

# **Audit Committee**

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**Thursday 25 September 2014 at 6.00  
pm**

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

**The Press and Public are Welcome to Attend**

## **Membership**

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Councillors Ray Satur (Chair), John Campbell, Rob Frost, Helen Mirfin-Boukouris,  
Joe Otten (Deputy Chair) and Sioned-Mair Richards.

## **Independent Co-opted Members**

Rick Plews and Liz Stanley.

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## **PUBLIC ACCESS TO THE MEETING**

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The Audit Committee is a key part of the Council's corporate governance arrangements. The Committee has delegated powers to approve the Council's Statement of Accounts in accordance with the Accounts and Audit Regulations 2003 and consider the Annual Letter from the Auditor in accordance with the Accounts and Audit Regulations 2003 and to monitor the Council's response to individual issues of concern identified.

A copy of the agenda and reports is available on the Council's website at [www.sheffield.gov.uk](http://www.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 Audit Committee meetings 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](mailto:dave.ross@sheffield.gov.uk).

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## **FACILITIES**

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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.

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**AUDIT COMMITTEE AGENDA  
25 SEPTEMBER 2014**

**Order of Business**

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- 1. Welcome and Housekeeping Arrangements**
- 2. Apologies for Absence**
- 3. Exclusion of Public and Press**  
To identify items where resolutions may be moved to exclude the press and public.  
  
(Note: The report on the Financial/Commercial Monitoring of External Relationships is not available to the public and press because it contains exempt information described in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, relating to the financial or business affairs of any particular person, including the authority holding that information).
- 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 17 July 2014.
- 6. 2013/14 Statement of Accounts and External Auditor's Report to Those Charged With Governance (ISA 260)** (Pages 9 - 198)  
Report of the Interim Executive Director, Resources.
- 7. Internal Audit Annual Report 2013/14** (Pages 199 - 238)  
Report of the Senior Finance Manager (Internal Audit).
- 8. Financial/Commercial Monitoring of External Relationships** (Pages 239 - 246)  
Report of the Interim Executive Director, Resources.

(Note: The above report is not available to the public and press because it contains exempt information described in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, relating to the financial or business affairs of any particular person, including the authority holding that information).

**9. Work Programme**

(Pages 247 - 252)

Report of the Interim Director of Legal and Governance.

**10. Dates of Future Meetings**

To note that meetings of the Committee will be held on the following dates at 6.00 p.m.:-

- 13 November 2014
- 11 December 2014
- 8 January 2015
- 12 February 2015
- 12 March 2015
- 9 April 2015

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## ADVICE TO MEMBERS ON DECLARING INTERESTS AT MEETINGS

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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 Standards Committee in relation to a request for dispensation.

Further advice can be obtained from Gillian Duckworth, Interim Director of Legal and Governance on 0114 2734018 or email [gillian.duckworth@sheffield.gov.uk](mailto:gillian.duckworth@sheffield.gov.uk).

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Audit Committee

Meeting held 17 July 2014

**PRESENT:** Councillors Ray Satur (Chair), John Campbell and Joe Otten.

Co-opted Independent Members

Liz Stanley.

Officers in attendance

John Mothersole (Chief Executive)

Eugene Walker (Interim Executive Director, Resources)

Laura Pattman (Assistant Director of Finance, Business Partnering and Internal Audit)

Allan Rainford (Deputy Director of Finance)

Kayleigh Inman (Senior Finance Manager, Internal Audit)

Andy Eckford (Interim Director of Finance)

David Phillips (Senior Manager KPMG)

Gillian Duckworth (Interim Director of Legal and Governance)

Dave Ross (Principal Committee Secretary)

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**1. APOLOGIES FOR ABSENCE**

1.1 Apologies for absence were received from Rick Plews and Councillors Rob Frost, Helen Mirfin-Boukouris and Sioned-Mair Richards.

**2. EXCLUSION OF PUBLIC AND PRESS**

2.1 No items were identified where resolutions may be moved to exclude the press and public from the meeting.

**3. DECLARATIONS OF INTEREST**

3.1 Councillor John Campbell declared a personal interest in the item on Pensions Data Follow-up Report as a member of the South Yorkshire Pensions Authority.

**4. MINUTES OF PREVIOUS MEETINGS**

**4.1 10 APRIL 2014**

4.1.1 The minutes of the meeting of the Committee held on 10 April 2014 were approved as a correct record and it was noted that a training session was being arranged on risk management.

**4.2 4 JUNE 2014**

4.2.1 The minutes of the meeting of the Committee held on 4 June 2014 were approved as a correct record.

### **4.3 3 JULY 2014**

- 4.3.1 The minutes of the meeting of the Committee held on 3 July 2014 were approved as a correct record.

#### Matter Arising

- 4.3.2 As requested at the last meeting of the Committee, the Assistant Director of Finance (Business Partnering and Internal Audit) provided information updating members on questions raised relating the Adult Social Care Management Review. This covered the ongoing costs of Home Choice and Self Directed Support, the budget position and financial control and responsibility.
- 4.3.3 **Resolved:** That the Committee notes this information and that the Assistant Director of Finance (Business Partnering and Internal Audit) would be providing a further update to the next meeting of the Committee in respect of the ongoing costs of Self Directed Support.

### **5. ANNUAL GOVERNANCE STATEMENT 2013/14**

- 5.1 The Interim Director of Legal and Governance submitted a report containing the Annual Governance Statement (AGS) for the financial year 2013/14 that formed part of the Statutory Accounts. The AGS provided details of the Council's governance framework and internal control environment. The Interim Director referred to the three significant control weaknesses that had been identified during the AGS process, relating to Adult Social Care and Supporting Services, Capital Project Management and Consistency of Corporate Issues, and the officer actions to address those weaknesses.
- 5.2 Officers responded to questions from members of the Committee. The Assistant Director of Finance (Business Partnering and Internal Audit) indicated that Internal Audit were able to provide assurance that there were no other significant control weaknesses at the time of completing the AGS and the three control weakness identified in the report were included in Internal Audit's Plan for 2014/15.
- 5.3 The Senior Finance Manager commented that, in respect of the two recently issued audit reports with a high opinion relating to schools, particularly the issues relating to payroll and access to records, there would be follow up work to seek assurance that the agreed actions had been implemented. The Interim Executive Director, Resources added that the payroll administration was the responsibility of the individual school.
- 5.4 **Resolved:** That the Committee:-
- (a) notes the contents of the Annual Governance Statement 2013/14 that forms part of the Annual Accounts and that it has been signed by the Leader, Chief Executive and Executive Director of Resources; and
  - (b) requests the Interim Director of Legal and Governance to consider including reference to compliance with the Public Sector Internal Audit Standards in next year's Statement.

## **6. SUMMARY OF THE 2013/14 STATEMENT OF ACCOUNTS**

- 6.1 The Deputy Director of Finance introduced a report of the Interim Executive Director, Resources that provided a summary of the 2013/14 Statement of Accounts and explained the core statements and a number of the key notes to the accounts. He referred to the difference in the way the Council was required to account for capital and pension costs and the effect this had on surplus on the Comprehensive Income and Expenditure Statement. The full Statement of Accounts and audit opinion would be submitted to the meeting of the Committee on 25 September 2014.
- 6.2 Officers responded to questions from members of the Committee relating to the surplus on the Housing Revenue Account and the Cash Flow Statement.
- 6.3 **Resolved:** That the Committee notes the core statements and the key notes to the Statement of Accounts for 2013/14.

## **7. PROGRESS ON HIGH OPINION AUDIT REPORTS**

- 7.1 The Senior Finance Manager introduced a report of the Assistant Director of Finance (Business Partnering and Internal Audit) on progress made against recommendations in audit reports that have been given a high opinion.
- 7.2 **Resolved:** That the Committee:-
- (a) notes the contents of the report;
  - (b) approves the removal of the audit of Self Directed Support from the action tracker; and
  - (c) requests the Head of Capital Delivery Service to submit an overarching report to the Committee outlining the revised approach for capital delivery and reporting.

## **8. ANNUAL AUDIT FEE LETTER 2014/15**

- 8.1 Further to the information reported at the meeting of the Committee on 10 April 2014, the Senior Manager KPMG submitted the Annual Audit Fee Letter for 2014/15 that confirmed the audit work and fee that KPMG proposed to undertake for the Council in 2014/15 and this was based on the risk-based approach to audit planning, as set out in the Code of Audit Practice and work mandated by the Audit Commission.
- 8.2 **Resolved:** That the Committee notes the Annual Audit Fee Letter for 2014/15.

## **9. PENSIONS DATA FOLLOW UP REPORT**

9.1 At the request of the Committee at its meeting on 10 April 2014, the Senior Manager KPMG submitted a report providing an update on whether the issues identified in the External Auditor's report considered by the Committee in December 2010 on the results of a review of data flows between the Council and South Yorkshire Pensions Authority, had been addressed. The report concluded that some progress had been made since 2010 and officers were optimistic that progress had been made in addressing the underlying issue. However, this remained an area where improvements were required.

9.2 In response to questions from a member of the Committee, the Interim Executive Director, Resources indicated that this was would continue to be an area of focus for the Council and the Pensions Authority and the backlog would be cleared. The Chief Executive confirmed the position reported previously that this issue had not disadvantaged employees and it had not affected their pension entitlement.

9.3 **Resolved:** That the Committee:-

- (a) notes the report and that continuing action is being taken by the Council and South Yorkshire Pensions Authority to address the issues in respect of data flows and that further action will be taken if performance does not improve; and
- (b) continues to monitor the performance on this issue.

## **10. WORK PROGRAMME**

10.1 The Interim Director of Legal and Governance submitted a report containing a work programme for the Committee for 2014/15.

10.2 **Resolved:** That the Committee:-

- (a) approves the work programme for 2014/15 with the addition of an item on a Revised Approach for Capital Delivery and Reporting; and
- (b) notes that training sessions were being arranged for members of the Committee on the Statement of Accounts and Risk Management.

## **11. DATES OF FUTURE MEETINGS**

11.1 It was noted that meetings of the Committee would be held on the following dates at 6.00 p.m.:-

- 25 September 2014
- 13 November 2014
- 11 December 2014
- 8 January 2015
- 12 February 2015
- 12 March 2015
- 9 April 2015



## Audit Committee Report

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<b>Report of:</b>	Eugene Walker Interim Executive Director of Resources, Local Authority Section 151 Officer
<b>Date:</b>	25 September 2014
<b>Subject:</b>	2013/14 Statement of Accounts 2013/14 Report to Those Charged With Governance (ISA 260)
<b>Author of Report:</b>	Andrew Eckford Interim Director of Finance
<b>Summary:</b>	The purpose of the report is to communicate any relevant matters arising from the external audit of the 2013/14 Statement of Accounts to Members.
<b>Recommendations:</b>	To request that approval is given for the Chair of the Audit Committee to conclude the audit by signing the Letter of Management Representations and the Statement of Accounts.
<b>Background Papers:</b>	None
<b>Category of Report:</b>	OPEN

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## Statutory and Council Policy Checklist

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

## AUDIT COMMITTEE – 25 SEPTEMBER 2014

### 2013/14 STATEMENT OF ACCOUNTS

#### EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) 2013/14

##### **Purpose of this Report**

1. The purpose of the following report is to communicate any relevant matters arising from the external audit of the 2013/14 Statement of Accounts to members and in acknowledging these findings request that approval is given for the Chair of the Audit Committee to conclude the audit by signing the Letter of Management Representations and the Statement of Accounts.

##### **Introduction and Background**

2. The Council's 2013/14 Statement of Accounts were authorised by the Interim Executive Director of Resources (Section 151 Officer) on the 27 June 2014. 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 revised, audited Statement of Accounts is attached at **Annex A** to this report. The Statement of Accounts needs to be approved by the Audit 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.

## **New accounting and reporting issues for 2013/14**

### **6. Collection Fund**

There were significant changes in 2013/14 to the system of local taxation. The introduction of a localised Council Tax support scheme, new legislation allowing Business Rates retention by Local Authorities and the cessation of various related benefits and subsidies have all impacted on the accounting for the Collection Fund. The Council has prepared the accounting entries and statements in line with the CIPFA guidance.

### **7. Post-Employment Benefits**

The Council has adopted the 2011 amendments to IAS19, as required by CIPFA (2013/14 Code of Practice on Local Authority Accounting in the United Kingdom) for classification, recognition, measurement and disclosure of pensions. Whilst this represents a change of accounting policy, it was agreed with External Audit that the changes were not material enough to require an adjustment to prior periods.

## **Findings from the External Audit of the 2013/14 Statement of Accounts**

8. The findings from the external audit review are set out in detail in their Report to those Charged with Governance (ISA 260) 2013/14, which is a separate report, and members are asked to note the contents.
9. 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.
10. The Report to those Charged with Governance (ISA 260) 2013/14 Appendix 3: Audit Differences identifies an error which has not been amended in the accounts, where a correction to the revaluation of a property asset was not properly transacted. Given the value (£1.9m) is not material, this will be corrected in the 2014/15 accounts.
11. In overall terms the Council has the necessary controls in place to provide assurance over the financial statements and it is intended that an unqualified Audit opinion will be given on the accounts (i.e. that the



financial statements present a true and fair view of the financial position of Sheffield City Council as at 31 March 2014 and its income and expenditure for the year).

12. 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) 2013/14 Section 4 reports a qualified conclusion in respect of the issues for Adult Social Care. The Council's internal review has recently reported to Audit Committee on this matter.
13. 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, attached at **Annex B** is a letter of management representations in the format prescribed by the External Auditors to be signed by the Chair of the Audit Committee.
14. 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 2012/13 Statement of Accounts**

15. 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 and a certificate issued to close the Audit.
16. The 2013/14 Statement of Accounts will be published on the Council's website. Once the Certificate of Completion is received an advert will be placed in the Sheffield Star to inform that the audit has been concluded and the accounts have been published.

### **Financial Implications**

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

### **Equal Opportunities Implications**

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

### **Property Implications**

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

### **Recommendations**

20. It is recommended:

- That the Audit Committee accepts the Report to those Charged with Governance (ISA 260) 2013/14.
- That following the above acceptance the Chair of the Audit Committee provides signature to the Letter of Management Representations attached at **Annex B** in order to conclude the audit;
- That the Audit Committee approves the attached Statement of Accounts for 2013/14 and the Chair of the Audit Committee provides signature to the Statement of Accounts.

**Andrew Eckford**  
**Interim Director of Finance**

**14 September 2014**

## **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:
  - Movement in Reserves
  - Comprehensive Income and Expenditure Account
  - 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.

### **Movement in Reserves**

6. 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.
7. 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.
8. 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.
9. 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.

### **Comprehensive Income and Expenditure Account**

10. 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).
11. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.
12. The presentation of the cost of services is presented using the Service Reporting Code of Practice (SeRCOP) classification, a statutory requirement. This is so comparisons between different Local Authorities can be made.

## **Balance Sheet**

13. 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.
14. 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**

15. 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.
16. 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**

17. 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.
18. The report on the Outturn position at the end of the 2013/14 financial year was considered by Cabinet on 18 June 2014. This reported that there was an overall overspend of approximately £0.4m before movement on reserves. 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 following two notes show the reconciliation between the outturn position and the statement of accounts:

- Adjustments between accounting basis and funding basis under regulations – this note details the adjustments that are made to the total comprehensive income and expenditure account in accordance with accounting practice to the resources that are specified by statutory provision as being available.
- Amounts reported for resource allocation decisions – this note reconciles the income and expenditure shown in the comprehensive income and expenditure account to the budget outturn report produced by the Council.

### **Housing Revenue Account (HRA)**

19. 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.

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

### **Collection Fund**

21. 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 the Government of council tax and non-domestic rates.

**SHEFFIELD CITY COUNCIL**  
**STATEMENT OF ACCOUNTS**  
**2013/14**  
**(Audited)**

**For the period**  
**1 April 2013 to 31 March 2014**

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## Foreword by the Executive Director of Resources

### 1. INTRODUCTION

#### Purpose of the Foreword

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 Foreword, 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 2013/14 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 <https://www.sheffield.gov.uk/your-city-council/finance/statement-of-accounts.html>. 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 bullet points summarise the headlines of this year's accounts.

- In spite of substantial pressures on adult social care budgets, the Council managed to contain overspending to £415k. Based on a net revenue budget of £477.5m for 2013/14, this is equivalent to a variance of less than 0.1% and therefore represents a broadly balanced position.
- The Council's net worth has increased by £60.5m (or 9%) since 2012/13, the main factors being:
  - a decrease in the Council's pensions' liability (£100.3m) due to the annual review by the actuary;
  - a net increase in the Council's fixed assets due to revaluations (£19.1m), offset by;
  - an increase in the council's liabilities with respect to Private Finance Initiatives (£44.8m).
- Total usable reserves increased by £43.9m from £168.6m to £212.5m (see section 4 of this Foreword);
- £116.5m of capital investment went through the Capital Programme during the year.

## 2. THE CITY COUNCIL'S CORPORATE AIMS AND OBJECTIVES

### Standing up for Sheffield.

“Standing up for Sheffield” is the Council’s Corporate Plan 2011-14 which sets out its strategic direction and priorities for the three financial years from 2011/12 to 2013/14. The plan was approved by Cabinet on 9th November 2011.

The plan focusses on four priorities:

- Standing up for Sheffield
- Supporting and protecting communities
- Focussing on jobs
- Being business-friendly

These priorities act as a catalyst to keep the city moving forward in a very challenging economic climate. For example, the Council will:

- Keep pushing forward key regeneration schemes like the Moor, including the new market that opened last year;
- Focus its efforts on helping small and medium companies with growth potential;
- Maintain its investment in the massive ‘Streets Ahead’ project – sorting out the city’s roads, pavements and streetlights;
- Make sure that big national infrastructure projects like ‘High Speed Rail’ benefit the Sheffield economy;
- Keep bringing investment into the city by attracting major events and conferences.

The Corporate Plan also sets out the Council’s values:

- Fairness
- Spend public money wisely
- Long term view
- Prevention
- Enable individuals and communities
- Aspirational
- Working better together

The plan is structured around eight strategic outcomes:

- A Strong and Competitive Economy
- Better Health and Wellbeing
- Successful Children and Young People
- Tackling Poverty and Increasing Social Justice
- A Great Place to Live
- Safe and Secure Communities
- An Environmentally Responsible City

- Vibrant City

These outcomes played a pivotal role in the Business Planning process for 2013/14. Executive Directors were given responsibility for developing realistic, affordable 2-year delivery plans within a 5-year context for each outcome area. This approach led to the development of savings proposals which were included in budget implementation plans as part of the 2013/14 Revenue Budget approved by Full Council on 1st March 2013.

The plan describes the Council's contribution to delivering the 'City Strategy', the vision of which is to make Sheffield "a city of global significance, distinctive, successful, inclusive, vibrant and sustainable" by 2020.

### **3. KEY SECTIONS INCLUDED IN THE STATEMENT OF ACCOUNTS**

#### **Statement of Responsibilities** (page 24)

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

#### **Movement in Reserves Statement** (page 25)

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

#### **Comprehensive Income and Expenditure Statement** (page 28)

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

#### **Balance Sheet** (page 29)

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 31)

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 32)

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

#### **Housing Revenue Account (HRA)** (page 132)

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 139)

This 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 2013/14, which included a savings programme of £49.6m, was split by portfolio as shown in the chart overleaf. The net expenditure was budgeted to be funded by £190.1m of Revenue Support Grant, £164.3m of Council Tax, £95.3m of the Council's share of National Non Domestic Rates (NNDR) and £27.8m of Business Rates Top Up Grant. Council Tax was frozen for the third year running.

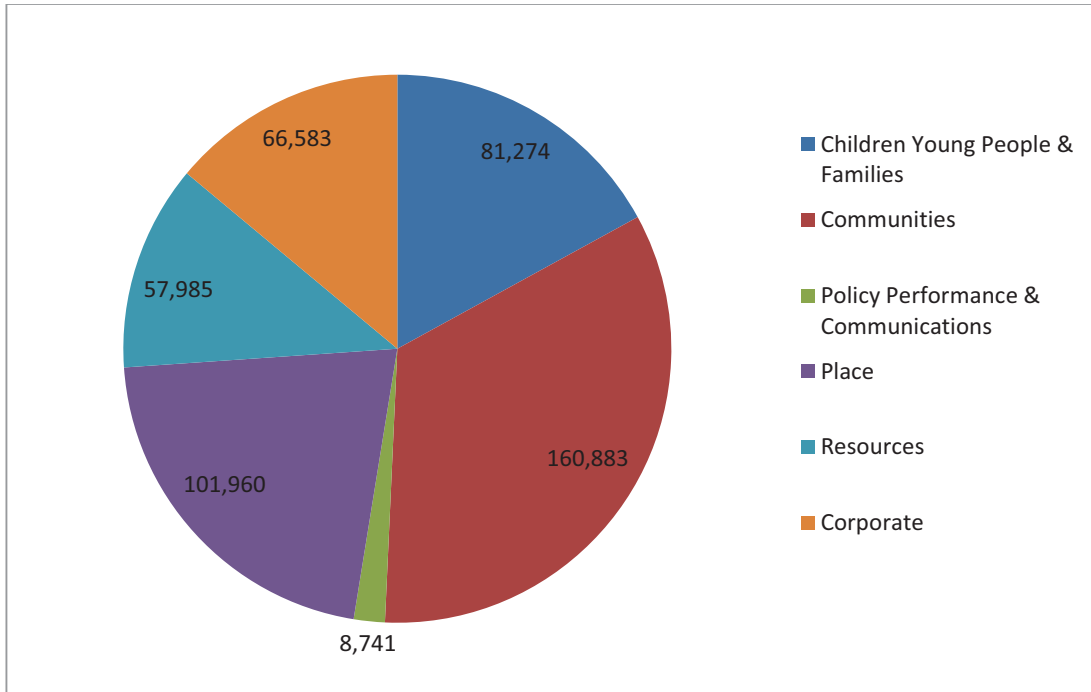
2013/14 saw the introduction of significant changes to local government finance, including:

- The retention of 50% of business rates by local authorities. This replaced the previous scheme whereby all business rate income was paid over to Government who then redistributed this to local authorities as support for Council expenditure. Under the new arrangements, the Government has estimated each local authority's 50% share of business rate income and then adjusted this via a system of top up grants or tariffs to arrive at a Business Rates Baseline for each local authority.
- The Revenue Support Grant allocation then brings each local authority to a level of funding that is referred to as "Start Up Funding Assessment" (SUFA). This represents each local authority's share of the overall local government spending control total, i.e. the total amount which the Government plans to spend in respect of local government.
- The abolition of Council Tax Benefits and the introduction of a localised Council Tax support scheme. This has resulted in the cessation of Council Tax Benefit Subsidy (£46.4m in 2012/13) and its replacement by financial support that is included in the SUFA. This new localised support scheme also involves adjustments to the Council Tax base and impacts on the ability to generate additional income through Council Tax increases.

