11 Where the matter relates to a Parish or Town Councillor, the Clerk of that Council will be informed of the outcome of a Hearing.

12. Appeals

12.1 There is no right of appeal for the complainant or Member against a decision of the Monitoring Officer, Consideration Sub-Committee or Hearing Sub-Committee.

12.2 If the complainant feels that the Council has failed to deal with their complaint properly, they can make a complaint to the Local Government Ombudsman.

13. Reports

13.1 A quarterly report will be presented to meetings of the Audit and Standards Committee on the complaints received and how they were dealt with. An annual report will also be submitted to Full Council with a summary of all Standards Complaints.

14. **Data Protection**

14.1 Complaints will be handled in the strictest confidence at all times. We will ensure that any information received as part of the handling of the complaint is disclosed only to those who can demonstrate a valid need to know it. However, when a complaint is considered at an Audit and Standards Committee Hearing then any information will be dealt with in accordance with the Access to Information Procedure Rules in the Council's Constitution.

14.2 Complaints records will be stored safely and securely.

Sheffield City Council

Audit and Standards Committee Report

Report of:	Director of Legal and Governance
Date:	14 September 2017
Subject:	Work Programme
Author of Report:	Dave Ross, Democratic Services (Tel - 0114 273 5033)

Summary:

The report provides details of an outline work programme for the Committee

Recommendations:

That the Committee:-

(a) considers the Work Programme and identifies any further items for inclusion; and

(b) approves the work programme.

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Background Papers:	None
Category of Report:	OPEN

Statutory and Council Policy Checklist

Financial Implications
NO Cleared by:
Legal Implications
NO Cleared by:
Equality of Opportunity Implications
NO Cleared by:
Tackling Health Inequalities Implications
NO
Human rights Implications
NO:
Environmental and Sustainability implications
NO
Economic impact
NO
Community safety implications
NO
Human resources implications
NO
Property implications
NO
Area(s) affected
NONE
Is the item a matter which is reserved for approval by the City Council?
NO
Press release
NO

REPORT OF THE DIRECTOR OF LEGAL AND GOVERNANCE

AUDIT AND STANDARDS COMMITTEE 14 SEPTEMBER 2017

WORK PROGRAMME

1. **Purpose of Report**

1.1 To consider an outline work programme for the Committee.

2. **Work Programme**

2.1 It is intended that there will be at least five meetings of the Committee during the year with three additional meetings arranged if required. The work programme includes some items which are dealt with at certain times of the year to meet statutory deadlines, such as the Annual Governance Report and Statement of Accounts, and other items requested by the Committee. In addition, it also now includes standards' related matters such as a regular report providing an update on the outcome of Standards complaints.

2.2 An outline programme is attached and Members are asked to identify any further items for inclusion.

3. **Recommendation**

3.1 That the Committee:-

(a) considers the Work Programme and identifies any further items for inclusion; and

(b) approves the work programme.

Gillian Duckworth
Director of Legal and Governance

Date	Item	Author
16 November 2017	Annual Audit Letter 2016/17	External Auditor
	Mid-Year Review of the Internal Audit Plan	Kayleigh Inman (Senior Finance Manager)
	Annual Ombudsman and Complaints Report 2016/17	Andrew Fellows (Customer Services Manager)
	Revised Procedure for Dealing with Standards Complaints	Gillian Duckworth (Director of Legal and Governance)
	Review of the Member/Officer Protocol	Gillian Duckworth (Director of Legal and Governance)
	Audit and Standards Committee Annual Report	Gillian Duckworth (Director of Legal and Governance)
	Strategic Risk Management	Richard Garrad (Corporate Risk Manager)
	Work Programme	Gillian Duckworth (Director of Legal and Governance)
14 December 2017	(Additional meeting if required)	
11 January 2018	Progress on High Opinion Audit Reports	Kayleigh Inman (Senior Finance Manager)
	Update on Standards Complaints	Gillian Duckworth (Director of Legal and Governance)
	Work Programme	Gillian Duckworth (Director of Legal and Governance)
8 February 2018	(Additional meeting if required)	
8 March 2018	(Additional meeting if required)	
12 April 2018	Internal Audit Plan 2018/19	Kayleigh Inman (Senior Finance Manager)
	Internal Audit Annual Fraud Report	Kayleigh Inman (Senior Finance Manager)
	Compliance with International Auditing Standards	Dave Phillips (Head of Finance)

	Certification of Claims and Returns Annual Report 2016/17	External Auditor
	External Audit Plan 2017/18	External Auditor
	Annual Audit Fee Letter 2018/19	External Auditor
	Strategic Risk Management	Richard Garrad (Corporate Risk Manager)
	Work Programme	Gillian Duckworth (Director of Legal and Governance)
14 June 2018	Summary of the Statement of Accounts	Dave Phillips (Head of Finance)
	Work Programme	Gillian Duckworth (Director of Legal and Governance)
26 July 2018	Report to Those Charged with Governance (ISA 260)	External Auditor
	Statement of Accounts	Dave Phillips (Head of Finance)
	Annual Governance Statement	Gillian Duckworth (Director of Legal and Governance)
	Progress on High Opinion Audit Reports	Kayleigh Inman (Senior Finance Manager)
	Update on Standards Complaints	Gillian Duckworth (Director of Legal and Governance)
	Audit and Standards Committee Annual Report	Gillian Duckworth (Director of Legal and Governance)
	Work Programme	Gillian Duckworth (Director of Legal and Governance)

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