2013/14 was a very challenging year in which all portfolios worked hard to deliver the huge savings programme referred to above. 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 (approved by Cabinet on 18<sup>th</sup> June 2014) can be found:

<http://sheffielddemocracy.moderngov.co.uk/ieListDocuments.aspx?CId=123&MId=5564&Ver=4>

**Sheffield City Council 2013/14 Net Revenue Budget by Portfolio (£000)**



Portfolio	Variance £000
Children Young People and Families	(147)
Communities	9,678
Policy Performance and Communications	18
Place	348
Resources	(753)
Corporate	(8,729)
<b>Total overspend for the year</b>	<b>415</b>

As indicated in the table above, the key area of concern is the Communities portfolio which overspent by £9.7m as a result of demand pressures on the Adult Social Care budget. This had been identified as a significant emerging pressure in the Corporate Financial Risk Register as part of the 2013/14 Budget process.

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 £60.5m. 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 £0.4m to the surplus in the CIES (£60.5m).

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 £489m in 2013/14.

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 £94.1m in 2013/14.

The third section of the CIES includes £96.0m of interest paid or received (‘Financing’) and £598.8m 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 gain on the Council’s pension scheme, the other for the gain on revaluation of fixed assets.

	<b>£000</b>
Total General Fund Overspend per Outturn report	416
Net contributions to revenue reserves	(8,378)
Surplus on the Housing Revenue Account	(11,376)
Surplus on Schools Accounts	(921)
<b>Total Underspend</b>	<b>(20,259)</b>
Removal of debt charges	(28,087)
Removal of pension contributions	(44,589)
<i>Items that do not affect Council Tax:</i>	
Inclusion of accounting charges for depreciation, impairment, holiday pay, PFI, etc.	173,215
Gains & losses on non-current assets, pension assets and other items	(140,738)
<b>Surplus on Total Comprehensive Income and Expenditure in Accounts</b>	<b>(60,458)</b>

## 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 2013/14 Capital Outturn is £116.5m against a revised budget of £129.1m, a variance of £12.6m (10%). The main reason for this is £9.6m of ‘slippage’ (the extent to which, in terms of expenditure, a capital project is behind schedule) which will be carried forward into 2014/15 (along with the resources identified to fund it). There is a further £2.6m of project underspends with the majority relating to contractor over-estimates on schemes within the Housing Programme.

The Outturn for the year as per the table below shows that all portfolios with the exception of Corporate are below budget, recording slippage of £9.6m as stated above. This is on top of £44.6m slippage already approved earlier in the year, thus bringing to £54.2m the total slippage on the original budget for 2013/14 of £146.4m.

<b>Portfolio</b>	<b>Outturn £000</b>	<b>Budget £000</b>	<b>Variance £000</b>
Children Young People and Families	27,742	29,122	(1,380)
Communities	1,173	1,404	(231)
Housing	41,022	45,753	(4,731)
Place	20,207	22,023	(1,816)
Highways	11,221	13,896	(2,675)
Resources	7,938	9,687	(1,749)
Corporate	7,218	7,218	0
<b>Total</b>	<b>116,521</b>	<b>129,103</b>	<b>(12,582)</b>

The capital expenditure of £116.5m in 2013/14 was funded via four main sources:

- Capital grants and contributions (£39.0m)
- Prudential borrowing (£37.8m)
- Major Repairs Reserve (£32.4m)
- Capital receipts (£7.3m)

In addition to the £116.5m capital expenditure above another £64.4m was also spent outside of the capital programme – resulting in total, capital expenditure of £180.9m.

### Usable Reserves

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

During the financial year 2013/14, total usable reserves increased by £43.9m from £168.6m to £212.5m. The key reasons for the increase in this category of reserves are as follows:

- The Major Repairs Reserve, which the Council is required to maintain explicitly for the purpose of funding capital expenditure on HRA assets, increased by £34.5m as part of the strategy to consolidate surpluses from HRA revenue reserves in anticipation of substantial capital investment in the medium term. This strategy has been approved on an annual basis by Cabinet in the HRA business plan.
- An Insurance Fund Reserve of £9.4m was created during the year, following the 2012/13 external audit. It was recommended that funds relating to potential insurance claims against the Council needed to be split between Provisions and Reserves. Previously all the funds were reported as Provisions within the Statement of Accounts.

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 25.

## 5. SIGNIFICANT CHANGES IN ACCOUNTING POLICY

The Council's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies presented in Note 1 are



compliant with IFRS and have been applied in preparing the financial statements and the comparative information.

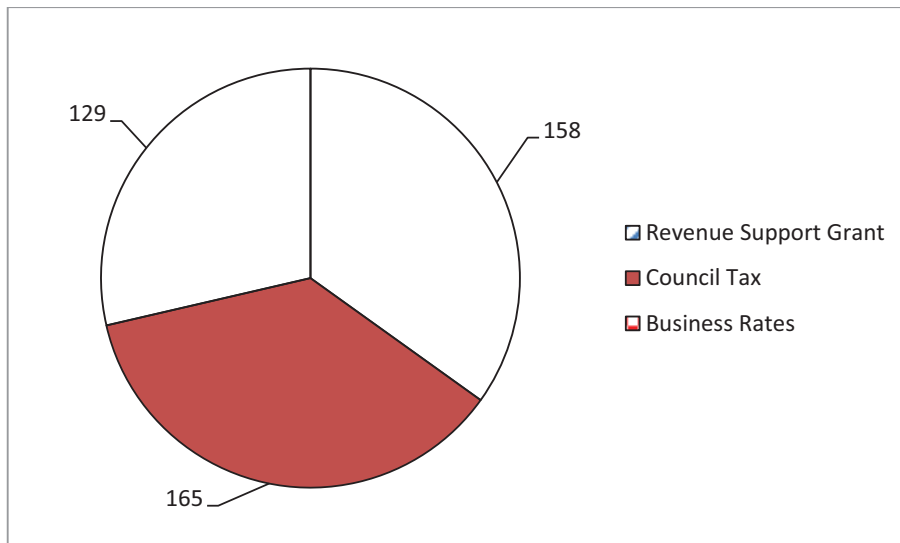
The 2013/14 Code has been revised to reflect the changes to the classification, recognition, measurement and disclosure requirements introduced by the June 2011 amendments to International Accounting Standard 19 (IAS19) Employee Benefits. The adoption of the June 2011 amendments to IAS19 is a change in accounting policy. However, the impact of the change is presentational only and there is no impact on the Balance Sheet. Therefore, the prior year figures have not been restated (see Note 5).

## 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 2014/15 Revenue Budget (approved by Full Council on 7th March 2014) and the Medium Term Financial Strategy.

### Local Government Finance Settlement

After a period of consultation which ended on 15 January 2014, the final Local Government Finance Settlement figures for 2014/15 were confirmed on 5 February 2014.



*How the 2014/15 net revenue budget is financed (expressed in £m)*

As shown in the chart above, the net revenue budget for 2014/15 totals £452m and comprises three main sources of income at broadly similar levels. However when compared to the 2013/14 net revenue budget, the proportion of each of these income sources has changed, thus pointing to a trend of things to come. For example, Revenue Support Grant (RSG) accounted for 40% of the net revenue budget in 2013/14. As a result of RSG being reduced by £33m in the 2014/15 Settlement, Council Tax is now the primary source of income (at 36% of the total net revenue budget).

An Illustrative Finance Settlement for 2015/16 was issued at the same time as the 2014/15 Settlement. As expected following the 2013 Autumn Statement, the 2015/16 Settlement presents a more difficult picture for Local Government Finance than

2014/15. According to the Government's illustrative figures, SUFA for Sheffield City Council is expected to reduce by around £42m compared to 2014/15. This is a reduction of nearly 15%; within this figure is a bigger reduction in RSG of £45m or 29%.

## **Conclusion**

Sheffield City Council has successfully delivered over £180m of General Fund budget savings in the past three years, and it has managed to balance the 2014/15 budget which includes additional savings of £58m. However, as outlined above, the Government's plans to reduce the national budget deficit to zero within the next Parliament 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](mailto:FinancialPlanning&Accounts@sheffield.gov.uk)

The Statement of Accounts can be downloaded from the Council's website: <https://www.sheffield.gov.uk/your-city-council/finance/statement-of-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 in the Sheffield Star on 30 June 2014 and on the Council's website.

## Annual Governance Statement

### THE POSITION FOR THE FINANCIAL YEAR 2013/14

#### **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 economically, efficiently 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/your-city-council/constitution-and-governance/code-of-corporate-governance.html>. This statement explains how Sheffield City Council has complied with the code. It also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), 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 2014 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 the Council contains two key elements, the internal control arrangements of the Council and also how Sheffield City Council 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 2014 and up to the date of approval of the annual report and 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 decisions on behalf of the Council to ensure the smooth operation of 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 set out its vision and corporate priorities in its Corporate Plan 2011-2014 ("Standing Up for Sheffield") – agreed by Cabinet on 9 November 2011. 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 has been implemented 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 monthly budget monitoring reports in addition to the portfolio members. 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](http://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 to 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 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 her 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 re configured the Council's risk management. He reports to the Audit Committee and EMT 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 risk and performance management processes in particular. This is to ensure that the processes used are simple and effective and meet the requirements of the Council. Workshop training has been delivered to senior managers, and an e-training module has been developed that will be integrated into the manager learning and development curriculum.

The Council has a 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

Whistle-blowing 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.

Reviews 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 economical, effective and efficient use of resources**

The Council has previously instigated the Modern Efficient Council (MEC) Programme. The programme has developed, leading our corporate plan ambition of putting the customer first and achieving better value for money. The principles were:

- be led and shaped by what the people of Sheffield want, and what matters to them most;
- provide excellent services to our citizens and businesses, first and every time;
- provide outstanding value for money.

The Council is currently putting together its plan for 2015 to 2018 which will update the current thinking on vision and key initiatives.

#### **5 - The financial management of the Council**

The effectiveness of the system of financial management is informed by:

- The work of Internal Audit.
- The external auditors' 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 Contracts Administration team 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, 'Standing up for Sheffield'. 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.

The Council has introduced an Individual Performance Review framework which requires scoring of individual staff and managers against the Council's Imperatives, which are set at Leadership, Service and Individual level. These scores will enable the

Council to map performance distribution. The Imperatives were co-produced using a range of consultative techniques with staff groups in the organisation. Completed reviews will be collated by HR who will gather information which will then be used to identify and consolidate good performance and identify where there is less than optimum performance. Development interventions will be provided to support improvements, where necessary.

The Council has identified a core development programme for managers and employees to embed a consistent approach to management of resources, including its people, and to develop employee knowledge and skills across a range of subjects. Alongside this the Council is developing Portfolio Commissioning Groups to identify, commission and monitor specific development needs of its employees, and to consider the qualitative and quantitative data relating to Individual Performance Reviews.

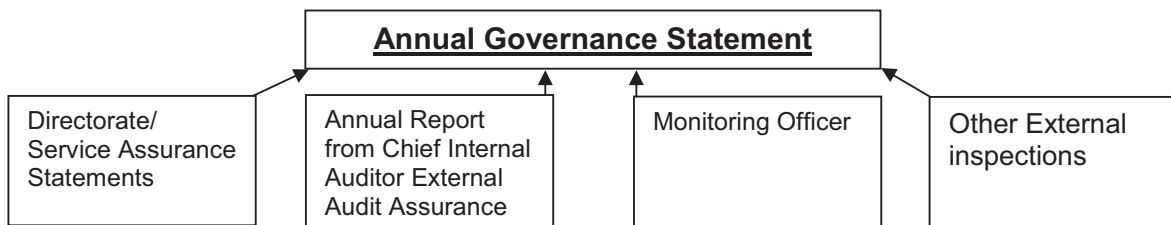
The Council also has a training programme in place, which is specifically tailored to the needs of elected Members in fulfilling their roles and responsibilities, including an induction programme for newly-elected Members.

**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 Executive Management Team (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, for example, 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 initiated. 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. The section also undertakes fraud investigations and other ad hoc responsive investigations relating to the Council's control framework. This element of Internal Audit's work also contributes to the maintenance of a sound system of internal financial control. The section 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 section also works closely with the external auditors (KPMG). The service 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 weaknesses. The Assistant Director of Finance (Business Partnering Communities and 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 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. Such a review has taken place during the year. The Interim 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 the 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 year 2013/14 all these duties have been performed.

A significant part of SCC's risk liability is connected to its maintained schools, for example: School Finance, Health and Safety, HR, Premises Maintenance. Whilst the day to day management of these issues is delegated to School Governing Bodies and Head teachers SCC retains residual liability for maintained schools where SCC is the employer and the owner of property. During 13/14 following a serious incident at a school, a rigorous plan of action has been put in place to review control of Health and Safety in schools and rectify any areas where improvements are required.

During the financial year 2013/14 the Council has been inspected by a number of external agencies and a summary of their findings is noted in the following paragraphs. The 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.

The Council's external auditors, KPMG, anticipated issuing an unqualified opinion on the Council's Accounts in their 'Report to those charged with governance (ISA 260) 2012/13' and confirmed that opinion by 30/09/2013.

Individual Council services are the subject of external inspections. The following significant inspection reports were also received:



Department	Inspected By	Comments
CYPF - Children and Families	OFSTED	19/11/13 Requires improvement
CYPF - Lifelong Learning Skills & Communities	OFSTED	03/02/14 Grade 2 - Good
CYPF - Inclusion & Learning	Safeguarding Inspection	January 2014 awaiting outcome
CYPF - Inclusion & Learning	New Arrivals and Roma Inspection	February 2014 awaiting outcome
Customer Services	SGS - Customer Service Excellence	18/09/2013 Continued Accreditation
Finance	KPMG - Opinion on the Statement of Accounts	30/09/2013 Unqualified audit opinion on 2012/13 Statement of Accounts
Finance	KPMG - VFM conclusion	30/09/2013 Unqualified conclusion

In addition to the above, a number of schools within the city have been the subject of OFSTED inspections. The Children and Young People's Service's Advice and Inspection Service follow up on these reviews and give support to the schools.

For all of the above inspections, recommendations were made. Assurance has been received that appropriate management action is being taken.

The Council has an Audit Committee made up of 6 non-Executive elected Members. In May 2011, 2 non-voting independent co-opted members were also appointed to the Committee to bring additional experience, independence and an external view to the Committee's work.

The Audit 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 Audit 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 and Risk Management 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 Risk 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 monitor closely its most significant external relationships in relation to risk and governance arrangements, with quarterly reports to both the Executive Management Team and twice yearly reports to the Audit Committee. Ensuring that appointed Members receive appropriate officer support remains an important area of activity.

**Significant 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 2013/14, 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.

As part of the 2013/14 Annual Governance Statement process, some significant control weaknesses have been identified. Two of these weaknesses were identified as part of the 2012/13 Annual Governance Statement and have been added again for the reasons set out below. These issues are significant in that they cover large parts of the Council and its activities and require a corporate solution.

Description of the Control Weaknesses	Officer Action
<p><b><u>Adult Social Care and Supporting Services</u></b></p> <p>This issue featured on last year’s AGS and the service provided an update on progress in January 2014:</p> <p><i>A Programme Board is overseeing progress of the established recovery and medium term activity including the Adult Social Care plans to ensure service users are kept independent safe and well, their unmet eligible critical and substantial needs are met in the most cost effective way and ensuring services are efficient and that staff are deployed in an effective and efficient way.</i></p> <p><i>A number of interventions are being progressed focusing on Reviews and Reassessments, Continuing Health Care, Refining our Personalisation Offer, Direct Payments Monitoring and Management and Adult Provider Services’ Savings</i></p>	<p>Actions are being taken within the Portfolio and corporately to address these issues</p> <p>There was inconsistent performance in budget monitoring and operational and financial forecasting. Actions are being taken to ensure that better information and processes are in place.</p> <p>There was poor management information. Actions to put in robust management information and financial monitoring are being undertaken.</p>

<p><i>Plans. Guidance and regular updates are provided to staff and we have hosted four stakeholder events.</i></p> <p><i>The forecast spend position is consistently reducing.</i></p> <p>It would seem that while improvements are being made there is a need to include this item again on the Statement as the measures carried out to rectify the issues raised in 2012/13 have highlighted issues with the support systems to Adult Social Care which may have contributed to the range of issues with the service in 2012/13.</p> <p>Issues were highlighted in service planning, management information, financial management and commissioning.</p>	
<p><b><u>Capital Project Management</u></b></p> <p>This featured on last year's AGS.</p> <p>In 2012/13 only 64.1% of forecasts were completed by the relevant managers.</p> <p>Concerns remain about the level of compliance with and the quality of monthly forecasting of schemes by project managers. Slippage remains to be a considerable problem across the Capital Programme.</p> <p>Of particular concern is the Delivery of Highway Schemes.</p> <p>An internal audit report concluded:</p> <p><i>There was ambiguity and overlap in relation to aspects of the implementation, scheduling, monitoring and delivery of the transport capital programme. The Service failed to apply the corporate Capital Approval procedures and was found to have inadequate financial monitoring, reporting &amp; governance arrangements along with a lack of quality assurance regarding project management.</i></p> <p><i>There were high levels of slippage in to</i></p>	<p>Whilst there has been an improvement, performance remains short of where it should be.</p> <p>In the last half of 2013-14, between 85% and 92.5% of forecasts were completed. The accuracy of the forecast also improved such that the level of slippage declared at year-end fell from £43.3m in 2012/13 to £9.6m in 2013/14. Total slippage in the year fell from £87.7m to £54.2m.</p> <p>The Capital Programme Group has led the definition and clarification of the roles of Project Sponsor and Project Manager and is rolling this out through the Capital Delivery Service and Finance teams. The Council is now adopting a Gateway Approval process where the project business case has to be supported by a programme Board (Gateway 1 &amp; 3), and reviewed by another cross portfolio officer group (Gateway 2) to ensure compatibility with the whole capital programme and deliverability before it is considered by CPG (Gateway 4) for financial and onward democratic approval.</p>

<p>2013/14 which amounted to £5.2m against a total capital allocation of £15.1m (35%) for the service.</p> <p><i>A Mid-Term Review of all South Yorkshire LTP and LSTF schemes was carried out in September 2013 by the SYLTP Central Partnership Team. This resulted in a total of £1m of funding being "scaled back" (i.e. re-allocated) away from existing Sheffield schemes on the basis that it was unlikely to be applied in the year. Over and above this, a further nine schemes (amounting to £915k) had been placed under "Special Measures, requiring more detailed programme management scrutiny and/or changes to management of the project".</i></p>	<p>EMT has also recommended that project management should be concentrated within the Capital Delivery Service which will assume responsibility for monitoring the physical progress of the programme. The Capital Delivery Service is in the process of developing the Capital Hub which will deploy and operate the infrastructure needed to monitor and manage capital programme performance. This work will also enable more detailed performance reports to be provided to EMT and Cabinet.</p> <p>The rate of adoption and adherence to these principles varies across the Council, with the Place Portfolio starting to pilot many of the new ways of working.</p> <p>Notwithstanding that, the Highways service remains one of those services which needs to make the greatest change having moved on only a little since last year. However, the Director of the service is committed to change and is being supported by Finance, Commercial Services and the Capital Delivery Service to realise this.</p>
<p><b><u>Consistency of Corporate Issues</u></b></p> <p>A number of issues were raised relating to consistency with processes or procedures across the Council.</p> <p>Areas of concern are as follows:</p> <ol style="list-style-type: none"> <li>1. Projects - Risk management and reporting – an internal audit report highlighted the lack of a corporate approach to the reporting of risks in projects.</li> <li>2. Contract management – whilst there is a contract management framework and clear processes for major contracts, there are a wide range of other contractual arrangements in the Council with varying degrees of</li> </ol>	<p>EMT will identify where it is appropriate for processes to be applied corporately and where Portfolios retain discretion on how to apply a process. An action plan will be devised to set out the reporting and monitoring requirements of EMT. EMT to reconsider its overview of project risk management as part of the business change agenda.</p> <p>The Interim Director of Commercial Services has raised this as an issue and is devising an action plan to rectify the position</p>

<p>effective management.</p> <p>3. A lack of consistency in services seeking early support from legal, financial and commercial teams to minimise risk, so that advice is sometimes reactive not proactive</p> <p>4. HR people management – HR processes such as sickness absence procedures, Individual Performance Reviews, induction and exit processes and ID badges were identified as processes that although corporately prescribed and frameworks are in place were not always consistently applied across the organisation</p> <p>5. As part of a programme of work by the Information Governance Board a number of Services across different Portfolios acknowledged that they did not have adequate information retention/destruction policies meaning that they may be holding physical and/or electronic data unnecessarily.</p>	<p>This will be addressed as part of the action in 1.</p> <p>Director of HR to review processes to make sure they are robust and assist EMT in preparing an action plan to address the inconsistencies in management as required ID badges have recently become the responsibility of the Director of Transport &amp; FM. HR have not had any previous involvement but the Director of HR will as part of this review work with the Director of Transport &amp; FM to put in place a robust process for allocation of ID badges</p> <p>The Information Governance Board has identified the need for guidance to be updated.</p> <p>The Council has recently appointed an Information Governance Officer to address any issues with consistency</p>
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**Statement**

We have been advised on the review of the effectiveness of the governance framework by the relevant Officers and a plan to address weaknesses and ensure continuous improvement of the system is in place. Regular updates on progress will be made available to the Council Leader.

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

**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, and
- complied with the Local Authority Code.

The Executive Director of Resources has also:

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

I hereby certify that the Statement of Accounts on pages 25 - 147 gives a true and fair view of the financial position of Sheffield City Council at 31 March 2014 and of its income and expenditure for the year ended 31 March 2014.

Eugene Walker  
Interim Executive Director of Resources (Section 151 Officer)  
25 September 2014

**The Core Financial Statements**

**Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. 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 Balance 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 Balance and Housing Revenue Account Balance before any discretionary transfers (to) or from earmarked reserves undertaken by the Council.

Sheffield City Council – Statement of Accounts 2013/14

2013/2014		General Fund Balance £000	25	25	25	25	25	25	25	25	25	26	Total Council Reserves £000
	Note		Farmarked General Fund Reserves £000	Housing Revenue Account Balance £000	Earmarked Housing Revenue Account Reserve £000	0	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000		
<b>Balance at 31 March 2013</b>		<b>(11,183)</b>	<b>(68,519)</b>	<b>(22,528)</b>	<b>0</b>	<b>(30,225)</b>	<b>(9,379)</b>	<b>(26,740)</b>	<b>(168,574)</b>	<b>(492,774)</b>		<b>(661,348)</b>	
<b>Movement in reserves during 2013/14:</b>													
(Surplus) / deficit on provision of services	CI&ES	114,228	0	(33,948)	0	0	0	0	0	80,280	0	80,280	
Other Comprehensive (Income) and Expenditure	CI&ES	0	(25)	(8,809)	0	62	0	0	0	(8,772)	(131,966)	(140,738)	
<b>Total Comprehensive (Income) and Expenditure</b>		<b>114,228</b>	<b>(25)</b>	<b>(42,757)</b>	<b>0</b>	<b>62</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>71,508</b>	<b>(131,966)</b>	<b>(60,458)</b>	
Adjustments between accounting basis and funding basis under regulations	9	(134,369)	0	31,774	0	(2,732)	(15,256)	5,199	(115,384)	115,384	0	0	
<b>Net (increase) / decrease before transfers to earmarked reserves</b>		<b>(20,141)</b>	<b>(25)</b>	<b>(10,983)</b>	<b>0</b>	<b>(2,670)</b>	<b>(15,256)</b>	<b>5,199</b>	<b>(43,876)</b>	<b>(16,582)</b>		<b>(60,458)</b>	
Transfers (to) / from earmarked reserves	10	20,508	(17,461)	20,468	(1,273)	(93)	(19,196)	(2,953)	0	0	0	0	
<b>(Increase) / decrease in year</b>		<b>367</b>	<b>(17,486)</b>	<b>9,485</b>	<b>(1,273)</b>	<b>(2,763)</b>	<b>(34,452)</b>	<b>2,246</b>	<b>(43,876)</b>	<b>(16,582)</b>		<b>(60,458)</b>	
<b>Balance at 31 March 2014</b>		<b>(10,816)</b>	<b>(86,005)</b>	<b>(13,043)</b>	<b>(1,273)</b>	<b>(32,988)</b>	<b>(43,831)</b>	<b>(24,494)</b>	<b>(212,450)</b>	<b>(509,356)</b>		<b>(721,806)</b>	





**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 the Movement in Reserves Statement. Further analysis is shown in Notes 11, 12, 13 and 30.

2012/13			Notes	2013/14		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
<b>Continuing Operations:</b>						
207,444	(67,956)	139,488	Adult Social Care	210,540	(56,600)	153,940
600,118	(434,642)	165,476	Children's and Education Services	489,743	(378,101)	111,642
Cultural and Related Services:						
0	0	0	- Sheffield City Trust	7	35,617	0
62,412	(4,896)	57,516	- Other	43,109	(5,398)	37,711
43,381	(10,657)	32,724	Environment and Regulatory Services	34,818	(10,551)	24,267
100,450	(10,871)	89,579	Highways and Transport Services	103,976	(14,376)	89,600
110,214	(145,250)	(35,036)	Housing - HRA	109,801	(152,724)	(42,923)
213,371	(194,843)	18,528	Housing - Other Services	231,506	(207,536)	23,970
30,021	(7,070)	22,951	Planning Services	34,055	(17,644)	16,411
90,092	(63,366)	26,726	Central Services	33,297	(11,264)	22,033
18,050	(5,023)	13,027	Corporate and Democratic Core	22,170	(5,882)	16,288
234	(2)	232	Non-Distributed Costs (NDC)	(1)	0	(1)
1,475,787	(944,576)	531,211	Total Continuing Operations excluding Services Transferred	1,348,631	(860,076)	488,555
<b>Services Transferred:</b>						
0	0	0	Public Health *	25,996	(25,583)	413
<b>1,475,787</b>	<b>(944,576)</b>	<b>531,211</b>	<b>(Surplus) / Deficit on Continuing Operations</b>	<b>1,374,627</b>	<b>(885,659)</b>	<b>488,968</b>
		288,669	Other Operating Expenditure	11		94,148
		65,775	Financing and Investment Income and Expenditure	12		95,993
		(573,471)	Taxation and Non-Specific Grant Income	13		(598,829)
		<b>312,184</b>	<b>(Surplus) / Deficit on Provision of Services</b>			<b>80,280</b>
		44,427	(Surplus) / deficit on revaluation of non-current assets			(20,404)
		141,449	Re-measurements of the pension net defined benefit liability			(111,539)
		25	Other (gains) / losses			(8,795)
		<b>185,901</b>	<b>Other Comprehensive (Income) and Expenditure</b>			<b>(140,738)</b>
		<b>498,085</b>	<b>Total Comprehensive (Income) and Expenditure</b>			<b>(60,458)</b>

\* On the 1 April 2013 Public Health staff and services transferred from Primary Care Trusts (PCTs) to Local Authorities. See Note 8 for details.

<b>Balance Sheet</b>
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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'.

<b>As at 31 March 2013</b>		<b>Notes</b>	<b>As at 31 March 2014</b>
<b>£000</b>			<b>£000</b>
2,360,846	Property, Plant and Equipment	14	2,336,467
63,757	Heritage Assets	15	62,754
2,210	Investment Properties		1,489
14,345	Long term Debtors	18	100,159
<b>2,441,158</b>	<b>Long Term Assets</b>		<b>2,500,869</b>
20,000	Short Term Investments	16	60,000
57	Inventories		125
97,160	Short Term Debtors	19	83,451
108,336	Cash and Cash Equivalents	16 / 20	32,802
3,834	Assets Held for Sale	21	10,856
<b>229,387</b>	<b>Current Assets</b>		<b>187,234</b>
(62,925)	Short Term Borrowing	16	(36,717)
(97,894)	Short Term Creditors	22	(125,582)
(36,599)	Short Term Provisions	23	(38,920)
(6,930)	PFI / PPP Finance Lease Liability	16 / 42	(8,312)
(19,347)	Capital Grants Receipts in Advance	38	(20,702)
<b>(223,695)</b>	<b>Current Liabilities</b>		<b>(230,233)</b>
(651,000)	Long Term Borrowing	16	(666,613)
(14,518)	Long Term Provisions	23	(9,458)
(283,874)	PFI / PPP Finance Lease Liability	16 / 42	(327,293)
(797,832)	Net Pension Liability	45	(697,558)
(23,912)	Other Long Term Liabilities	24	(21,392)
(14,366)	Capital Grants Receipts in Advance	38	(13,750)
<b>(1,785,502)</b>	<b>Long Term Liabilities</b>		<b>(1,736,064)</b>
<b>661,348</b>	<b>Net Assets</b>		<b>721,806</b>
(168,574)	Usable Reserves	25	(212,450)
(492,774)	Unusable Reserves	26	(509,356)
<b>(661,348)</b>	<b>Total Reserves</b>		<b>(721,806)</b>

The Statement of Accounts was approved and authorised for issue by the Interim Executive Director of Resources and the Audit Committee, in accordance with the Accounts and Audit (England) Regulations 2011, on 25 September 2014.

These financial statements may be amended following audit review.

Eugene Walker  
 Interim Executive Director of Resources (Section 151 Officer)  
 25 September 2014

<b>Cash Flow Statement</b>
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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.

<b>2012/13</b>		<b>Notes</b>	<b>2013/14</b>
<b>£000</b>			<b>£000</b>
(312,184)	Net (deficit) on the provision of services		(80,280)
	Adjust net (deficit) on the provision of services for:		
433,427	- Non-cash movements	27	247,840
(71,487)	- Items that are investing or financing activities	27	(50,161)
<b>49,756</b>	<b>Net cash flow from operating activities</b>		<b>117,399</b>
(78,514)	Investing activities	28	(178,504)
100,849	Financing activities	29	(14,429)
<b>72,091</b>	<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(75,534)</b>
36,245	Cash and cash equivalents at 1 April	20	108,336
<b>108,336</b>	<b>Cash and cash equivalents at 31 March</b>	20	<b>32,802</b>

## 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 2013/14 financial year and its position at the year end of 31 March 2014. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011. 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 2013/14 ('the Code') and the CIPFA Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2011 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 public sector reserve 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. Exceptional Items (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 Balance (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 authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance 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's and Education Services' line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The 'Public Health' line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to NHS Pensions in the year.

## The Local Government Pension Scheme

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

- The liabilities of the 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 45 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 as part of Non Distributed Costs,
    - 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 balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact 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. 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 re-purchase / settlement. However, where re-purchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The 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 Balance 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 Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the 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.

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.

## **XI. 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.

## **XII. 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 Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. 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.

## **XIII. 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.

## **XIV. 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.

## **XV. Investment Property**

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore

reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **XVI. Jointly Controlled Operations (Pooled Budgets)**

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures that involve the use of the assets and resources of the ventures rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

## **XVII. 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 Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease even if this does not match the pattern of payments (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 Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts

are therefore appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

### **Operating 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.

## **XVIII. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core i.e. costs relating to the Council's status as a multifunctional, democratic organisation.
- Non-Distributed Costs i.e. the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Operations.

## **XIX. Property, Plant and Equipment**

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

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the 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.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (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 Balance 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 – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included on the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains

might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for 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 19 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 Kier Asset Partnership Services (KAPS). 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 (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

## **XX. Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the 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.

## **XXI. 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.

### **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.

## **XXII. 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 all capital expenditure incurred, after adjusting for schemes to be deferred for MRP purposes, which will be funded by Supported Borrowing, the MRP policy will be to make a provision of 4% on the outstanding debt balance.

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.

## **XXIII. 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 Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

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

## **XXIV. 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 Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

## **XXV. Schools**

The CIPFA consultation on which types of schools should be recognised on the Council's balance sheet has proved inconclusive. Accordingly, in line with the guidance currently available and until some more definitive guidance is issued, 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 and Community Special schools should be on balance sheet but that Voluntary Aided schools, Voluntary Controlled schools, Foundation 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 or become a Foundation school are derecognised from the Council's balance sheet when the contract is complete and signed and the specific assets have been handed over / transferred.

#### **XXVI. 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, other local authorities 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).

#### **XXVII. 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 that have been issued but have not yet been adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) has introduced several changes in accounting policy as a result of amendments to the following Accounting Standards. These standards have been issued but have not yet been adopted by the Council. If these had been adopted for the financial year 2013/14 there would be no material change, as detailed below.

**IFRS 10 Consolidated Financial Statements**

**IFRS 11 Joint Arrangements**

**IFRS 12 Disclosure of Interests in Other Entities**

**IAS 27 Separate Financial Statements (as amended in 2011)**

**IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)**

A number of new and revised standards have been issued addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements in other entities, as listed above.

The Council does not currently produce group accounts on the basis that the values involved are not material. As a result, the amendments to the standards listed above would not alter the figures currently reported in the financial statements.

However, if in the future the values do become material requiring the Council to produce group accounts then these will be prepared in accordance with the above standards.

**IAS 32 Financial Instruments: Presentation**

The Code refers to amended application guidance when offsetting a financial asset and a financial liability.

The Council does not currently offset its financial assets and liabilities, therefore, there would be no impact on the financial statements as a result of the changes to this standard.

**IAS 1 Presentation of Financial Statements – Other Comprehensive Income (June 2011 Amendments)**

This amendment clarifies the disclosure requirements in respect of comparative information. The changes to this standard are presentational only and as the Statement of Accounts fully discloses comparative information for the preceding period already these changes will not have a material impact on the Statement of Accounts.

**IFRS 13 Fair Value Measurement (December 2011 Amendment)**

The CIPFA/LASAAC Local Authority Accounting Code Board decided at its meeting in January 2014 to defer the implementation of IFRS 13 Fair Value Measurement to the 2015/16 Code. In accordance with this, the financial statements do not include the measurement and disclosure requirements of this standard.

### **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. We have complied with the Code and identified our group, which comprises of the City Council, its subsidiary Sheffield Housing Company and Digital Region Limited, a company established to deliver high speed broadband to South Yorkshire. However, we have concluded that upon consolidation the value of these entities is not material and therefore the production of all the required statements would not assist the reader.
- Lease arrangements have been reviewed in line with the Code requirements. The property lease review resulted in 2 leases out of 5,240 that would require reclassification to finance leases, with immaterial values in property assets on these leases to be derecognised from the balance sheet. However, due to the immaterial value and with one lease that terminated in 2013/14, the changes have not been implemented. The equivalent review for plant and equipment assets concluded that there are multiple, small value leases which are reducing in number and value each year and those which could be re-categorised from operating to finance lease are not deemed to be material.
- 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 is awaiting the outcome of a number of audits from the European Community regarding the validity of grant claims. In some cases prima facie evidence suggests that the Council may be non-compliant with the grant conditions and some provision based on management judgement has been made. There is as yet no timescale for the EU authorities to deliver a formal response.

### **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 Council's Balance Sheet at 31 March 2014 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
Pensions Liability	<p>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.</p> <p>See Note 45 for further details.</p>	<p>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 £39m. However, the assumptions interact in complex ways. During 2013/14, the Council's actuaries advised that the net pension liability had increased by £54.6m as a result of estimates being corrected based on experience and decreased by £166.1m attributable to updating of the assumptions – a net impact of £111.5m.</p>
Arrears	<p>At 31 March 2014, the Council had a balance of sundry debtors for £33.1m. An impairment of doubtful debts of £15.7m (48%) was considered appropriate. However, although this is considered appropriate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, an additional impairment of doubtful debts would be required to cover some of the £17.4m of sundry debts currently not provided for.</p>
Business Rates	<p>The provision for the back dated element of future appeals is based on assumptions about the likely level of appeals raised against the ratings list in the future. The provision stands at £13.6m which is reasonable given available data sources and historic analysis. However, further information from Valuation Office Agency (VOA) may lead to a revision of these assumptions and could materially change the required level of provision.</p>	<p>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 2015 and so such a surplus would be made available for distribution to preceptors in the 2015/16 budget. Conversely, an increase in the provision would mean a reduction to available resources in 2015/16.</p>
Future Funding	<p>Like all other local authorities, the Council faces significant uncertainty about the level of funding from Central Government beyond 2015/16. In order to</p>	

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 Adjustments**

The 2013/14 code has been revised to reflect the changes to the classification, recognition, measurement and disclosure requirements introduced by the June 2011 amendments to IAS19. The adoption of the June 2011 amendments to IAS 19 is a change in accounting policy. However, the impact of the change is not material. Therefore, the prior year figures have not been restated.

#### **06. Events After the Reporting Date**

The Audited Statement of Accounts was authorised for issue by Eugene Walker, Interim Executive Director of Resources on 25 September 2014. 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 2014, 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 2014 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:

##### **South Yorkshire Trading Standards**

In July 2014, Sheffield City Council, Doncaster MBC, Barnsley MBC and Rotherham MBC reached agreement to settle the liabilities for the former South Yorkshire Trading Standards Unit. The Council has concluded that the £1.5m difference between the amount outstanding on the balance sheet and the final settlement does not require an adjustment to the 2013/14 financial statements on the basis of materiality. The transactions will be reported in the 2014/15 financial statements and notes.

**07. Material Items of Income and Expense (Exceptional Items)**

**2013/2014**

**Sheffield City Trust**

During the financial year the Council commenced the amortisation of the prepayment to Sheffield City Trust (SCT) that enabled SCT to repay the expensive bank debt held with Lloyds Bank. In addition to this amortisation (£9.1m) the Council also recognised the defrayment of the prepayment it made to SCT in January 2013 for lease rentals payable to Lloyds for the period April – September (£8.5m), and the impairment of the remaining prepayment for the period October – January (£4.3m) and other costs (£0.1m).

The Council also supported the Trust to make payments in respect of the Sheffield Investment Bond during the year (£13.6m).

Taken together, these transactions constitute a material item of expenditure (£35.6m). This expenditure is included within the Cultural and Related Services line in the Comprehensive Income & Expenditure Statement.

From financial year 2014/15 there will be no lease rentals payable as a result of the termination of the bank debt.

**2012/2013**

There were no exceptional items in 2012/2013.

**08. Acquired and Discontinued Operations**

**Acquired Operations**

**2013/14**

On 1 April 2013 Public Health staff and services were transferred from Primary Care Trusts (PCTs) to local authorities. With the transfer brought a number of commissioning responsibilities for the Council, together with overall responsibility for improving health at local level. The national Public Health Outcomes Framework has been developed, which sets out key outcomes of interest for partners in improving health including some mandatory services including:- the National Child Measurement Programme; NHS health check assessments; comprehensive sexual health services (including testing and treatment for sexually transmitted infections, contraception outside of the GP contract and sexual health promotion and disease prevention); drug and alcohol intervention; the local authority role in dealing with health protection incidents, outbreaks and emergencies; providing public health support to health care commissioners.

To discharge the new public health responsibilities, the Council was provided with a ring-fenced public health grant. A new 'Public Health' line has been included in the Comprehensive Income and Expenditure Statement and this has been credited with this income. Public Health expenditure has also been charged to this line.



Under the new arrangements for Public Health, staff performing Public Health functions who were compulsorily transferred from the PCTs to local authorities and who had access to the NHS Pension Scheme on 31 March 2013 retained access to that scheme on transfer at 1 April 2013. Further details regarding this can be found in Note 45 Post-Employment Benefits.

No material assets or liabilities were transferred.

**2012/13**

No operations were acquired in the year to 31 March 2013.

### **Discontinued Operations**

**2013/14**

There were no discontinued operations during 2013/14.

**2012/13**

There were no discontinued operations during 2012/13.

<b>09. Adjustments Between Accounting Basis and Funding Basis Under Regulations</b>
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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.

2013/14		General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
	<b>Note</b>								26
	<b>Reversal of items debited or credited to the CI&amp;ES:</b>								
	Depreciation of Non-current assets	(48,645)	0	0	(16,463)	0	(65,108)	65,108	0
	Impairment losses charged to the CI&ES	0	0	0	0	0	0	0	0
	Revaluation losses charged to the CI&ES	(26,622)	(5,473)	0	0	0	(32,095)	32,095	0
	Movements in fair value of Investment Properties	0	0	0	0	0	0	0	0
	Capital grants and contributions credited to the CI&ES	33,842	0	0	0	0	33,842	(33,842)	0
	Application of grants and contributions to capital financing from the Capital Grants Unapplied Reserve	0	0	0	0	5,199	5,199	(5,199)	0
	Revenue expenditure funded from capital under statute	(14,704)	0	0	0	0	(14,704)	14,704	0
	Costs of disposal funded from capital receipts	(131)	0	131	0	0	0	0	0
	Net gain / (loss) on sale of non-current assets	(95,148)	4,968	(16,307)	0	0	(106,487)	106,487	0
	Amount by which finance costs calculated in accordance with the code are different from the amount of finance costs calculated in accordance with statutory requirements	(149)	1,066	0	0	0	917	(917)	0
	Reversal of items relating to retirement benefits debited or credited to the CI&ES	(61,943)	0	0	0	0	(61,943)	61,943	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	1,258	0	0	0	0	1,258	(1,258)	0

2013/14 (Continued)									
		General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
	<b>Note</b>								
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		1,434	0	0	0	0	1,434	(1,434)	0
<b>Insertion of items not debited or credited to the CI&amp;ES:</b>									
Statutory provision for repayment of debt (MRP)		28,033	0	0	0	0	28,033	(28,033)	0
Voluntary provision for repayment of debt (VMRP)		0	54	0	0	0	54	(54)	0
Revenue Contribution to Major Repairs Reserve		0	31,153	0	(31,153)	0	0	0	0
Transfer of Capital Receipts (<£10k) to the General Fund and HRA		(95)	0	95	0	0	0	0	0
Transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool		(2,709)	0	2,709	0	0	0	0	0
Employer's contribution to pension scheme		50,678	0	0	0	0	50,678	(50,678)	0
<b>Capital Financing:</b>									
Use of Capital Receipts Reserve to finance new capital expenditure		0	0	10,640	0	0	10,640	(10,640)	0
Use of Major Repairs Reserve to finance new capital expenditure		0	0	0	32,360	0	32,360	(32,360)	0
<b>Other:</b>									
Mortgages transferred from Deferred Capital Receipts Reserve		0	6	0	0	0	6	(6)	0
Other		532	0	0	0	0	532	(532)	0
<b>Total</b>		<b>(134,369)</b>	<b>31,774</b>	<b>(2,732)</b>	<b>(15,256)</b>	<b>5,199</b>	<b>(115,384)</b>	<b>115,384</b>	<b>0</b>

2012/13 – Comparative Information		General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
	<b>Note</b>								26
	<b>Reversal of items debited or credited to the CI&amp;ES:</b>								
	Depreciation of Non-current assets	(61,333)	0	0	(15,838)	0	(77,171)	77,171	0
	Impairment losses charged to the CI&ES	87	35,532	0	0	0	35,619	(35,619)	0
	Revaluation losses charged to the CI&ES	(57,647)	(44,503)	0	0	0	(102,150)	102,150	0
	Movements in fair value of Investment Properties	(926)	0	0	0	0	(926)	926	0
	Capital grants and contributions credited to the CI&ES	52,131	849	0	0	(5,775)	47,205	(47,205)	0
	Application of grants and contributions to capital financing from the Capital Grants Unapplied Reserve	0	0	0	0	8,132	8,132	(8,132)	0
	Revenue expenditure funded from capital under statute	(9,175)	0	0	0	0	(9,175)	9,175	0
	Costs of disposal funded from capital receipts	(106)	0	106	0	0	0	0	0
	Net gain / (loss) on sale of non-current assets	(279,029)	(6,824)	(18,755)	0	0	(304,608)	304,608	0
	Amount by which finance costs calculated in accordance with the code are different from the amount of finance costs calculated in accordance with statutory requirements	(153)	1,110	0	0	0	957	(957)	0
	Reversal of items relating to retirement benefits debited or credited to the CI&ES	(49,670)	0	0	0	0	(49,670)	49,670	0
	Amount by which Council Tax income adjustment included in the CI&ES is different from the amount taken to the General Fund in accordance with regulation	992	0	0	0	0	992	(992)	0

<b>2012/13 – Comparative Information (Continued)</b>									
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000	
	<b>Note</b>								26
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	3,219	0	0	0	0	3,219	(3,219)	0	
<b>Insertion of items not debited or credited to the CI&amp;ES:</b>									
Statutory provision for repayment of debt (MRP)	28,471	0	800	0	0	29,271	(29,271)	0	
Voluntary provision for repayment of debt (VMRP)	0	0	0	0	0	0	0	0	
Revenue Contribution to Major Repairs Reserve	0	20,734	0	(20,734)	0	0	0	0	
Transfer of Capital Receipts (<£10k) to the General Fund and HRA	(154)	0	154	0	0	0	0	0	
Transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool	(2,347)	0	2,347	0	0	0	0	0	
Employer's contribution to pension scheme	52,213	0	0	0	0	52,213	(52,213)	0	
<b>Capital Financing:</b>									
Use of Capital Receipts Reserve to finance new capital expenditure	0	0	14,921	0	0	14,921	(14,921)	0	
Use of Major Repairs Reserve to finance new capital expenditure	0	0	0	37,299	0	37,299	(37,299)	0	
<b>Other:</b>									
Mortgages transferred from Deferred Capital Receipts Reserve	0	0	0	0	0	0	0	0	
Other	(425)	0	425	0	0	0	0	0	
<b>Total</b>	<b>(323,852)</b>	<b>6,898</b>	<b>(2)</b>	<b>727</b>	<b>2,357</b>	<b>(313,872)</b>	<b>313,872</b>	<b>0</b>	

**10. Transfers (to) / from Earmarked Reserves**

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2013/14.

	Note	1 April 2012 £000	Transfer Out 2012/13 £000	Transfer In 2012/13 £000	Other 2012/13 £000	31 March 2013 £000	Transfer Out 2013/14 £000	Transfer In 2013/14 £000	Other 2013/14 £000	31 March 2014 £000
<b>General Fund:</b>										
Schools Reserves	25	(25,154)	8,706	0	13	(16,435)	184	0	(26)	(16,277)
Revenue Grants and Contributions	25	(859)	330	0	0	(529)	129	0	0	(400)
<i>Other Earmarked Revenue Reserves:</i>	25									
- Insurance Fund		0	0	0	0	0	0	(9,394)	0	(9,394)
- Local Authority Business Growth Initiative (LABGI)		(949)	949	0	0	0	0	0	0	0
- Local Growth Fund (LGF)		(2,202)	505	0	0	(1,697)	142	0	0	(1,555)
- Major Sporting Facilities		(7,383)	0	(8,482)	0	(15,865)	0	(2,131)	0	(17,996)
- PFI Future Expenditure		(8,289)	2,978	0	0	(5,311)	0	(6,864)	0	(12,175)
- Service Area Reserves		(3,630)	0	(2,996)	0	(6,626)	0	(943)	0	(7,569)
- Other Reserves		(26,374)	4,318	0	0	(22,056)	1,417	0	0	(20,639)
<b>Total</b>		<b>(74,840)</b>	<b>17,786</b>	<b>(11,478)</b>	<b>13</b>	<b>(68,519)</b>	<b>1,872</b>	<b>(19,332)</b>	<b>(26)</b>	<b>(86,005)</b>

**11. Other Operating Expenditure**

The following table provides a breakdown of Other Operating Expenditure:

2012/13 £000		2013/14 £000
469	Precepts (paid to non-principal authorities)	478
2,347	Payments to the housing capital receipts pool	2,709
285,853	(Gain) / loss on the disposal of non-current assets	90,180
0	Pension Administration Expenses	781
<b>288,669</b>	<b>Total</b>	<b>94,148</b>

**12. Financing and Investment Income and Expenditure**

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

2012/13 £000		Note	2013/14 £000
44,229	Interest payable and similar charges		64,914
22,333	Pensions interest cost and expected return on pensions assets		31,910
(2,225)	Interest receivable and similar income		(1,473)
1,438	(Surplus) on Trading Undertakings	31	667
0	Income from Partnership Organisations		(25)
<b>65,775</b>	<b>Total</b>		<b>95,993</b>

**13. Taxation and Non Specific Grant Income**

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

£000	2012/13 £000		Note	£000	2013/14 £000
	(199,248)	Council Tax Income			(165,991)
	(255,875)	NNDR Distribution			(95,673)
		<i>Non-ring fenced government grants:</i>	38		
(5,053)		- Revenue Support Grant (RSG)		(192,483)	
(46,849)		- Private Finance Initiative Grant (PFI)		(67,039)	
(9,851)		- Council Tax Freeze Grant		(1,914)	
(7,280)		- Funding from the Health Service		(9,683)	
(3,102)		- New Homes Bonus		(5,667)	
(1,368)		- Local Support Services Grant		(234)	
0		- Small Business Rates Relief		(2,597)	
0		- Business Rates Top-up Grant		(27,800)	
0		- Business Rates Transfer		(31)	
		Protection Grant			
(455)		- Other		0	
	(73,958)				(307,448)
	(529,081)				(569,112)
	(44,390)	Capital Grants and Contributions	38		(29,717)
	<b>(573,471)</b>	<b>Total</b>			<b>(598,829)</b>

**14. Property, Plant and Equipment (PPE)**

Movements on Balances:

Movements in 2013/14	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment (VPE) £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total PPE £000	FPI Assets included in Other Land and Buildings £000	FPI Assets included in VPE £000	Total FPI Assets included in PPE £000
<b>Cost or Valuation:</b>											
At 1 April 2013	1,393,912	869,686	85,555	592,522	35,705	129,669	5,067	3,112,116	147,964	52,860	200,824
Additions - recognition	0	1,074	0	0	0	585	0	1,659	0	0	0
Additions - programmed investment	35,406	37,159	2,334	75,699	784	1,962	6,873	160,217	250	0	250
Opening balance	3	0	0	0	0	41	0	44	0	0	0
corrections											
Revaluation increases / (decreases) recognised in the Revaluation Reserve	330	(2,763)	0	0	(381)	6,490	0	3,676	0	0	0
Revaluation increases / (decreases) to Surplus / Deficit on the Provision of Services	(14,348)	(25,437)	0	0	(1,398)	(9,855)	0	(51,038)	0	0	0
De-recognition – disposals	(6,507)	(95,588)	(3,561)	0	(309)	(3,967)	0	(109,932)	(19,540)	0	(19,540)
De-recognition – other	0	0	0	0	0	0	0	0	0	0	0
Reclassification and transfers	383	(15,424)	0	0	724	1,835	(4,953)	(17,435)	(753)	0	(753)
Council Dwelling adjustment to re-set Net Book Value (NBV)	(544,650)	0	0	0	0	0	0	(544,650)	0	0	0
<b>At 31 March 2014</b>	<b>864,529</b>	<b>768,707</b>	<b>84,328</b>	<b>668,221</b>	<b>35,125</b>	<b>126,760</b>	<b>6,987</b>	<b>2,554,657</b>	<b>127,921</b>	<b>52,860</b>	<b>180,781</b>



<b>Movements in 2013/14 (Continued)</b>											
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total PPE	PFI Assets included in Other Land and Buildings	PFI Assets included in VPE	Total PFI Assets included in PPE
<b>Accumulated Depreciation and Impairment:</b>											
At 1 April 2013	(544,650)	(34,620)	(21,972)	(138,490)	0	(11,538)	0	(751,270)	(5,536)	(7,940)	(13,476)
Depreciation charge	(16,161)	(22,776)	(7,791)	(17,672)	0	(683)	0	(65,083)	(3,656)	(2,647)	(6,303)
Depreciation written out to the Revaluation Reserve	89	15,482	0	0	32	1,991	0	17,594	0	0	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	16,022	1,488	0	0	0	2,564	0	20,074	0	0	0
Impairment (losses) / reversals recognised in the Revaluation Reserve	(44)	(348)	0	0	0	727	0	335	0	0	0
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	44	348	0	0	0	0	0	392	0	0	0
De-recognition – disposals	50	3,618	1,838	0	0	258	0	5,764	235	0	235
De-recognition - other	0	0	0	0	0	0	0	0	0	0	0
Reclassification and Transfers	0	4,531	0	0	(32)	4,855	0	9,354	0	0	0
Council Dwelling adjustment to re-set Net Book Value (NBV)	544,650	0	0	0	0	0	0	544,650	0	0	0
<b>At 31 March 2014</b>	<b>0</b>	<b>(32,277)</b>	<b>(27,925)</b>	<b>(156,162)</b>	<b>0</b>	<b>(1,826)</b>	<b>0</b>	<b>(218,190)</b>	<b>(8,957)</b>	<b>(10,587)</b>	<b>(19,544)</b>
<b>Net Book Value:</b>											
At 31 March 2014	864,529	736,430	56,403	512,059	35,125	124,934	6,987	2,336,467	118,964	42,273	161,237
At 31 March 2013	849,262	835,066	63,583	454,032	35,705	118,131	5,067	2,360,846	142,428	44,920	187,348

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Movements in 2012/13	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	PFI Assets included in Other Land and Buildings £000	PFI Assets included in VPFE £000	Total PFI Assets included in PPE £000
<b>Cost or Valuation:</b>											
At 1 April 2012	1,402,997	1,204,112	119,832	527,467	40,124	146,395	632	3,441,559	260,097	52,860	312,957
Additions - recognition	68	0	0	0	0	0	0	68	0	0	0
Additions - programmed investment	40,380	64,375	3,118	65,055	1,199	656	5,053	179,836	26,616	0	26,616
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(1,197)	(45,495)	0	0	36	(12,879)	0	(59,535)	(5,544)	0	(5,544)
Revaluation increases / (decreases) to Surplus / Deficit on the Provision of Services	(40,827)	(46,366)	0	0	(7,962)	(8,968)	0	(104,123)	(3,011)	0	(3,011)
De-recognition – disposals	(3,686)	(289,623)	(37,395)	0	(37)	(14,589)	0	(345,330)	(130,288)	0	(130,288)
De-recognition – other	(2,499)	0	0	0	0	0	0	(2,499)	0	0	0
Assets reclassified (to) / from Assets Held for Sale	(1,324)	1,683	0	0	67	7,316	0	7,742	15	0	15
Reclassification and Transfers	0	(19,000)	0	0	2,278	11,738	(618)	(5,602)	79	0	79
<b>At 31 March 2013</b>	<b>1,393,912</b>	<b>869,686</b>	<b>85,555</b>	<b>592,522</b>	<b>35,705</b>	<b>129,669</b>	<b>5,067</b>	<b>3,112,116</b>	<b>147,964</b>	<b>52,860</b>	<b>200,824</b>

Movements in 2012/13 (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	PFI Assets included in Other Land and Buildings £000	PFI Assets included in VPE £000	Total PFI Assets included in PPE £000
<b>Accumulated Depreciation and Impairment:</b>											
At 1 April 2012	(567,176)	(30,362)	(43,593)	(122,800)	0	(11,783)	0	(775,714)	(4,207)	(5,293)	(9,500)
Depreciation charge	(15,502)	(34,608)	(10,266)	(15,690)	0	(1,089)	0	(77,155)	(7,143)	(2,647)	(9,790)
Depreciation written out to Revaluation Reserve	0	14,781	0	0	0	1,727	0	16,508	2,181	0	2,181
Depreciation written out to the Surplus / Deficit on the Provision of Services	15,502	3,628	0	0	164	27	0	19,321	168	0	168
Impairment (losses) / reversals recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0	0	0
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	20,030	51	0	0	0	37	0	20,118	51	0	51
De-recognition – disposals	0	10,831	31,887	0	0	37	0	42,755	3,416	0	3,416
De-recognition – other	2,496	0	0	0	0	0	0	2,496	0	0	0
Reclassification and Transfers	0	1,059	0	0	(164)	(494)	0	401	(2)	0	(2)
<b>At 31 March 2013</b>	<b>(544,650)</b>	<b>(34,620)</b>	<b>(21,972)</b>	<b>(138,490)</b>	<b>0</b>	<b>(11,538)</b>	<b>0</b>	<b>(751,270)</b>	<b>(5,536)</b>	<b>(7,940)</b>	<b>(13,476)</b>
<b>Net Book Value:</b>											
At 31 March 2013	849,262	835,066	63,583	454,032	35,705	118,131	5,067	2,360,846	142,428	44,920	187,348
At 31 March 2012	835,821	1,173,750	76,239	404,667	40,124	134,612	632	2,665,845	255,890	47,567	303,457

## 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 2014 the Council has entered into a number of construction contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15. Future years budgeted costs are £96m, with similar commitments at 31 March 2013 of £63.5m. The major commitments are:

31 March 2013 £000		31 March 2014 £000
12,182	Schools Refurbishment	27,898
33,361	Decent Homes / Council Housing	24,365
17,977	Other	43,777
<b>63,520</b>	<b>Total</b>	<b>96,040</b>

## 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 Kier Asset Partnership Services (KAPS) and supervised by Mr N. Seneviratne FRICS, Director of Capital and Major Projects. 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 not been revised during 2013/14.

Since 2005 there has been a programme of modernisation and improvement work to bring the properties up to the Government's Decent Home Standards. Currently 37,527 dwellings, approximately 92% 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 3,205 properties not yet improved. To address this Kier Asset Partnership Services (KAPS) has valued these properties on the assumption they have met decent homes 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 2.28% has then been applied to these figures to give a value as at 31 March 2014.

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets that are carried out at current value:

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant, Furniture and Equipment</b>	<b>Surplus Assets</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Carried at Historical Cost</b>	<b>0</b>	<b>27,796</b>	<b>6,991</b>	<b>3,663</b>	<b>38,450</b>
Valued at Fair Value as at:					
31 March 2014	864,529	161,740	2,322	56,132	1,084,723
31 March 2013	0	197,633	743	30,549	228,925
31 March 2012	0	338,442	14,785	9,876	363,103
31 March 2011	0	14,976	5,334	9,437	29,747
31 March 2010	0	28,120	54,153	17,102	99,375
<b>Total Cost or Valuation</b>	<b>864,529</b>	<b>768,707</b>	<b>84,328</b>	<b>126,759</b>	<b>1,844,323</b>

## 15. Heritage Assets

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

2013/14									
	Reported at Cost				Reported at Valuation				Total Assets £000
	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	
<b>Cost or Valuation:</b>									
At 1 April 2013	1,079	48	0	0	58,500	1,000	3,182	0	<b>63,809</b>
Additions	3	0	0	0	0	0	0	0	<b>3</b>
Disposals	(1,056)	0	0	0	0	0	0	0	<b>(1,056)</b>
<b>At 31 March 2014</b>	<b>26</b>	<b>48</b>	<b>0</b>	<b>0</b>	<b>58,500</b>	<b>1,000</b>	<b>3,182</b>	<b>0</b>	<b>62,756</b>
<b>Depreciation and Impairment:</b>									
At 1 April 2013	(52)	0	0	0	0	0	0	0	<b>(52)</b>
Depreciation	(25)	0	0	0	0	0	0	0	<b>(25)</b>
Disposals	75	0	0	0	0	0	0	0	<b>75</b>
<b>At 31 March 2014</b>	<b>(2)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2)</b>
<b>Net Book Value:</b>									
At 31 March 2014	24	48	0	0	58,500	1,000	3,182	0	<b>62,754</b>
At 31 March 2013	1,027	48	0	0	58,500	1,000	3,182	0	<b>63,757</b>

2012/13 Comparative Information									
	Reported at Cost				Reported at Valuation				Total Assets £000
	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	
<b>Cost or Valuation:</b>									
At 1 April 2012	646	48	0	0	58,500	1,000	3,182	0	63,376
Additions	76	0	0	0	0	0	0	0	76
Reclassification and Transfers	357	0	0	0	0	0	0	0	357
<b>At 31 March 2013</b>	<b>1,079</b>	<b>48</b>	<b>0</b>	<b>0</b>	<b>58,500</b>	<b>1,000</b>	<b>3,182</b>	<b>0</b>	<b>63,809</b>
<b>Depreciation and Impairment:</b>									
At 1 April 2012	(26)	0	0	0	0	0	0	0	(26)
Depreciation	(16)	0	0	0	0	0	0	0	(16)
Reclassification and Transfers	(10)	0	0	0	0	0	0	0	(10)
<b>At 31 March 2013</b>	<b>(52)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(52)</b>
<b>Net Book Value:</b>									
At 31 March 2013	1,027	48	0	0	58,500	1,000	3,182	0	63,757
At 31 March 2012	620	48	0	0	58,500	1,000	3,182	0	63,350

## Five Year Summary of Movements:

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
<b>Cost of Acquisitions of Heritage Assets:</b>					
Museums and Galleries	0	33	60	76	3
<b>Total Cost of Purchases</b>	<b>0</b>	<b>33</b>	<b>60</b>	<b>76</b>	<b>3</b>
<b>Value of Heritage Assets Acquired by Donation:</b>					
Museums and Galleries	0	0	125	0	0
<b>Total Donations</b>	<b>0</b>	<b>0</b>	<b>125</b>	<b>0</b>	<b>0</b>
<b>Disposals of Heritage Assets:</b>					
Museums and Galleries	0	0	0	0	(1)
<b>Carrying Value</b>	<b>0</b>	<b>33</b>	<b>185</b>	<b>76</b>	<b>2</b>

The table above shows acquisitions (purchases and donations) between 2010 and 2014, where individual valuations are available. It is not practicable to gather information for earlier years, given the low value of additions during the period.

## 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 20<sup>th</sup> 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 20<sup>th</sup> 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 15<sup>th</sup> 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 17<sup>th</sup> 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 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.

## 16. Financial Instruments

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

Short Term 31 March 2013 £000	Long Term 31 March 2013 £000		Short Term 31 March 2014 £000	Long Term 31 March 2014 £000
(62,925)	(651,000)	Financial liabilities at amortised cost	(36,717)	(666,613)
<b>(62,925)</b>	<b>(651,000)</b>	<b>Total borrowing</b>	<b>(36,717)</b>	<b>(666,613)</b>
(6,930)	(283,874)	PFI and finance lease liabilities	(8,312)	(327,293)
<b>(69,855)</b>	<b>(934,874)</b>	<b>Total other long term liabilities</b>	<b>(45,029)</b>	<b>(993,906)</b>
20,000	0	Loans and receivables	60,370	0
117,885	0	Cash and Cash Equivalents	24,438	0
<b>137,885</b>	<b>0</b>	<b>Total investment</b>	<b>84,808</b>	<b>0</b>
<b>0</b>	<b>540</b>	<b>Soft Loans Provided</b>	<b>0</b>	<b>570</b>

### Note 1 – Carrying Value

Under accounting requirements the carrying value of the financial instrument value is shown on 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 Soft 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 Balance is the interest receivable for the financial year (the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer (to) or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement). The detailed soft loans information is shown in the table below:

31 March 2013 £000		31 March 2014 £000
512	Opening Balance	540
28	Increase in the Discounted Amount	30
<b>540</b>	<b>Balance Carried Forward</b>	<b>570</b>
<b>650</b>	<b>Nominal Value Carried Forward</b>	<b>650</b>

### Financial Instrument Gain / Losses

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

Financial Liabilities	2012/13		Total		2013/14		Total
	Financial Assets Loans and Receivable	Financial Assets Loans and Receivable			Financial Liabilities	Financial Assets Loans and Receivable	
£000	£000	£000	£000	£000	£000	£000	£000
(31,329)	0	(31,329)	(31,329)	Interest expense	(31,917)	0	(31,917)
(10,025)	0	(10,025)	(10,025)	Interest on PFI scheme liabilities	(31,039)	0	(31,039)
<b>(41,354)</b>	<b>0</b>	<b>(41,354)</b>	<b>(41,354)</b>	<b>Interest payable and similar charges</b>	<b>(62,956)</b>	<b>0</b>	<b>(62,956)</b>
0	601	601	601	Interest income	0	860	860
<b>0</b>	<b>601</b>	<b>601</b>	<b>601</b>	<b>Interest and investment income</b>	<b>0</b>	<b>860</b>	<b>860</b>
<b>(41,354)</b>	<b>601</b>	<b>(40,753)</b>	<b>(40,753)</b>	<b>Net gain / (loss) for the year</b>	<b>(62,956)</b>	<b>860</b>	<b>(62,096)</b>

### Fair Value of Assets and Liabilities Carried at Amortised Cost

The borrowings and investments disclosed on 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 rates used were 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.
- As the purpose of the fair value disclosure is to provide a comparison with the carrying value on 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.
- To calculate the Public Works Loan Board (PWLB) fair value the new borrowing rate has been used, as opposed to the premature repayment rate, as the discount factor for all PWLB borrowing. 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.

- 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 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 greater than 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 2013			31 March 2014		
Carrying Amount	Fair Value		Carrying Amount	Fair Value	
£000	£000		£000	£000	
(332,327)	(370,107)	PWLB debt	(354,053)	(369,653)	
(381,598)	(398,814)	Non-PWLB debt	(349,277)	(344,949)	
<b>(713,925)</b>	<b>(768,921)</b>	<b>Total Financial Liabilities</b>	<b>(703,330)</b>	<b>(714,602)</b>	

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 commitment to pay interest above current market rate increases the amount that the Council would have to pay (in terms of premiums etc.) if the lender requested or agreed to early repayment of the loans.

31 March 2013			31 March 2014		
Carrying Amount	Fair Value		Carrying Amount	Fair Value	
£000	£000		£000	£000	
20,000	20,490	<b>Total Loans and Receivables</b>	60,370	60,389	

The Council held two fixed term investments with Bank of Scotland of £20m and £10m as at 31 March 2014 with a maturity date of 3/4 June 2013. There was also a £30m deposit with NatWest on 95 day call which has been classified as fixed. Other deposits were held in instant access Money Market Funds (MMFs) and are classed as Cash or Cash Equivalents.

## 17. 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:



significantly cheaper than 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 ameliorated an element of its exposure to borrowing rates, which have risen during the year, through its under borrowing position during the year by taking on £37m of loans for the HRA to reduce its exposure to variable rate borrowing.

The Council maintains written principles / policies (the Treasury Management Practices or TMPs) for overall risk management, covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash. These TMPs are a requirement of the CIPFA 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. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the Council's investment criteria.

The Council adopts a counterparty list based on a model provided by Sector Treasury Services using credit ratings from all three rating agencies (Fitch, Moodys and Standard and Poors) and also using the following information:

- Credit updates 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 updates, 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 Sector 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 2014, 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 2014	Historical Experience of Default	Adjustment for conditions at 31 March 2014	Estimated Maximum Exposure to Default
	£000			£000
Deposits with A rated counterparties*	30,000	0.00%	0.09%	27
Deposits with BBB rated counterparties	30,000	0.00%	0.21%	63
	<u>60,000</u>			<u>90</u>
Customers**	31,127	0.42%	0.42%	131
	<u>91,127</u>			<u>221</u>

\* 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 2014 the Council held £30m as fixed term deposits with Bank of Scotland who were rated A at this time and £30m in a 95 day call account with NatWest who were rates BBB at this time. The adjustment for conditions at 31 March 2014 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 2013/14 write offs as a % of the total amount of invoices raised in 2013/14.

As at 31 March 2014 the Council held £30m in fixed term deposits with Bank of Scotland (a Part Nationalised Bank), which matures on 3 June 2014 and 4 June 2014. A small default risk was attached to this deposit of 0.017% at 31 March 2014. The Council also had £30m in a 95 day call account as at 31 March 2014 which had a default risk of 0.21% as at 31 March 2014. Other funds held at the year-end (£24.4m) were deposited with AAA Money Market Funds (MMFs). As MMFs offer instant access to funds these have been classified as Cash and Cash Equivalents in the accounts.

The table below shows that the Council's outstanding investments balance as at 31 March 2014 was £60m, and there was £20m investment at 31 March 2013.

<b>31 March 2014</b>			
<b>Financial Institution</b>	<b>Rating of Counterparty</b>	<b>Country</b>	<b>Amount £000</b>
Bank of Scotland	A	UK	20,000
Bank of Scotland	A	UK	10,000
NatWest	BBB	UK	30,000

<b>31 March 2013– Comparative Information</b>			
<b>Financial Institution</b>	<b>Rating of Counterparty</b>	<b>Country</b>	<b>Amount £000</b>
Bank of Scotland	A	UK	20,000

No breaches of the Council's counterparty criteria occurred during 2013/14. During the reporting period the Council held no collateral as security.

The Council does not allow credit for customers therefore the value of £31.1m for 2013/14 (£31.0m for 2012/13) 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:

<b>31 March 2013</b>		<b>31 March 2014</b>	
<b>£000</b>		<b>£000</b>	
14,590	Less than three months	15,222	
829	Three to six months	875	
890	Six months to one year	827	
14,666	More than one year	14,203	
<b>30,975</b>	<b>Total</b>	<b>31,127</b>	

The Council's bad debt impairment at 31 March 2014 is £64.1m (£52.7m for 2012/13) of this £15.7m (£16.2m for 2012/13) relates to the above outstanding debt.

### **Liquidity Risk**

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.

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 cash flow management procedures required by the CIPFA Code of Practice. This ensures that cash is available when needed.

All sums owing to the Council from funds deposited in MMFs (£24.4m as at 31 March 2014) 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.
- 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:

Principal £000	2012/13			2013/14		
	Principal £000	Accrued Interest £000		Principal plus Interest £000	Principal £000	Accrued Interest £000
47,389	15,536	62,925	Less than one year	28,996	15,330	44,326
6,163	0	6,163	Between one and two years	5,039	0	5,039
30,121	0	30,121	Between two and five years	9,048	0	9,048
4,499	0	4,499	Between five and ten years	14,498	0	14,498
610,217	0	610,217	More than ten years	630,418	0	630,418
<b>698,389</b>	<b>15,536</b>	<b>713,925</b>	<b>Total</b>	<b>687,999</b>	<b>15,330</b>	<b>703,329</b>

The maturity analysis of financial assets is:

Principal £000	2012/13			2013/14		
	Principal £000	Accrued Interest £000		Principal plus Interest £000	Principal £000	Accrued Interest £000
20,000	490	20,490	Less than one year	60,000	370	60,370
<b>20,000</b>	<b>490</b>	<b>20,490</b>	<b>Total</b>	<b>60,000</b>	<b>370</b>	<b>60,370</b>

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 Balance, subject to influences from Government grants (i.e. HRA).

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. Within the strategy a prudential indicator is set which provides maximum and minimum 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, e.g. 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 when rates rise.

In order to minimise the Council's exposure to loan interest fluctuations the Council will only have a maximum of 35% variable rate debt as a percentage of total debt. At the 31 March 2014, variable rate debt as a proportion of total debt was 27%.

The risk of interest rate loss was partially mitigated by Government grant payable on financing costs (for HRA debt)

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

	<b>£000</b>
Increase in interest payable on variable rate borrowings *	1,780
Increase in interest receivable on variable rate investments **	(987)
Impact on (Surplus) or Deficit on the Provision of Services	793
Share of overall impact debited to the HRA ***	711
Increase in fair value of fixed rate investment assets****	(53)
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)	65,379

**Notes:**

\*All borrowing raised from the PWLB and £140m of Market loans were at fixed rates in 2013/14 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 (£178m) 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 2013/14. For the purposes of this note the average rate of these loans (4.94%) 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 2013/14.

\*\*\* HRA share is 39.92% 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 of £20m and £10m held with Bank of Scotland at the year end. There was also £30m held in a NatWest 95 day call account which was classified as fixed. Other investments held by the Council at the year-end were deposited with Money Market Funds (MMFs) 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.

<b>18. Long Term Debtors</b>
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The following is an analysis of Long Term Debtors:

<b>31 March 2013</b>		<b>31 March 2014</b>
<b>£000</b>		<b>£000</b>
7,504	Up Front Contributions for Private Finance Initiative (PFI) Schemes	7,065
1,053	Housing Advances	1,047
94	Charges Over Assets	116
108	Barnsley Council Transferred Debt	68
0	Sheffield City Trust Prepayment	82,531
	<i>Loans to Third Parties:</i>	
148	- Sheffield City Region Local Enterprise Partnership	375
4,898	- Hammerson (New Retail Quarter Development)	4,888
4,000	- Digital Region	0
(4,000)	- Impairment of Digital Region Loan	0
540	- Sheffield Galleries and Museum Trust	569
0	- Sheffield International Venues Ltd	3,500
0	- Doncaster Council (LEP Growing Places Fund)	2,000
0	- Loan Provision for LEP Growing Places Fund	(2,000)
<b>14,345</b>	<b>Total</b>	<b>100,159</b>

### Sheffield City Trust

On the 30th September 2013 the Council advanced Sheffield City Trust £101m. This cash was used to part fund the repayment of bank debt held by Lloyds Bank in relation to the Major Sporting Facilities (MSF). 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. The Council has accounted for the advance to the Trust as a prepayment of grant that would otherwise have been made if the bank debt were left in place. The prepayment will be amortised over ten years in line with the original lease arrangements.

The total value of the prepayment is £91.7m, £82.5m is included above as a long term debtor and £9.2m is shown as a short term debtor.

**19. Short Term Debtors**

The following is an analysis of Debtors:

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
17,003	Central Government Bodies	10,005
0	Less Impairment for Bad Debts	0
<b>17,003</b>	<b>Central Government Bodies (Net of Impairment)</b>	<b>10,005</b>
11,070	Other Local Authorities	8,984
0	Less Impairment for Bad Debts	0
<b>11,070</b>	<b>Other Local Authorities (Net of Impairment)</b>	<b>8,984</b>
2,586	NHS Bodies	3,572
0	Less Impairment for Bad Debts	0
<b>2,586</b>	<b>NHS Bodies (Net of Impairment)</b>	<b>3,572</b>
26	Public Corporations and Trading Funds	0
0	Less Impairment for Bad Debts	0
<b>26</b>	<b>Public Corporations and Trading Funds (Net of Impairment)</b>	<b>0</b>
7,771	Housing Tenants	8,723
(6,139)	Less Impairment for Bad Debts	(6,654)
<b>1,632</b>	<b>Housing Tenants (Net of Impairment)</b>	<b>2,069</b>
34,155	Local Taxpayers and NNDR	40,714
(30,340)	Less Impairment for Bad Debts	(35,071)
<b>3,815</b>	<b>Local Tax Payers and NNDR (Net of Impairment)</b>	<b>5,643</b>
11,091	Capital Project	5,025
0	Less Impairment for Bad Debts	0
<b>11,091</b>	<b>Capital Projects (Net of Impairment)</b>	<b>5,025</b>
149	Accumulated Absences	178
0	Less Impairment for Bad Debts	0
<b>149</b>	<b>Other Entities and Individuals (Net of Impairment)</b>	<b>178</b>
15,745	Sheffield City Trust Prepayment	9,170
0	Less Impairment for Bad Debts	0
<b>15,745</b>	<b>Other Entities and Individuals (Net of Impairment)</b>	<b>9,170</b>
50,271	Other Entities and Individuals	54,545
(16,228)	Less Impairment for Bad Debts	(15,740)
<b>34,043</b>	<b>Other Entities and Individuals (Net of Impairment)</b>	<b>38,805</b>
<b>149,867</b>	<b>Total Debtors (Gross)</b>	<b>140,916</b>
<b>(52,707)</b>	<b>Less Total Impairment for Bad Debts</b>	<b>(57,465)</b>
<b>97,160</b>	<b>Total Debtors (Net of Impairment)</b>	<b>83,451</b>

**20. Cash and Cash Equivalents**

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

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
(9,669)	Cash at Bank	8,274
120	Petty Cash Floats	100
117,885	Short Term Investments	24,428
<b>108,336</b>	<b>Total</b>	<b>32,802</b>

**21. Assets Held for Sale**

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

<b>2012/13 Current £000</b>		<b>2013/14 Current £000</b>
11,556	Balance at 1 April	3,834
7,840	Assets newly classified as Held for Sale from Property, Plant and Equipment	9,431
(4,164)	Revaluation losses	(2,703)
0	Revaluation gains	657
(9,805)	Assets declassified as held for sale	(1,350)
(2,030)	Assets sold	(1,338)
437	Accounting Additions	2,325
<b>3,834</b>	<b>Balance at 31 March</b>	<b>10,856</b>

**22. Short Term Creditors**

The following is an analysis of Creditors:

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
(19,758)	Central Government Bodies	(27,785)
(1,084)	Other Local Authorities	(4,694)
(1,058)	NHS Bodies	(2,909)
0	Public Corporations and Trading Funds	(66)
(2,229)	Housing Tenants	(2,907)
(3,604)	Local Taxpayers and NNDR	(12,071)
(6,312)	Capital Projects	(11,334)
(12,392)	Accumulated Absences	(10,986)
(51,457)	Other Entities and Individuals	(52,830)
<b>(97,894)</b>	<b>Total</b>	<b>(125,582)</b>

**23. Provisions and Deferred Credits**

The Council maintains the following provisions:

	<b>Insurance</b>	<b>Digital Region</b>	<b>Termination Benefits</b>	<b>HRA - Week 53 Rent Deferred Credit</b>	<b>Other</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April 2013</b>	<b>(18,532)</b>	<b>(12,580)</b>	<b>(4,137)</b>	<b>(554)</b>	<b>(15,314)</b>	<b>(51,117)</b>
Additional Provisions	0	0	(3,583)	(2,715)	(14,764)	<b>(21,062)</b>
Amounts Used	1,176	1,071	3,831	367	7,183	<b>13,628</b>
Unused Amounts Reversed	7,779	0	306	0	2,088	<b>10,173</b>
<b>Balance at 31 March 2014</b>	<b>(9,577)</b>	<b>(11,509)</b>	<b>(3,583)</b>	<b>(2,902)</b>	<b>(20,807)</b>	<b>(48,378)</b>
<b>Comprising of:</b>						
Short Term	(8,473)	(11,509)	(3,583)	(367)	(14,988)	<b>(38,920)</b>
Long Term	(1,104)	0	0	(2,535)	(5,819)	<b>(9,458)</b>
	<b>(9,577)</b>	<b>(11,509)</b>	<b>(3,583)</b>	<b>(2,902)</b>	<b>(20,807)</b>	<b>(48,378)</b>

**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.

Previously the full balance of the Insurance Account was held as a provision on the balance sheet. However, as a result of the 2012/13 audit it was agreed to split this balance and hold some of it in reserves, with effect from 1 April 2013. See Note 25 for further details.

**Digital Region**

The provision covers costs, which are attributable to the Council as a shareholder of Digital Region Limited. In August 2013 the decision was taken to commence the managed closedown of the network. The provision is expected to cover the Council's share of expenses, based on the latest available estimates.

**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 2014 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.

**24. Other Long Term Liabilities**

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

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
(23,912)	Deferred Liabilities	(21,392)
<b>(23,912)</b>	<b>Total</b>	<b>(21,392)</b>

**Deferred Liabilities**

The Council has a proportionate share in the interests of the former South Yorkshire Council Debt. As at 31 March 2014 the deferred liabilities of Sheffield City Council amounted to £23.9m (£26.2m in 2012/13), comprising £2.5m (£2.3m in 2012/13) maturing within one year, which has been disclosed in short term creditors – other entities and individuals (Note 22) and £21.4m (£23.9m in 2012/13) after that date as shown in the table above.

**25. Usable Reserves**

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 9 and 10.

**General Fund Balance**

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 Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance 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 balance:

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
(11,183)	General Balances Available	(10,816)
<b>(11,183)</b>	<b>Total</b>	<b>(10,816)</b>

The General Fund Balance was £10.8m at 31 March 2014, representing only 2.3% of the 2013/14 net budget requirement of £477.5m. If this £10.8m 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.

There is no overall formula that can calculate what the level of reserves should be; it is a matter of judgement based on the known risks, budgetary pressures and local factors. The Audit Commission report 'Striking a Balance' indicated that:

*“most Chief Finance Officers in our research regarded an amount between 3 and 5 per cent of the council’s net spending as a prudent level for risk-based reserves...”*

The report also noted that the average (median) unallocated reserves in individual single tier councils (like Sheffield) is 5%. Sheffield’s level of general fund reserves at 2.3% of the 2013/14 net revenue budget is well below these benchmarks. It is also low in comparison to most other major cities.

### **Earmarked General Fund Reserves**

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

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
(16,435)	Schools Reserves	(16,277)
(529)	Revenue Grants and Contributions	(400)
	Other Earmarked Revenue Reserves:	
0	- Insurance Fund Reserve	(9,394)
(1,697)	- Local Growth Fund (LGF)	(1,555)
(15,865)	- Major Sporting Facilities	(17,996)
(5,311)	- PFI Future Expenditure	(12,175)
(6,626)	- Service Area Reserves	(7,569)
(22,056)	- Other Earmarked Reserves	(20,639)
<b>(68,519)</b>	<b>Total</b>	<b>(86,005)</b>

Earmarked reserves are set aside to meet known or predicted liabilities, but ones that are not certain enough to create an exact provision in the accounts. The liabilities are, however, likely enough to say 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.
- Insurance Fund Reserve: An Insurance Fund Reserve of £9.4m was created during the year, following the 2012/13 external audit. It was recommended that funds relating to potential insurance claims against the Council needed to be split between Provisions and Reserves. Previously all the funds were reported as Provisions within the Statement of Accounts.
- Local Growth Fund: 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 Local Growth Fund for projects that promote housing and economic growth. This reserve sets aside the payments until required for agreed projects.
- 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, Don Valley Stadium and Hillsborough Leisure Centre). In the interim, £25m of this reserve has been available on a temporary basis and used to fund Invest to Save projects. Invest to Save allows for investment in key projects to deliver transformational change. In the short term, the savings achieved are being used to repay the initial investment from the MSF reserve and will be fully repaid by 2015. Any on-going savings will then be available to support the Councils revenue budget in future years.
- 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.
- Service Area Reserves and Other Earmarked Reserves: Other Earmarked reserves also 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.

### 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:

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
(22,528)	Housing Revenue Account Balance	(13,043)
0	Earmarked Housing Revenue Account Reserve	(1,273)
<b>(22,528)</b>	<b>Total</b>	<b>(14,316)</b>

### 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:

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
(30,225)	Capital Receipts Reserve	(32,988)
<b>(30,225)</b>	<b>Total</b>	<b>(32,988)</b>

### 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:

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
(9,379)	Major Repairs Reserve	(43,831)
<b>(9,379)</b>	<b>Total</b>	<b>(43,831)</b>

### 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:

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
(26,740)	Capital Grants Unapplied Reserve	(24,494)
<b>(26,740)</b>	<b>Total</b>	<b>(24,494)</b>

## 26. Unusable Reserves

The following table summarises the Unusable Reserves balances:

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
	<b>Capital Reserves:</b>	
(374,013)	Revaluation Reserve	(368,875)
(964,366)	Capital Adjustment Account	(882,191)
(45)	Deferred Capital Receipts Reserve	(56)
(1,338,424)		(1,251,122)
	<b>Revenue Reserves:</b>	
37,618	Financial Instruments Adjustment Account	36,700
797,832	Pensions Reserve	697,558
(2,042)	Collection Fund Adjustment Account	(3,300)
12,242	Accumulated Absences Account	10,808
845,650		741,766
<b>(492,774)</b>	<b>Total</b>	<b>(509,356)</b>

### 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.

2012/13 £000		£000	2013/14 £000
(505,393)	<b>Balance at 1 April</b>		<b>(374,013)</b>
(28,554)	Upward revaluation of assets	(69,097)	
72,981	Downward revaluation of assets and impairment losses	48,693	
44,427	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(20,404)
11,880	Difference between fair value depreciation and historical cost depreciation	7,534	
75,073	Accumulated gains on assets sold or scrapped	19,422	
0	Opening balance adjustment	(882)	
86,953	Amount written off to the Capital Adjustment Account		26,074
0	Other Adjustments		(532)
<b>(374,013)</b>	<b>Balance at 31 March</b>		<b>(368,875)</b>

### 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 14 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.

2012/13 £000		£000	2013/14 £000
(1,198,996)	<b>Balance at 1 April</b>		<b>(964,366)</b>
	<b>Reversal of items relating to capital expenditure debited or credited to the CI&amp;ES:</b>		
77,171	Depreciation of non-current assets	65,108	
(35,619)	Impairment of non-current assets	0	
102,150	Revaluation losses of non-current assets	32,095	
926	Movement in fair value of Investment Properties	0	
9,175	Revenue expenditure funded from capital under statute	14,704	
304,608	Non-current assets written off on disposal	106,487	
0	Other	(6)	
458,411		218,388	
	<b>Adjusting amounts written out of the Revaluation Reserve:</b>		
(11,880)	Difference between fair value depreciation and historical cost depreciation	(7,534)	
(75,073)	Accumulated gains on assets sold or scrapped	(19,422)	
0	Opening balance adjustment	882	
(86,953)		(26,074)	
(827,538)	Net written out amount of the cost of non-current assets consumed in the year		(772,052)
	<b>Capital financing applied in the year:</b>		
(14,921)	Use of the Capital Receipts Reserve to finance new capital expenditure	(10,640)	
(37,299)	Use of the Major Repairs Reserve to finance new capital expenditure	(32,360)	
(47,205)	Capital grants and contributions credited to the CI&ES	(33,842)	
(8,132)	Application of grants and contributions from the Capital Grants Unapplied Reserve	(5,199)	
(29,271)	Statutory provision for the repayment of debt	(28,033)	
0	Voluntary provision for the repayment of debt	(54)	
(136,828)			(110,128)
0	Transfer from the Deferred Capital Receipts Reserve		(11)
<b>(964,366)</b>	<b>Balance at 31 March</b>		<b>(882,191)</b>

### 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.

2012/13 £000		2013/14 £000
(48)	<b>Balance at 1 April</b>	(45)
0	New loans and mortgages	(22)
3	Receipt of cash	0
0	Transfer to the Capital Adjustment Account	11
<b>(45)</b>	<b>Balance at 31 March</b>	<b>(56)</b>

## 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 Balance to the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. In the 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.

2012/13 £000		2013/14 £000
<b>38,575</b>	<b>Balance at 1 April</b>	<b>37,618</b>
(877)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(833)
(28)	Soft Loan Amortisation	(30)
(52)	Other movements	(55)
(957)	Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements	(918)
<b>37,618</b>	<b>Balance at 31 March</b>	<b>36,700</b>

## 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.

2012/13 £000		2013/14 £000
<b>658,926</b>	<b>Balance at 1 April</b>	<b>797,832</b>
141,449	Actuarial (gains) or losses on pensions assets and liabilities	(111,539)
49,670	Reversal of items relating to retirement benefits debited or credited to the CI&ES	61,943
(52,213)	Employer's pensions contributions and direct payments to pensioners payable in the year	(50,678)
<b>797,832</b>	<b>Balance at 31 March</b>	<b>697,558</b>

### 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.

2012/13 £000		2013/14 £000
(1,050)	<b>Balance at 1 April</b>	(2,042)
(992)	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	(1,258)
<b>(2,042)</b>	<b>Balance at 31 March</b>	<b>(3,300)</b>

### Accumulated Absences Account

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

2012/13 £000		2013/14 £000
15,461	<b>Balance at 1 April</b>	12,242
(3,219)	Amount by which officer remuneration charged to the CI&ES is different from remuneration chargeable in the year in accordance with statutory requirements	(1,434)
<b>12,242</b>	<b>Balance at 31 March</b>	<b>10,808</b>

## 27. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2012/13 £000		2013/14 £000
810	Interest Received	1,473
(57,134)	Interest Paid	(97,605)

### 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:



2012/13 £000		2013/14 £000
77,171	Depreciation	65,108
66,531	Impairment and downward revaluations - non-current assets	32,095
0	Impairment and downward revaluations - other	12,764
11,045	Increase / (Decrease) in impairment for bad debts re. Short Term Debtors	4,758
1,666	Increase / (Decrease) in creditors	15,574
(8,112)	(Increase) / Decrease in debtors	2,677
889	(Increase) / Decrease in inventories	(68)
(2,543)	Pension liability	11,265
304,608	Carrying amount of non-current assets sold	106,487
(8,033)	Contributions to / (from) provisions	(2,739)
926	Movement in Investment Property values	0
(52)	Adjustment for effective interest rate	(55)
(28)	Soft loans - interest adjustment to CI&ES in year	(30)
(10,641)	Other non-cash items charged to the net surplus or deficit on the provision of services	4
<b>433,427</b>	<b>Total</b>	<b>247,840</b>

**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:

2012/13 £000		2013/14 £000
(52,994)	Capital grants credited to surplus or deficit on the provision of services	(33,842)
(18,493)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(16,319)
<b>(71,487)</b>	<b>Total</b>	<b>(50,161)</b>

**28. Cash Flow Statement – Investing Activities**

The cash flows for investing activities include the following items:

2012/13 £000		2013/14 £000
(121,104)	Purchase of property, plant and equipment, investment property and intangible assets	(108,142)
(20,000)	Purchase of short and long term investments	(60,000)
(613)	Other payments for investing activities	(86,252)
18,497	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	16,251
0	Proceeds from the sale of short and long term investments	20,000
44,697	Capital grants received	39,599
9	Other receipts from investing activities	40
<b>(78,514)</b>	<b>Net cash flow from investing activities</b>	<b>(178,504)</b>

## 29. Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

2012/13 £000		2013/14 £000
168,500	Cash receipts of short and long term borrowing	37,000
1,373	Council Tax and NNDR adjustments	9,569
(5,696)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts	(11,319)
(63,328)	Repayment of short and long term borrowing	(49,679)
<b>100,849</b>	<b>Net cash flow from financing activities</b>	<b>(14,429)</b>

## 30. Amounts Reported for Resource Allocation Decisions

Sheffield City Council is organised into five portfolios based around the services delivered, plus Corporate. The portfolios are:

- Children Young People and Families Portfolio,
- Place Portfolio,
- Communities Portfolio,
- Policy Performance and Communications Portfolio, and
- Resources Portfolio.

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across Portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement).
- the cost of retirement benefits is based on cash flows (payment of employer's pension's contributions) rather than current service cost of benefits accrued in the year.
- expenditure on some support services is budgeted for centrally and not charged to portfolios.

The following tables show how the figures reported in the Council's outturn report reconcile to the figures in the Comprehensive Income and Expenditure Statement. A simplified version of this disclosure can be found within the Foreword.

**The income and expenditure of the Council's principal portfolios recorded in the budget reports for the year ended 31 March 2014 is as follows:**

	Children, Young People and Families £000	Place £000	Communities £000	Policy, Performance and Communications £000	Resources £000	Corporate £000	Total General Fund £000	Housing Revenue Account £000	Total £000
Grants	(76,507)	(19,001)	(19,042)	(2,257)	(197,761)	0	(314,568)	0	(314,568)
Other reimbursements and contributions	(1,792)	(1,645)	(12,274)	(123)	345	0	(15,489)	(1,307)	(16,796)
Sales	(3,380)	(1,196)	(103)	0	(38)	0	(4,717)	(3,221)	(7,938)
Fees and charges	(22,664)	(25,788)	(28,810)	(456)	(24,601)	(522)	(102,841)	(3,581)	(106,422)
Other Income	(1,338)	(7,072)	(16,269)	(986)	(4,313)	(6,772)	(36,750)	(152,331)	(189,081)
Recharges	(33,079)	(12,948)	(5,483)	(2,073)	(83,467)	(299)	(137,349)	0	(137,349)
<b>Total Income</b>	<b>(138,760)</b>	<b>(67,650)</b>	<b>(81,981)</b>	<b>(5,895)</b>	<b>(309,835)</b>	<b>(7,593)</b>	<b>(611,714)</b>	<b>(160,440)</b>	<b>(772,154)</b>
Employees	71,937	40,653	61,059	4,067	47,227	0	224,943	27,009	251,952
Premises	2,929	11,301	3,072	5	56,385	0	73,692	48,745	122,437
Transport	6,412	2,165	2,446	17	1,742	0	12,782	879	13,661
Supplies and services	44,464	58,611	14,864	2,084	15,711	42,938	178,672	39,855	218,527
Third party payments	51,225	115,815	167,826	1,409	407	0	336,682	628	337,310
Transfer payments	526	0	5,419	0	191,882	0	197,827	0	197,827
Support Services	45,998	9,875	9,574	1,419	63,187	0	130,053	11,393	141,446
Other	0	9,561	0	1	127	(552,210)	(542,521)	20,555	(521,966)
<b>Total Expenditure</b>	<b>223,491</b>	<b>247,981</b>	<b>264,260</b>	<b>9,002</b>	<b>376,668</b>	<b>(509,272)</b>	<b>612,130</b>	<b>149,064</b>	<b>761,194</b>
<b>Net Expenditure</b>	<b>84,731</b>	<b>180,331</b>	<b>182,279</b>	<b>3,107</b>	<b>66,833</b>	<b>(516,865)</b>	<b>416</b>	<b>(11,376)</b>	<b>(10,960)</b>

2012/13 – Comparative Information									
	Children, Young People and Families £000	Place £000	Communities £000	Policy, Performance and Communications £000	Resources £000	Corporate £000	Total General Fund £000	Housing Revenue Account £000	Total £000
Grants	(74,730)	(3,155)	(16,874)	(73)	(240,602)	0	(335,434)	(184)	(335,618)
Other reimbursements and contributions	(3,479)	(1,573)	(10,287)	(884)	(1,368)	0	(17,591)	(521)	(18,112)
Sales	(2,927)	(1,432)	(288)	(4)	(37)	0	(4,688)	0	(4,688)
Fees and charges	(23,009)	(22,603)	(28,258)	(822)	(28,030)	(128)	(102,850)	(3,569)	(106,419)
Other Income	(1,489)	(3,342)	(16,745)	(1,415)	(7,510)	(8,504)	(39,005)	(146,141)	(185,146)
Recharges	(23,636)	(37,021)	(6,743)	(2,658)	(71,274)	0	(141,332)	(70)	(141,402)
<b>Total Income</b>	<b>(129,270)</b>	<b>(69,126)</b>	<b>(79,195)</b>	<b>(5,856)</b>	<b>(348,821)</b>	<b>(8,632)</b>	<b>(640,900)</b>	<b>(150,485)</b>	<b>(791,385)</b>
Employees	73,395	39,843	67,482	5,676	44,157	0	230,553	0	230,553
Premises	3,220	41,372	4,075	77	54,115	2	102,861	47,290	150,151
Transport	6,506	2,257	2,853	113	3,399	0	15,128	512	15,640
Supplies and services	45,647	41,048	7,417	8,174	14,528	42,903	159,717	55,895	215,612
Third party payments	42,999	98,395	154,768	1,011	227	59	297,459	113	297,572
Transfer payments	789	0	5,419	0	232,861	0	239,069	0	239,069
Support Services	37,475	9,525	10,732	2,431	59,982	0	120,145	7,490	127,635
Other	256	2,614	0	0	9	(527,370)	(524,491)	31,066	(493,425)
<b>Total Expenditure</b>	<b>210,287</b>	<b>235,054</b>	<b>252,746</b>	<b>17,482</b>	<b>409,278</b>	<b>(484,406)</b>	<b>640,441</b>	<b>142,366</b>	<b>782,807</b>
<b>Net Expenditure</b>	<b>81,017</b>	<b>165,928</b>	<b>173,551</b>	<b>11,626</b>	<b>60,457</b>	<b>(493,038)</b>	<b>(459)</b>	<b>(8,119)</b>	<b>(8,578)</b>

**Reconciliation to Portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement:**

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

2012/13	2013/14
£000	£000
<b>(8,578)</b>	<b>(10,960)</b>
5,806	921
79,294	10,151
454,689	488,856
<b>531,211</b>	<b>488,968</b>
<b>Cost of Services in the CI&amp;ES</b>	<b>Cost of Services in the CI&amp;ES</b>

**Reconciliation to Subjective Analysis:**

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

Sheffield City Council – Statement of Accounts 2013/14

2013/14	Net Expenditure in the Portfolio Analysis	Additional segments not included in the analysis	Amounts not included in the analysis but included in the CI&ES	Amounts included in the analysis but not included in the CI&ES	Allocation of Recharges	Cost of Services in the CI&ES	Amounts reported below the net expenditure of Continuing Operation in the CI&ES	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(457,532)	(261,502)	10,194	225	146,070	(562,545)	(25)	(562,570)
Interest and investment income	(53)	0	0	53	0	0	(1,473)	(1,473)
Income from Council Tax	0	0	0	0	0	0	(165,991)	(165,991)
Non Domestic Rates Distribution	0	0	0	0	0	0	(95,673)	(95,673)
Government grants and contributions	(314,568)	(3,368)	(5,179)	0	0	(323,115)	(337,165)	(660,280)
<b>Total Income</b>	<b>(772,153)</b>	<b>(264,870)</b>	<b>5,015</b>	<b>278</b>	<b>146,070</b>	<b>(885,660)</b>	<b>(600,327)</b>	<b>(1,485,987)</b>
Employee expenses	251,952	203,733	(22,772)	0	0	432,913	0	432,913
Other service expenses	478,718	62,058	(54,807)	504,504	0	990,473	0	990,473
Support service recharge	0	0	0	0	(146,070)	(146,070)	0	(146,070)
Depreciation, amortisation, and impairment	17,105	0	80,207	0	0	97,312	0	97,312
Interest payments	14,693	0	0	(14,693)	0	0	64,914	64,914
Precepts and levies	478	0	0	(478)	0	0	478	478
Payment to housing capital receipt pool	0	0	0	0	0	0	2,709	2,709
Gain or loss on disposal of fixed assets	0	0	0	0	0	0	90,180	90,180
(Surplus) / deficit of trading undertakings or other operations	(1,753)	0	2,508	(755)	0	0	667	667
Pension interest cost, administration expenses and expected return on pension assets	0	0	0	0	0	0	32,691	32,691
<b>Total Expenditure</b>	<b>761,193</b>	<b>265,791</b>	<b>5,136</b>	<b>488,578</b>	<b>(146,070)</b>	<b>1,374,628</b>	<b>191,639</b>	<b>1,566,267</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>(10,960)</b>	<b>921</b>	<b>10,151</b>	<b>488,856</b>	<b>0</b>	<b>488,968</b>	<b>(408,688)</b>	<b>80,280</b>

2012/13 – Comparative Information									
	Net Expenditure in the Portfolio Analysis	Additional segments not included in the analysis	Amounts not included in the analysis but included in the CI&ES	Amounts included in the analysis but not included in the CI&ES	Allocation of Support Service Recharges	Cost of Services in the CI&ES	Amounts reported below the net expenditure of Continuing Operation in the CI&ES	Total	
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(447,424)	(305,372)	5,617	(2,381)	153,912	(595,648)	0	(595,648)	
Interest and investment income	(53)	0	0	53	0	0	(2,225)	(2,225)	
Income from Council Tax	(8,289)	0	0	8,289	0	0	(199,248)	(199,248)	
Non Domestic Rates Distribution	0	0	0	0	0	0	(255,875)	(255,875)	
Government grants and contributions	(335,619)	(4,598)	(8,711)	0	0	(348,928)	(118,348)	(467,276)	
<b>Total Income</b>	<b>(791,385)</b>	<b>(309,970)</b>	<b>(3,094)</b>	<b>5,961</b>	<b>153,912</b>	<b>(944,576)</b>	<b>(575,696)</b>	<b>(1,520,272)</b>	
Employee expenses	230,553	238,194	(27,430)	0	0	441,317	0	441,317	
Other service expenses	522,089	77,582	(42,080)	486,163	0	1,043,754	0	1,043,754	
Support service recharge	0	0	0	0	(153,912)	(153,912)	0	(153,912)	
Depreciation, amortisation, and impairment	15,838	0	128,790	0	0	144,628	0	144,628	
Interest payments	14,856	0	(1,381)	(13,475)	0	0	44,229	44,229	
Precepts and levies	469	0	0	(469)	0	0	469	469	
Payment to housing capital receipts pool	0	0	0	0	0	0	2,347	2,347	
Gain or loss on disposal of fixed assets	0	0	0	0	0	0	285,853	285,853	
(Surplus) / deficit of trading undertakings or other operations	(998)	0	2,436	(1,438)	0	0	1,438	1,438	
Pension interest cost, administration expenses and expected return on pension assets	0	0	22,053	(22,053)	0	0	22,333	22,333	
<b>Total Expenditure</b>	<b>782,807</b>	<b>315,776</b>	<b>82,388</b>	<b>448,728</b>	<b>(153,912)</b>	<b>1,475,787</b>	<b>356,669</b>	<b>1,832,456</b>	
<b>(Surplus) or deficit on the provision of services</b>	<b>(8,578)</b>	<b>5,806</b>	<b>79,294</b>	<b>454,689</b>	<b>0</b>	<b>531,211</b>	<b>(219,027)</b>	<b>312,184</b>	

## **Assets and Liabilities**

Sheffield City Council does not internally report on the assets and liabilities of individual segments and so therefore no segmental analysis is required to be disclosed.

### **31. 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.

#### **Street Force**

Street Force is the Council's provider of consultancy and contracting services for the city's highway network and streetscene, general infrastructure within the public realm predominantly on behalf of other Council services with some contracted work for external clients. Street Force ceased trading in August 2012 and transferred operations to a private contractor – Amey via a Private Finance Initiative arrangement.

#### **Schools 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 and Mechanical and Electrical Engineers, and Project Managers who provide a consultancy service to both internal and external clients.

<b>2013/14</b>					
	<b>Income</b>	<b>Expenditure</b>	<b>Operating (Surplus)/ Deficit</b>	<b>Accounting Adjustments</b>	<b>Accounting (Surplus)/ Deficit</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Sheffield Markets Operation	(2,449)	3,097	648	442	1,090
Commercial Estates (Property)	(1,534)	719	(815)	677	(138)
Transport Services	(902)	761	(141)	409	268
Street Force	0	0	0	0	0
Schools Traded Services	(1,485)	95	(1,390)	939	(451)
Capital Delivery Service (previously DPM)	(108)	52	(56)	(46)	(102)
	<b>(6,478)</b>	<b>4,724</b>	<b>(1,754)</b>	<b>2,421</b>	<b>667</b>

<b>2012/13 – Comparative Information</b>					
	<b>Income</b>	<b>Expenditure</b>	<b>Operating (Surplus)/ Deficit</b>	<b>Accounting Adjustments</b>	<b>Accounting (Surplus)/ Deficit</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Sheffield Markets Operation	(1,944)	2,106	162	487	649
Commercial Estates (Property)	(1,803)	1,358	(445)	1,909	1,464
Transport Services	(1,053)	1,075	22	94	116
Street Force	(541)	740	199	76	275
Schools Traded Services	(1,317)	569	(748)	0	(748)
Capital Delivery Service (previously DPM)	(149)	(39)	(188)	(130)	(318)
	<b>(6,807)</b>	<b>5,809</b>	<b>(998)</b>	<b>2,436</b>	<b>1,438</b>

**32. 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 focusing 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.

The following table summarises the pooled arrangements Sheffield City Council has entered into, along with Sheffield City Council’s contributions to and from the pool and details of previous year’s comparatives:

Service Area	Contribution to the Pool		Contribution from the Pool	
	2013/14	2012/13	2013/14	2012/13
	£000	£000	£000	£000
Intermediate Care	108	108	0	0
Learning Disabilities Accommodation	0	2,296	0	4,306
Equipment and adaptations	936	1,006	936	1,006
<b>Total</b>	<b>1,044</b>	<b>3,410</b>	<b>936</b>	<b>5,312</b>

The following tables provide the detail of each of the pooled arrangements:

### Intermediate Care

The pool is hosted by Sheffield CCG (Sheffield Clinical Commissioning Group), and the money is allocated to a range of intermediate care provider services.

Partner Bodies	Contribution to the Pool		Contribution from the Pool	
	2013/14	2012/13	2013/14	2012/13
	£000	£000	£000	£000
Sheffield CCG	0	294	0	0
Sheffield City Council	108	108	0	0
Sheffield Teaching Hospitals	0	0	108	402
Sheffield Care Trust	0	0	0	0
<b>Total</b>	<b>108</b>	<b>402</b>	<b>108</b>	<b>402</b>

### Learning Disabilities Accommodation

The pool is hosted by Sheffield City Council and the money is used to purchase accommodation and support provider services both in the independent sector and NHS and Community Care in-house services.

Partner Bodies	Contribution to the Pool		Contribution from the Pool	
	2013/14	2012/13	2013/14	2012/13
	£000	£000	£000	£000
Sheffield CCG	677	0	677	0
Sheffield City Council	0	2,296	0	4,306
<b>Total</b>	<b>677</b>	<b>2,296</b>	<b>677</b>	<b>4,306</b>

### Equipment and Adaptations

The pool is hosted by Sheffield CCG and the money is used to purchase equipment for clients who have received an Occupational Therapy assessment.

Partner Bodies	Contribution to the Pool		Contribution from the Pool	
	2013/14	2012/13	2013/14	2012/13
	£000	£000	£000	£000
Sheffield CCG	1,814	1,560	1,814	1,560
Sheffield City Council	936	1,006	936	1,006
Other Local Authorities	0	8	0	8
<b>Total</b>	<b>2,750</b>	<b>2,574</b>	<b>2,750</b>	<b>2,574</b>

### 33. Members' Allowances

The Council paid the following amounts to Council Members and Co-optees' during 2013/14:

2012/13 £000		2013/14 £000
	<b>Councillors:</b>	
986	Basic Allowance	982
293	Special Responsibility Allowance	232
27	Expenses	28
<b>1,306</b>		<b>1,242</b>
	<b>Co-optees:</b>	
6	Basic Allowance	6
<b>1,312</b>	<b>Total</b>	<b>1,248</b>

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

### 34. Officers' Remuneration

Under the Accounts and Audit Regulations 2011, 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.

The Chief Executive put in place an arrangement in March 2013 to forgo other fees due to him regarding elections. These fees foregone amount to £14,000 per year pro rata, having the effect of reducing the net salary cost by 7.5%.

<b>2013/14</b>						
<b>Post Holder Information</b>	<b>Note</b>	<b>Salary - including Fees and Allowances</b>	<b>Expenses Allowances</b>	<b>Total Remuneration excluding Pension Contributions</b>	<b>Pension Contributions</b>	<b>Total Remuneration including Pension Contributions</b>
		£	£	£	£	£
Chief Executive- John Mothersole		184,588	0	184,588	35,072	219,660
Executive Director - Communities	1	114,219	15	114,234	22,505	136,739
Executive Director – Communities (Interim)	1	129,217	0	129,217	24,551	153,768
Executive Director – Resources (Interim)	2	83,330	0	83,330	16,310	99,640
Executive Director - Place		123,066	170	123,236	23,383	146,619
Executive Director - Children Young People and Families		116,902	6	116,908	22,211	139,119
Director of Public Health – Jeremy Wight	3	151,103	69	151,172	18,056	169,228
Director of Policy and Performance	4	78,757	0	78,757	14,964	93,721
<b>Total</b>		<b>981,182</b>	<b>260</b>	<b>981,442</b>	<b>177,052</b>	<b>1,158,494</b>
<b>Notes:</b>						
<p><b>1</b> The Executive Director of Communities left on 28 February 2014. His full time equivalent salary was £129,217 in 2013/14. The interim replacement moved from the Executive Director of Resources post from 1 March 2014 but their full salary has been listed in their new interim post.</p> <p><b>2</b> An interim replacement for the Executive Director of Resources was appointed on 1 March 2014. The full time equivalent salary for this post would be £116,902. Only £10,792 of the salary listed above related to this post, the rest relates to his previous Director of Finance post.</p> <p><b>3</b> The public health function transferred to Council control due to the Health and Social Care Act 2012 requirement for Councils to support integration across health and social care and the phasing out of strategic health authorities and Primary Care Trusts.</p> <p><b>4</b> A new post as a result of the merger between the Performance and Corporate Planning and the Policy, Partnership and Research Director posts which now report directly to the Chief Executive.</p>						

<b>2012/13 – Comparative Information</b>						
<b>Post Holder Information</b>	<b>Note</b>	<b>Salary - including Fees and Allowances</b>	<b>Expenses Allowances</b>	<b>Total Remuneration excluding Pension Contributions</b>	<b>Pension Contributions</b>	<b>Total Remuneration including Pension Contributions</b>
		£	£	£	£	£
Chief Executive John Mothersole	1	175,359	0	175,359	35,072	210,431
Executive Director of Resources		129,217	0	129,217	24,551	153,768
Executive Director - Place		123,066	123	123,189	23,383	146,572
Executive Director - Communities		129,217	0	129,217	24,551	153,768
Executive Director - Children Young People and Families	2	52,498	192	52,690	12,174	64,864
Executive Director - Children Young People and Families (Interim)	2	110,986	18	111,004	21,087	132,091
<b>Total</b>		<b>720,343</b>	<b>333</b>	<b>720,676</b>	<b>140,818</b>	<b>861,494</b>
<b>Notes:</b>						
1 The Chief Executive has reduced pay during the period by £9,229 via the salary sacrifice scheme, which is included in the salary figure above. His full time equivalent salary is £184,588 per year.						
2 The Executive Director - Children Young People and Families (CYPF) is currently on an unpaid career break, having been paid £52,690 up until her departure on 15 August 2012. Her full time equivalent salary was £141,516 in 2012/13. An interim replacement from the CYPF Leadership Team is in post with full time equivalent salary of £116,902.						

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

2012/13			Remuneration Band	2013/14		
Teachers	Other	Total		Teachers	Other	Total
69	39	<b>108</b>	£50,000 - 54,999	58	40	<b>98</b>
51	33	<b>84</b>	£55,000 - 59,999	47	36	<b>83</b>
25	9	<b>34</b>	£60,000 - 64,999	33	8	<b>41</b>
21	11	<b>32</b>	£65,000 - 69,999	17	21	<b>38</b>
16	11	<b>27</b>	£70,000 - 74,999	11	6	<b>17</b>
5	14	<b>19</b>	£75,000 - 79,999	7	12	<b>19</b>
4	11	<b>15</b>	£80,000 - 84,999	2	7	<b>9</b>
4	4	<b>8</b>	£85,000 - 89,999	6	3	<b>9</b>
3	1	<b>4</b>	£90,000 - 94,999	4	1	<b>5</b>
3	3	<b>6</b>	£95,000 - 99,999	1	2	<b>3</b>
1	0	<b>1</b>	£100,000 - 104,999	2	0	<b>2</b>
1	0	<b>1</b>	£105,000 - 109,999	1	0	<b>1</b>
0	1	<b>1</b>	£120,000 - 124,999	0	2	<b>2</b>
<b>203</b>	<b>137</b>	<b>340</b>	<b>Total</b>	<b>189</b>	<b>138</b>	<b>327</b>
<b>202</b>	<b>124</b>	<b>326</b>	<b>Total Excluding redundancies</b>	<b>184</b>	<b>109</b>	<b>293</b>

Note: The “other” total excluding redundancies figure for 2013/14 includes an increase of 10 staff due to the incorporation in to the Council of the Public Health function and 8 staff due to the incorporation in to the council of Sheffield Homes. If these had been excluded the figure would have been 91.

### 35. Termination Benefits

The Council terminated the contracts of a number of employees in 2013/14, incurring liabilities of £12.2m (£9.5m in 2012/13). This includes redundancy and pension payments.

This amount was payable to 656 people (527 people in 2012/13) from across the Council, who were made redundant as part of its strategy to reduce the workforce in order to achieve budget savings.

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

2012/13			2013/14		
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	
	<b>£000</b>			<b>£000</b>	
400	2,684	£0 - £20,000	464	3,641	
57	1,632	£20,001 - £40,000	112	3,133	
44	2,143	£40,001 - £60,000	43	2,108	
16	1,073	£60,001 - £80,000	22	1,486	
4	359	£80,001 - £100,000	8	712	
6	727	£100,001 - £215,000	7	858	
<b>527</b>	<b>8,618</b>	<b>Total</b>	<b>656</b>	<b>11,938</b>	

We are unable to analyse the above figures between compulsory redundancies and other departures.

In 2013/14 contributions of £295k for the termination costs under contract / partnership obligations were also incurred, in 2012/13 the equivalent cost was £851k. These are not included in the above table.

### 36. 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:

2012/13 £000		2013/14 £000
248	Fees payable with regard to external audit services carried out by the appointed auditor	256
38	Fees payable for the certification of grant claims and returns	48
40	Fees payable in respect of any other services provided over and above those listed above	25
<b>326</b>	<b>Total</b>	<b>329</b>

### 37. 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 (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a 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 are as follows:

2013/14			
	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2013/14 before Academy recoupment	50,045	313,585	<b>363,630</b>
Academy figure recouped for 2013/14	0	(89,049)	<b>(89,049)</b>
Total DSG after Academy recoupment for 2013/14	50,045	224,536	<b>274,581</b>
Brought forward from 2012/13	3,291	0	<b>3,291</b>
Agreed initial budgeted DSG distribution in 2013/14	53,336	224,536	<b>277,872</b>
In year adjustments	(14,513)	14,681	<b>168</b>
Final budgeted distribution for 2013/14	38,823	239,217	<b>278,040</b>
Less Actual central expenditure	(34,795)	0	<b>(34,795)</b>
Less Actual ISB deployed to schools	0	(239,217)	<b>(239,217)</b>
<b>Carry forward to 2014/15</b>	<b>4,028</b>	<b>0</b>	<b>4,028</b>

<b>2012/13 – Comparative Information</b>			
	<b>Central Expenditure</b>	<b>Individual Schools Budget</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Final DSG for 2012/13 before Academy recoupment	36,595	314,121	<b>350,716</b>
Academy figure recouped for 2012/13	(628)	(41,762)	<b>(42,390)</b>
Total DSG after Academy recoupment for 2012/13	35,967	272,359	<b>308,326</b>
Brought forward from 2011/12	6,179	0	<b>6,179</b>
Agreed initial budgeted DSG distribution in 2012/13	42,146	272,359	<b>314,505</b>
In year adjustments	(2,394)	2,394	<b>0</b>
Final budgeted distribution for 2012/13	39,752	274,753	<b>314,505</b>
Less Actual central expenditure	(36,461)	0	<b>(36,461)</b>
Less Actual ISB deployed to schools	0	(274,753)	<b>(274,753)</b>
<b>Carry forward to 2013/14</b>	<b>3,291</b>	<b>0</b>	<b>3,291</b>

### 38. Grant Income

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

<b>2012/13 £000</b>		<b>2013/14 £000</b>
	<b>Credited to Services:</b>	
0	Clinical Commissioning Group	(6,675)
(4,383)	Department for Business Innovation and Skills	(17,372)
(6,407)	Department for Communities and Local Government	(12,726)
(360,581)	Department for Education	(306,840)
(239,994)	Department for Work and Pensions	(200,138)
(25,259)	Department of Health	(30,062)
(651)	English Local Government	(1,523)
(1,275)	Home Office	(747)
(1,279)	Ministry of Justice	(1,396)
(5,473)	Other	(4,261)
<b>(645,302)</b>	<b>Total</b>	<b>(581,740)</b>
	<b>Credited to Taxation and Non Specific Grant Income:</b>	
	<i>Non-ring fenced Government Grants:</i>	
(22,185)	Department for Communities and Local Government	(233,524)
(7,722)	Department of Health	(9,683)
(21,478)	Department for Transport	(40,266)
(22,573)	Education Funding Agency	(23,975)
(73,958)		<b>(307,448)</b>
	<i>Capital Grants and Contributions:</i>	
(23,105)	Department for Education	(16,857)
(1,468)	Department of Health	(1,036)
(6,550)	Department for Transport	(68)
(13,267)	Other	(11,756)
(44,390)		<b>(29,717)</b>
<b>(118,348)</b>	<b>Total</b>	<b>(337,165)</b>

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 to be returned to the giver. The balances at year end are as follows:



31 March 2013 £000		31 March 2014 £000
	<b>Revenue Grants Receipts in Advance:</b>	
(2,889)	Department for Business Innovation and Skills	(8,588)
(1,517)	Department for Communities and Local Government	(656)
0	Department for Works and Pensions	(5,000)
(2,098)	Department of Health	(2,850)
(1,561)	Other	(1,652)
<b>(8,065)</b>	<b>Total</b>	<b>(18,746)</b>
	<b>Capital Grants Receipts in Advance:</b>	
(12,551)	Department for Communities and Local Government	(8,954)
(15,465)	Department for Education	(15,362)
0	Department for Environment, Food and Rural Affairs	(1,924)
0	Department for Transport	(2,245)
(5,697)	Other	(5,967)
<b>(33,713)</b>	<b>Total</b>	<b>(34,452)</b>

### 39. 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 £256m (£321m for 2012/13), with £4.6m (£1m for 2012/13) accrued. All such material related party transactions are disclosed either individually or in aggregate below.

#### Council Members

In respect of financial year 2013/14 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.

Significant transactions include:

<b>2013/14</b>							
	<b>Notes</b>	<b>Receipts</b>	<b>Payments</b>	<b>Net Payments</b>	<b>Receivables</b>	<b>Payables</b>	<b>Net Assets</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Related Party</b>							
Sheffield City Trust	<b>1</b>	(44)	127,826	<b>127,782</b>	158	0	<b>158</b>
Building Schools for the Future	<b>2</b>	0	11,328	<b>11,328</b>	0	0	<b>0</b>
Sheffield Futures	<b>3</b>	(54)	7,106	<b>7,052</b>	12	(26)	<b>(14)</b>
Sheffield Galleries and Museum Trust	<b>4</b>	(169)	2,753	<b>2,584</b>	456	0	<b>456</b>
Sheffield Housing Company	<b>5</b>	(22)	2,467	<b>2,445</b>	0	(22)	<b>(22)</b>
Autism Plus	<b>6</b>	(239)	2,199	<b>1,960</b>	0	0	<b>0</b>
Digital Region Ltd	<b>7</b>	0	1,077	<b>1,077</b>	0	0	<b>0</b>
Roundabout		0	867	<b>867</b>	0	0	<b>0</b>
Sheffield Industrial Museums Trust		(30)	704	<b>674</b>	259	0	<b>259</b>
DLA Piper		0	337	<b>337</b>	0	(7)	<b>(7)</b>
Sheffield Homes		0	0	<b>0</b>	0	0	<b>0</b>

**1** £12.8m impairment of lease rental prepayment made in 2012/13, £101.3m prepayment of lease rentals that would have been incurred up to 2024, £8.8m bond interest payments, £4.8m bond principal payments.  
**2** £11m investment in rebuilding, refurbishment, ICT and equipment in schools.  
**3** £7m payments for targeted youth support – Community youth teams and youth work.  
**4** £2m payment of the operating grant and a £1.1m loan.  
**5** £1.6m deposits and £0.6m payments on completion of plots. £0.2m Local Growth Fund payments.  
**6** £2m payments to external provider of learning disabilities care services.  
**7** £1m funding advance for costs of winding down.

<b>2012/13 – Comparative Information</b>							
		<b>Receipts</b>	<b>Payments</b>	<b>Net Payments</b>	<b>Receivables</b>	<b>Payables</b>	<b>Net Assets</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Related Party</b>							
Sheffield City Trust		(49)	25,825	<b>25,776</b>	16	(97)	<b>(81)</b>
Building Schools for the Future		0	11,141	<b>11,141</b>	0	(3)	<b>(3)</b>
Sheffield Futures		(53)	7,179	<b>7,126</b>	6	(20)	<b>(14)</b>
Sheffield Galleries and Museum Trust		(216)	2,981	<b>2,765</b>	27	(931)	<b>(904)</b>
Sheffield Housing Company		0	0	<b>0</b>	0	0	<b>0</b>
Autism Plus		(1)	2,394	<b>2,393</b>	1	0	<b>1</b>
Digital Region Ltd		0	2,407	<b>2,407</b>	0	(8)	<b>(8)</b>
Roundabout		0	1,090	<b>1,090</b>	0	0	<b>0</b>
Sheffield Industrial Museums Trust		(29)	723	<b>694</b>	1	(258)	<b>(257)</b>
DLA Piper		0	2,635	<b>2,635</b>	0	0	<b>0</b>
Sheffield Homes		(7,223)	44,505	<b>37,282</b>	2,081	(5)	<b>2,076</b>
South Yorkshire Housing Association		(52)	5,953	<b>5,901</b>	1	0	<b>1</b>
Sheffield Lyceum Theatres Trust		0	2,294	<b>2,294</b>	0	0	<b>0</b>

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, the Executive Directors and Director of Finance. 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:

2013/14	Notes	Receipts	Payments	Net Payments	Receivables	Payables	Net Accruals
		£000	£000	£000	£000	£000	£000
<b>Related Party</b>							
South Yorkshire Pensions Authority	1	(16)	72,190	72,174	1	(8,620)	(8,619)
South Yorkshire Integrated Transport Authority	2	(12,069)	36,055	23,986	5,419	(24)	5,395
South Yorkshire Police Authority	3	(970)	18,963	17,993	7	(1)	6
Other Local Authorities	4	(2,664)	10,058	7,394	8,390	(559)	7,831
NHS bodies within Sheffield and regional health organisations	5	(47,391)	15,463	(31,928)	353	(1,195)	(842)
South Yorkshire Fire and Rescue Authority	6	(16)	10,199	10,183	3	(11)	(8)

**1** £7m payment of levies, £17.7m contribution towards the deficit, and £47.5m superannuation payments.  
**2** £35.5m levy payment, £9.4m receipts for capital transport projects, £1.2m receipts for Local Sustainable Transport Fund project.  
**3** £18.2m Council Tax precept payment.  
**4** £4.3m repayment of South Yorkshire County Council Debt.  
**5** £29.5m receipt of public health funding.  
**6** £8.2m Council Tax precept payment and £1.9m share of business rates.

<b>2012/13 – Comparative Information</b>						
	<b>Receipts</b>	<b>Payments</b>	<b>Net</b>	<b>Receivables</b>	<b>Payables</b>	<b>Net</b>
<b>Related Party</b>	<b>£000</b>	<b>£000</b>	<b>Payments</b>	<b>bles</b>	<b>£000</b>	<b>Accruals</b>
			<b>£000</b>	<b>£000</b>		<b>£000</b>
South Yorkshire Pensions Authority	(48)	68,844	<b>68,796</b>	10	(1,649)	<b>(1,639)</b>
South Yorkshire Integrated Transport Authority*	(3,701)	39,007	<b>35,306</b>	1,463	(3)	<b>1,460</b>
South Yorkshire Police Authority*	(244)	21,327	<b>21,083</b>	2	(6)	<b>(4)</b>
Other Local Authorities	(2,215)	6,997	<b>4,782</b>	8,481	(380)	<b>8,101</b>
NHS bodies within Sheffield and regional health organisations	(27,310)	16,879	<b>(10,431)</b>	2,311	(979)	<b>1,332</b>
South Yorkshire Fire and Rescue Authority*	(24)	9,707	<b>9,683</b>	3	0	<b>3</b>

\*Figures inclusive of precepts and levies

#### **40. 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.

2012/13 £000		2013/14 £000
<b>Capital Investment</b>		
179,904	Property, Plant and Equipment*	161,876
76	Heritage Assets*	3
437	Assets Held for Sale*	2,325
464	Loans Advanced	2,000
9,175	Revenue Expenditure Funded from Capital Under Statute	14,704
<b>190,056</b>		<b>180,908</b>
<b>Sources of Finance</b>		
55,337	Government Grants and Other Contributions	41,034
74,521	PFI Lease Liability	56,120
37,299	Major Repairs Reserve	32,360
14,921	Capital Receipts Reserve	10,640
7,978	Borrowing	40,754
<b>190,056</b>		<b>180,908</b>
<b>Capital Financing Requirement</b>		
1,043,874	Opening Balance	1,096,725
7,602	Borrowing in Year	40,754
(29,271)	Statutory / Voluntary provision for repayment of debt (MRP / VMRP)	(28,087)
74,520	PFI Liabilities recognised in year	56,120
0	Other Adjustments	290
<b>1,096,725</b>	<b>Closing Balance</b>	<b>1,165,802</b>
* These figures match to the additions lines in Notes 14, 15 and 21 detailing movements on the non-current assets balances.		

#### 41. 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:

2012/13 £000		2013/14 £000
1,999	Not later than one year	2,086
3,223	Later than one year and not later than five years	2,249
3,315	Later than five years	2,881
<b>8,537</b>	<b>Total</b>	<b>7,216</b>

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:

2012/13 £000		2013/14 £000
2,951	Not later than one year	2,330
10,001	Later than one year and not later than five years	6,903
99,072	Later than five years	70,745
<b>112,024</b>	<b>Total</b>	<b>79,978</b>

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

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

**PFI and Similar Contracts**

At 31 March 2014 the Council had seven long term contracts under Private Finance Initiative (PFI) arrangements. No new contracts were entered into in 2013/14. The financing models have the same methodology as 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 to the contractor during the year amounted to £4.6m (£4.2m in 2012/13) and 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 and total payments to the contractor during the year were £10.3m (£10.1m in 2012/13). 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 with total payments to the contractor during the year amounting to £5.8m (£4m in 2012/13). The Schools Phase Three PFI contract, which is for 25 years, became operational during the financial year 2006/07 and total payments during the year were £7.3m (£7.3m in 2012/13). The Building Schools for the Future (BSF) Wave One contract is for 25 years. It became operational in January 2009 and total payments during the year were £9.3m (£9.1m in 2012/13). The Bradfield School PFI contract, which is for 25 years, became operational during the financial year 2012/13 and total payments during the year were £3m (£1.2m in 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. Total payments during the year were £44.4m (£26.7m in 2012/13 which was a part year).

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. Payments to the contractor during the year totalled £28.1m (£27.6m in 2012/13). 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.

In accordance with the Accounting Policy for Private Finance Initiatives and Similar Contracts (Note 1 XX), 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.

### 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 14.

### PFI Finance Lease Liability

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

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
(226,804)	Value of the liability as at 1 April	(290,804)
(74,520)	Recognition of fixed assets	(56,119)
10,520	Finance lease rental	11,318
<b>(290,804)</b>	<b>Value of liability as at 31 March</b>	<b>(335,605)</b>
	<b>Comprising of:</b>	
(6,930)	Short Term	(8,312)
(283,874)	Long Term	(327,293)
<b>(290,804)</b>		<b>(335,605)</b>

### PFI Payments Due to be Made

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

2012/13 Total		Repay- ment of Current Liability £000	Repay- ment of Future Liability £000	Interest Charge £000	2013/14 Service Charge £000	Contin- gent Rents £000	Lifecycle Costs £000	Total £000
114,762	Within one year	8,312	3,708	35,099	63,527	4,631	0	115,277
509,841	Between two and five years	38,859	12,308	164,580	247,804	25,222	26,979	515,752
735,960	Between six and ten years	67,288	19,337	197,974	326,065	49,176	66,735	726,575
792,803	Between eleven and fifteen years	80,595	25,974	151,509	356,211	57,967	96,757	769,013
789,876	Within sixteen and twenty years	88,086	39,545	95,213	352,144	57,912	112,738	745,638
596,137	Within twenty-one and twenty-five years	52,465	44,034	22,626	198,645	37,535	71,033	426,338
<b>3,539,379</b>	<b>Total</b>	<b>335,605</b>	<b>144,906</b>	<b>667,001</b>	<b>1,544,396</b>	<b>232,443</b>	<b>374,242</b>	<b>3,298,593</b>

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.

#### 43. Long Term Contracts

In addition to the PFI and similar contracts disclosed in Note 42, the Council has a number of other Long Term Contracts in place.

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. The cost of this commitment in 2012/13 was £16.9m. 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 arrangements. Payments to SCT in year are detailed in the Related Parties Transaction disclosure (Note 39).

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 transactional
- Revenues and Benefits
- Financial Business Processing
- Information and Communications Technology (ICT)
- Payroll Services

The contract value is around £221m over the initial seven year period, there is an option to extend the contact by up to a further six years. As we approach the end of the initial seven year period, negotiations have begun to explore the possibility of an extension.

Payments to Capita Business Services Limited under the contract in 2013/14 totalled £34.5m (£38.3m in 2012/13).



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 is for an initial period of seven years, with an option to extend by up to a further six years.

Payments to Kier Limited under the properties and facilities management contract in 2013/14 totalled £8.4m (£8.6m in 2012/13).

Payments of £86.4m (£80m in 2012/13) were also made to Kier Sheffield LLP for delivery of the contract for housing repairs and maintenance. The contract commenced in April 2003 and ends in March 2014, the contract was extended by a further year from March 2013.

#### **44. Impairment Losses**

In 2013/14 there were no impairments for Non-Current Assets.

An impairment of £12.8m for debtors relating to Sheffield City Trust was charged to the Comprehensive Income and Expenditure Statement, to be replaced with debtors for the new grant and prepayment arrangements for the Major Sporting Facilities.

#### **45. 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 2013/14 the City Council paid £14.1m (£17.2m 2012/13) to Department for Education (DfE) in respect of Teachers' pension costs, which represented 14.1% (14.1% 2012/13) 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 2013/14 these amounted to £4.5m (£4.6m 2012/13), representing 4.53% (3.74% 2012/13) 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 2013/14 the City Council paid £294k (Nil 2012/13) to NHS pensions in respect of NHS pension costs, which represented 14% (0% 2012/13) 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 Balance via the Movement in Reserves Statement during the year:

2012/13 £000		2013/14 £000
	<b>Comprehensive Income and Expenditure Statement</b>	
	<i>Cost of Services:</i>	
38,357	Current service cost	45,589
90	Past service costs	12
(13,910)	(Gains) and Losses on Settlements	(19,097)
2,800	Curtailments	2,748
<b>27,337</b>	<b>Charge to (Surplus) / Deficit on Continuing Operations</b>	<b>29,252</b>
	<i>Other Operating Expenditure:</i>	
0	Administration expenses	781
0		781
	<i>Financing and Investment Income and Expenditure:</i>	
96,811	Interest cost on pension liabilities	94,637
(74,478)	Interest on plan assets	(62,727)
22,333		31,910
<b>22,333</b>	<b>Charge to the (Surplus) / Deficit on the Provision of Services</b>	<b>32,691</b>
	<i>Other Post-Employment Benefits charged to the Comprehensive Income and Expenditure Statement:</i>	
141,449	Re-measurements of the net defined benefit liability	(111,539)
141,449		(111,539)
<b>191,119</b>	<b>Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(49,596)</b>

2012/13 £000		2013/14 £000
	<b>Movement in Reserves Statement</b>	
(49,670)	Reversal of net charges made to the (Surplus) / Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(61,943)
	<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>	
52,213	Employers contributions payable to scheme	50,678

The cumulative amount of actuarial (gains) and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2014 is a loss of £284.5m (£406.1m 2012/13).

**Assets and Liabilities in Relation to Post-Employment Benefits**

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
(1,998,631)	Opening Balance at 1 April	(2,300,867)
(38,357)	Current service cost	(45,589)
(96,811)	Interest cost	(94,637)
(13,250)	Contributions by scheme participants	(12,384)
(247,948)	Re-measurements	166,105
80,415	Benefits Paid	81,190
(90)	Past Service Costs	(12)
(2,800)	Curtailments	(2,748)
16,605	Settlements	19,787
<b>(2,300,867)</b>	<b>Closing Balance at 31 March</b>	<b>(2,189,155)</b>

Reconciliation of fair value of the scheme (plan) assets:

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
1,339,705	Opening Balance at 1 April	1,503,035
74,478	Interest on plan assets	62,727
106,499	Re-measurements	(54,566)
0	Administration expenses	(781)
52,213	Contributions by Employer	50,678
13,250	Contributions by scheme (plan) participants	12,384
(80,415)	Benefits paid	(81,190)
(2,695)	Settlements	(690)
<b>1,503,035</b>	<b>Closing Balance at 31 March</b>	<b>1,491,597</b>

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 £86m (£181m 2012/13).

Local Government Pension Scheme assets comprised:

	31 March 2013 £000	31 March 2014 £000
<b>Equities:</b>		
UK quoted	297,713	324,227
Overseas quoted	550,153	596,684
<b>Bonds:</b>		
UK Government indexed	161,372	155,230
Overseas Government Fixed	35,891	39,110
UK other	93,404	93,001
Overseas other	9,434	5,981
<b>Property:</b>		
UK direct	108,918	124,959
Property Funds	19,287	21,457
<b>Alternatives:</b>		
Pooled investment vehicles	98,967	100,698
<b>Cash:</b>		
Cash accounts	22,502	30,250

### Scheme History

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Present value of liabilities	(1,992,120)	(1,859,352)	(1,998,631)	(2,300,867)	(2,189,155)
Fair value of scheme assets	1,253,255	1,296,039	1,339,705	1,503,035	1,491,597
Surplus / (deficit) in the scheme	(738,865)	(563,313)	(658,926)	(797,832)	(697,558)

The liabilities show the underlying commitments that the Council has, in the long run, to pay post-employment benefits. The total liability of £698m (£798m 2012/13) has a substantial impact on the net worth of the Council as recorded on the Balance Sheet, reducing the balance from £1.4bn to £722m (£1.4bn to £661m 2012/13). 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 2014 is £54m.

### 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:

2012/13		2013/14
<b>Mortality assumptions:</b>		
Longevity at 65 for current pensioners:		
21.8 years	Men	22.9 years
24.7 years	Women	25.5 years
Longevity at 65 for future pensioners:		
23.7 years	Men	25.2 years
26.6 years	Women	28.3 years
<b>Financial assumptions:</b>		
2.4%	Rate of CPI inflation	2.4%
4.2%	Rate of increase in salaries	4.15%
2.4%	Rate of increase in pensions	2.4%
4.2%	Rate for discounting scheme liabilities	4.4%

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 2012/13.

Change in Assumptions at 31 March 2014	£000
Increase in life expectancy (1 year increase)	42,806
Rate of inflation (0.1% increase)	39,576
Rate of increase in salaries (0.1% increase)	8,421
Rate of discount (0.1% increase)	(38,874)

### History of Experience Gains and Losses

The actuarial gains and losses identified as movements on the Pension Reserves in 2013/14 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2014:

	2009/10	2010/11	2011/12	2012/13	2013/14
	%	%	%	%	%
Differences between the expected and actual return on assets	19.4	-2.8	-2.1	7.1	-3.7
Experience gains and losses on liabilities	-23.1	-6.3	3.4	10.8	-7.6

## 46. 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 2012/13 £000		Exposure 2013/14 £000
2,214	Sheffield City Trust City Hall	1,897
334	Sheffield City Trust Ice Centre	2
143	Sheffield Science Park Co Ltd	118
<b>2,691</b>		<b>2,017</b>

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

During 2013/14 the Council made a number of settlement payments to individuals in relation to back dated Equal Pay claims. The bulk of offers have been made to those individuals with outstanding claims, and a small provision is held for those individuals not yet settled with. However, the Council recognises the potential that further equal pay claims may arise, some of which may lead to additional compensation agreements. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

## **Grant Claw Back**

The Council has undertaken the accountable body role, or has guaranteed that capital schemes funded by grant will continue to provide specified output, in relation to a number of projects. These projects have been funded from a variety of grant regimes including European Union sources, the Single Regeneration Budget and Lottery distribution bodies. In the event of such projects not achieving their originally stated objectives, 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.

## **Local Land Charges Litigation**

The Council is in the process of settling claims brought by several groups of Property Search Companies for refunds of fees paid to the Council to access land charges data. A provision has been taken in the 2013/14 accounts to cover these claims. A claim has also been brought against all English and Welsh Local Authorities for alleged anti-competitive behaviour. At this stage, it would appear that this claim has a low chance of success. It is not possible to say with sufficient certainty what the value of this claim would be against the Council.

## **Pensions**

There are a number of organisations, such as Kier Sheffield LLP 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 full amount of their deficit on 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 2014 this risk could be valued at £900k.

### **Termination Benefits**

A provision has been recognised in the 2013/14 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 2014 have not yet left the Council (see Note 35). The 2014/15 revenue budget allows for £11.2m of redundancy costs. However, there is still some uncertainty surrounding the number of other potential redundancies and related costs. We are unable to quantify the number of employees or costs involved.

<b>Housing Revenue Account (HRA)</b>
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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.

<b>Housing Revenue Account Income and Expenditure Statement</b>			
<b>2012/13</b>		<b>Note</b>	<b>2013/14</b>
<b>£000</b>			<b>£000</b>
	<b>Expenditure:</b>		
32,898	Repairs and maintenance		33,739
51,079	Supervision and management		50,861
387	Rents, rates, taxes and other charges		951
24,803	Depreciation and impairment / losses of non-current assets	8 / 9	22,577
270	Debt management costs		241
777	Movement in the allowance for Bad or Doubtful Debts		1,432
<b>110,214</b>	<b>Total Expenditure</b>		<b>109,801</b>
	<b>Income:</b>		
(136,399)	Dwelling rents	11	(141,548)
(1,554)	Non-dwelling rents - garages, garage sites, shops	11	(1,544)
(6,131)	Charges for services and facilities		(8,151)
(1,073)	Contributions towards expenditure		(1,481)
(93)	HRA subsidy receivable		0
<b>(145,250)</b>	<b>Total Income</b>		<b>(152,724)</b>
(35,036)	Net Income / Cost of HRA Services as included in the whole Council's Comprehensive Income and Expenditure Statement		(42,923)
622	HRA share of Corporate and Democratic Core		430
<b>(34,414)</b>	<b>Net Income / Cost of HRA Services</b>		<b>(42,493)</b>
	<b>HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Account:</b>		
6,824	(Gain) or loss on sale of HRA non-current assets		(4,968)
13,475	Interest payable and similar charges		13,572
(53)	Interest and investment income		(59)
(849)	Capital grants and contributions receivable		0
<b>(15,017)</b>	<b>(Surplus) / Deficit for the year on HRA services</b>		<b>(33,948)</b>

<b>Movement on the Housing Revenue Account Statement</b>			
<b>2012/13</b>		<b>Note</b>	<b>2013/14</b>
<b>£000</b>			<b>£000</b>
<b>(14,409)</b>	<b>Balance as at 1 April</b>		<b>(22,528)</b>
(15,017)	(Surplus) / Deficit on the HRA Income and Expenditure Statement		(33,948)
0	Other Comprehensive Income and Expenditure	1	(8,809)
6,898	Adjustments between accounting basis and funding basis under regulation	2	31,774
<b>(8,119)</b>	<b>Net (increase) / decrease before transfers to reserves</b>		<b>(10,983)</b>
0	Transfer to reserves	3	20,468
<b>(8,119)</b>	<b>(Increase) / decrease in year on the HRA</b>		<b>9,485</b>
<b>(22,528)</b>	<b>Balance as at 31 March</b>		<b>(13,043)</b>

## Notes to the Housing Revenue Account

### 01. Other Comprehensive Income and Expenditure

#### Transfer of Sheffield Homes

For 9 years, Council homes in Sheffield were managed by the Arm's Length Management Organisation (ALMO) Sheffield Homes. In 2012 tenants voted to return Council housing services in the city to the direct control of Sheffield City Council and on 1 April 2013 Sheffield Homes came back under the management of Sheffield City Council. Over 1,000 Sheffield Homes staff transferred into the Council and are now working with customers to plan the next phase in the future of Sheffield's homes and estates.

As part of the Council Housing service being re-integrated with the Council and the wind up of Sheffield Homes Limited, a Business Transfer Deed was prepared which allowed for the assets of Sheffield Homes Limited to be returned to the HRA. An amount of £8.8m was transferred to the Council on the 1 April 2013. This income has been accounted for as Other Comprehensive Income and Expenditure on the HRA Income and Expenditure Statement.

The pension liability for Sheffield Homes, which was the largest figure on the Sheffield Homes balance sheet, was already included in the Council's accounts.

### 02. Adjustments Between Accounting Basis and Funding Basis Under Regulation

2012/13 £000		2013/14 £000
(8,971)	Impairment / revaluation losses on HRA non-current assets	(5,473)
849	Capital Grants and Contributions credited to the HRA	0
(6,824)	Net gain / (loss) on sale of HRA non-current assets	4,968
1,110	Difference between interest payable and similar charges (including amortisation of premiums and discounts determined in accordance with Statute)	1,066
20,734	Revenue Contribution to Major Repairs Reserve	31,153
0	Difference between any other item of income and expenditure determined in accordance with the Code and those determined in accordance with statutory HRA requirements	60
<b>6,898</b>	<b>Total</b>	<b>31,774</b>

### 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 2013/14.

2012/13 £000		2013/14 £000
0	Transfer to / (from) the Major Repairs Reserve	19,196
0	Transfer to / (from) the HRA Earmarked Reserve	1,273
0	Other	(1)
<b>0</b>	<b>Total</b>	<b>20,468</b>

#### 04. Housing Stock

The Council was responsible for managing, on average 40,894 dwellings during 2013/14 (41,210 for 2012/13). The movement in stock can be summarised as follows:

2012/13		2013/14
41,363	Housing Stock as at 1 April	41,056
(149)	Less: Sales	(258)
(162)	Less: Demolitions and other deductions	(80)
4	Add: New build and acquisitions	14
<b>41,056</b>	<b>Housing Stock as at 31 March</b>	<b>40,732</b>

The housing stock can be analysed by type as follows:

2013/14			
	Flats and Maisonettes	Houses and Bungalows	Total
1 Bedroom	12,030	1,688	13,718
2 Bedrooms	5,719	8,962	14,681
3 Bedrooms	907	10,698	11,605
4 Bedrooms	14	335	349
5 Bedrooms	1	13	14
6 Bedrooms or more	0	4	4
Bedsits	358	2	360
Multi Occupied	0	1	1
<b>Total</b>	<b>19,029</b>	<b>21,703</b>	<b>40,732</b>

2012/13 – Comparative Information			
	Flats and Maisonettes	Houses and Bungalows	Total
1 Bedroom	12,051	1,689	13,740
2 Bedrooms	5,732	9,058	14,790
3 Bedrooms	942	10,836	11,778
4 Bedrooms	14	341	355
5 Bedrooms	3	13	16
6 Bedrooms or more	0	4	4
Bedsits	370	2	372
Multi Occupied	0	1	1
<b>Total</b>	<b>19,112</b>	<b>21,944</b>	<b>41,056</b>

The opening and closing balances of HRA fixed assets are as follows:

2012/13			2013/14	
Value at 1 April £000	Value at 31 March £000		Value at 1 April £000	Value at 31 March £000
835,821	849,262	Council Dwellings	849,262	864,529
20,045	19,718	Other Land and Buildings	19,718	9,032
41,314	26,491	Surplus Assets	26,491	34,609
1,911	1,535	Assets Held for Sale	1,535	3,593
<b>899,091</b>	<b>897,006</b>	<b>Total</b>	<b>897,006</b>	<b>911,763</b>

#### 05. Vacant Possession

The vacant possession value of Council dwellings as at 1 April 2013 was £2.74bn (£2.70bn at 1 April 2012).

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 future planned HRA Capital Investment Programme.

The table below shows the movement on the reserve:

2012/13 £000		2013/14 £000
(10,106)	Balance at 1 April	(9,379)
(15,838)	Transfers from the Capital Adjustment Account (re. Depreciation)	(16,463)
(20,734)	Transfers from the HRA (re. Revenue Contribution)	(31,153)
0	Transfers from the HRA (re. Additional Revenue Contribution)	(19,196)
37,299	Expenditure on capital assets	32,360
<b>(9,379)</b>	<b>Balance at 31 March</b>	<b>(43,831)</b>

#### 07. Capital Expenditure

During the financial year total capital expenditure was £38.9m, (£40.9m 2012/13) split between houses £35.4m (£40.4m in 2012/13) and other property within the Housing Revenue Account £3.5m (£0.5m in 2012/13).

The table below provides details of how this expenditure was financed:

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
37,299	Major Repairs Reserve	32,360
994	Capital Receipts Reserve	6,273
2,614	Government Grants and Other Contributions	299
<b>40,907</b>	<b>Total</b>	<b>38,932</b>

Capital receipts amounting to £12.2m (£8.9m 2012/13) 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 £16.5m (£15.8m 2012/13) was made to the HRA during the financial year. The split of the depreciation charge is detailed below:

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
15,502	Council Dwellings	16,161
330	Other Land and Buildings	285
6	Surplus Assets	17
<b>15,838</b>	<b>Total</b>	<b>16,463</b>

#### **09. Impairment**

There were no impairment charges in 2013/14 or 2012/13.

#### **10. Rent Arrears**

Rent arrears (excluding amounts collectable on behalf of other agencies) as at 31 March 2014 amounted to £8.6m (£7.9m as at 31 March 2013).

The provision for doubtful debts in respect of these rent arrears is £6m (£5.5m as at 31 March 2013).

#### **11. Rent Income**

The total rent income due for the year after allowance has been made for vacant property is as follows:

Dwellings	2012/13			2013/14		
	Non-Dwellings	Total		Non-Dwellings	Total	
£000	£000	£000		£000	£000	
(138,215)	(2,369)	(140,584)	Gross rent income before allowances	(143,802)	(2,450)	(146,252)
1,816	815	2,631	Less vacant properties	2,254	906	3,160
<b>(136,399)</b>	<b>(1,554)</b>	<b>(137,953)</b>	<b>Gross rent income after allowances</b>	<b>(141,548)</b>	<b>(1,544)</b>	<b>(143,092)</b>

## 12. Dwellings Rents

This represents rent income due from tenants. The average rent per week at 31 March 2014 was £70.43 compared with £67.23 per week at 31 March 2013, an increase of £3.20 or 4.76%.

## 13. Rebates

Rent rebates are available through the Housing Benefits scheme. As at 31 March 2014, 69% (70% as at 31 March 2013) of Council tenants were receiving assistance from the scheme.



<b>Collection Fund</b>
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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.

Non-domestic Rates £000	2012/13 Council Tax £000	Total £000		Notes	Non-domestic Rates £000	2013/14 Council Tax £000	Total £000
<b>Income</b>							
0	(186,634)	<b>(186,634)</b>	Council Tax Receivable	1	0	(198,996)	<b>(198,996)</b>
Transfers from General Fund:							
0	(46,533)	<b>(46,533)</b>	- Council Tax Benefits	1	0	0	<b>0</b>
0	(233,167)	<b>(233,167)</b>			0	(198,996)	<b>(198,996)</b>
(205,221)	0	<b>(205,221)</b>	Non-domestic Rates Receivable	2	(215,211)	0	<b>(215,211)</b>
0	0	<b>0</b>	Non-domestic Transitional Payments Protection		(15)	0	<b>(15)</b>
(205,221)	0	<b>(205,221)</b>			(215,226)	0	<b>(215,226)</b>
<b>(205,221)</b>	<b>(233,167)</b>	<b>(438,388)</b>	<b>Total Income</b>		<b>(215,226)</b>	<b>(198,996)</b>	<b>(414,222)</b>
<b>Expenditure</b>							
Precepts and Demands:							
0	197,737	<b>197,737</b>	- Sheffield City Council		95,265	164,733	<b>259,998</b>
0	21,153	<b>21,153</b>	- SY Police Authority		0	18,254	<b>18,254</b>
0	9,618	<b>9,618</b>	- SY Fire and Rescue Authority		1,944	8,167	<b>10,111</b>
198,298	0	<b>198,298</b>	- Central Government share of NNDR		97,154	0	<b>97,154</b>
198,298	228,508	<b>426,806</b>			194,363	191,154	<b>385,517</b>
0	0	<b>0</b>	Non-domestic Transitional Protection Payments		1,474	0	<b>1,474</b>
Non-domestic Rates Supplement:							
Impairment of debts:							
1,900	1,493	<b>3,393</b>	- Write Offs	1	2,173	903	<b>3,076</b>
4,249	1,410	<b>5,659</b>	- Allowance for impairment		92	7,012	<b>7,104</b>
Appeals:							
0	0	<b>0</b>	- Allowance for impairment		13,600	0	<b>13,600</b>
774	0	<b>774</b>	Cost of Collection		775	0	<b>775</b>
0	0	<b>0</b>	Enterprise Zone Relief		55	0	<b>55</b>
0	597	<b>597</b>	Contributions towards previous years estimated Surplus / Deficit		0	0	<b>0</b>
<b>205,221</b>	<b>232,008</b>	<b>437,229</b>	<b>Total Expenditure</b>		<b>212,532</b>	<b>199,069</b>	<b>411,601</b>
<b>0</b>	<b>(1,159)</b>	<b>(1,159)</b>	<b>Movement on the Fund</b>		<b>(2,694)</b>	<b>73</b>	<b>(2,621)</b>
<b>0</b>	<b>(1,210)</b>	<b>(1,210)</b>	<b>Opening Fund Balance</b>		<b>0</b>	<b>(2,369)</b>	<b>(2,369)</b>
<b>0</b>	<b>(2,369)</b>	<b>(2,369)</b>	<b>Closing Fund Balance</b>		<b>(2,694)</b>	<b>(2,296)</b>	<b>(4,990)</b>

<b>Notes to the Collection Fund</b>
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<b>01. Council Tax</b>
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There are an estimated 239,518 (238,843 for 2012/13) 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 128,050.05 for 2013/14 (153,785.26 for 2012/13). 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 £1,489.08 for 2013/14 (£1,482.84 for 2012/13). 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:

<b>2013/14</b>						
<b>Band</b>	<b>Number of Properties in Band</b>	<b>Exemptions and Reliefs</b>	<b>Chargeable Dwellings</b>	<b>Adjusted Chargeable Dwellings</b>	<b>Proportion of Band D Tax</b>	<b>Band D Equivalent Dwellings</b>
Disabled Band A		410	410	369.50	5:9	205.28
A	140,476	(41,320)	99,156	82,725.74	6:9	55,150.49
B	37,923	(5,987)	31,936	29,153.80	7:9	22,675.17
C	30,248	(3,763)	26,485	24,636.28	8:9	21,898.92
D	15,243	(1,133)	14,110	13,273.64	9:9	13,273.64
E	8,761	(451)	8,310	7,894.67	11:9	9,649.05
F	4,042	(60)	3,982	3,799.84	13:9	5,488.66
G	2,652	(64)	2,588	2,473.04	15:9	4,121.73
H	173	(54)	119	112.55	18:9	225.10
	239,518	(52,422)	187,096	164,439.06		132,688.04
Less: Allowance for non-collection						(4,644.09)
Add: Defence-exempt properties						6.10
<b>Tax Base for the calculation of 2013/14 Council Tax</b>						<b>128,050.05</b>

Those properties qualifying for Council Tax support are no longer included in the tax base figures for 2013/14.

<b>2012/13 – Comparative Information</b>						
<b>Band</b>	<b>Number of Properties in Band</b>	<b>Exemptions and Reliefs</b>	<b>Chargeable Dwellings</b>	<b>Adjusted Chargeable Dwellings</b>	<b>Proportion of Band D Tax</b>	<b>Band D Equivalent Dwellings</b>
Disabled Band A		452	452	408.25	5:9	226.81
A	140,273	(8,588)	131,685	115,511.15	6:9	77,007.44
B	37,725	(3,230)	34,495	31,733.45	7:9	24,681.57
C	30,154	(2,604)	27,550	25,698.40	8:9	22,843.02
D	15,151	(833)	14,318	13,491.20	9:9	13,491.20
E	8,740	(353)	8,387	7,976.00	11:9	9,748.44
F	4,021	(56)	3,965	3,790.45	13:9	5,475.09
G	2,614	(79)	2,535	2,423.50	15:9	4,039.17
H	165	(54)	111	103.15	18:9	206.30
	238,843	(15,345)	223,498	201,135.55		157,719.04
Less: Allowance for non-collection						(3,942.98)
Add: Defence-exempt properties						9.20
<b>Tax Base for the calculation of 2012/13 Council Tax</b>						<b>153,785.26</b>

The income of £194.2m for 2013/14 (£231.7m 2012/13), which is net of write offs, is receivable from the following sources:

<b>2012/13 £000</b>		<b>2013/14 £000</b>
(186,634)	Billed to Council Tax Payers	(198,996)
1,493	Write Offs	903
(185,141)		(198,093)
(46,533)	Council Tax Benefits	0
<b>(231,674)</b>	<b>Total</b>	<b>(198,093)</b>

## **02. National Non-Domestic Rates (NNDR)**

NNDR is organised on a national basis. The Government specify an amount of 47.1p in 2013/14 (45.8p 2012/13) 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 £215.2m for 2013/14 (£205.2m 2012/13) was based on a total rateable value for the Council's area of £532.2m for the year (£531.1m for 2012/13).

<b>Glossary</b>
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<b>Term</b>	<b>Definition</b>
<b>Abbreviations</b>	The symbol 'k' following a figure represents £thousand. The symbol 'm' following a figure represents £million. The symbol 'bn' following a figure represents £billion.
<b>Accounting Period</b>	The period of time covered by the Council's accounts. Normally 12 months, beginning on 1 April. Also known as the Financial Year.
<b>Accounting Policies</b>	These are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
<b>Accruals Concept</b>	Income and Expenditure are recognised as they are earned or incurred, not as money is received or paid.
<b>Added Years</b>	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.
<b>Amortisation</b>	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.
<b>Beacon</b>	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.
<b>Capital Expenditure</b>	Expenditure that is incurred to acquire, create or add value to a non-current asset.
<b>Capital Financing Requirement</b>	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.
<b>Capital Receipts</b>	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.

<b>Cash</b>	Comprises cash on hand and demand deposits.
<b>Cash Equivalents</b>	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.
<b>Co-optees</b>	Individuals appointed to serve as members of committees of the Council, but who are not Members of the Council (i.e. not Councillors).
<b>Collection Fund</b>	A fund administered by the Council recording receipts from Council Tax, National Non-Domestic Rates and payments to the General Fund.
<b>Community Assets</b>	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.
<b>Consistency Concept</b>	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.
<b>Contingency</b>	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.
<b>Council Tax</b>	A banded property tax that is levied on domestic properties. The banding is based on assessed property values at 1 April 1991.
<b>Credit Risk</b>	The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss to the other party.
<b>Creditors</b>	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.
<b>Debtors</b>	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.
<b>Defined Benefit Scheme</b>	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).
<b>Defined Contribution Scheme</b>	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.
<b>Depreciation</b>	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.
<b>Fair Value</b>	Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
<b>Finance Lease</b>	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.
<b>Financial Instrument</b>	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.
<b>General Fund</b>	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.
<b>Goodwill</b>	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.
<b>Heritage Asset</b>	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.
<b>Impairment</b>	<p>A reduction in the value of a non-current asset below its carrying amount on the Balance Sheet.</p> <p>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.</p>
<b>Intangible Assets</b>	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.
<b>International Financial Reporting Standards (IFRS)</b>	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.
<b>Inventories</b>	Inventories are assets: <ul style="list-style-type: none"> <li>• in the form of materials or supplies to be consumed in the production process or consumed or distributed in the rendering of services</li> <li>• held for sale or distribution in the ordinary course of operations</li> <li>• in the process of production for sale or distribution</li> </ul>
<b>Investment Property</b>	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.
<b>Materiality</b>	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.
<b>Minimum Revenue Provision (MRP)</b>	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.
<b>Net Book Value</b>	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.
<b>Net Current Replacement Cost</b>	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.
<b>Net Realisable Value</b>	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.
<b>National Non-Domestic Rates (NNDR)</b>	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.
<b>Operating Lease</b>	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.
<b>Precepts</b>	The amount levied by another body such as the South Yorkshire Police Authority that is collected by the Council on their behalf.
<b>Private Finance Initiative (PFI)</b>	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.
<b>Property, Plant and Equipment</b>	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.
<b>Provisions</b>	Amounts charged to revenue during the year for costs with uncertain timing, though a reliable estimate of the cost involved can be made.
<b>Prudence Concept</b>	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.
<b>Public Works Loan Board (PWLb)</b>	A government agency, which provides loans to authorities at favourable rates.
<b>Related Party</b>	The definition of a related party is dependent upon the situation, though key indicators of related parties are if: <ul style="list-style-type: none"> <li>• One party has direct or indirect control of the other party</li> <li>• One party has influence over the financial and operating policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests.</li> </ul>
<b>Remuneration</b>	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.
<b>Reserves</b>	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.
<b>Revenue Expenditure</b>	Expenditure incurred on the day-to-day running of the Council, for example, staffing costs, supplies and transport.
<b>Revenue Support Grant (RSG)</b>	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.
<b>Specific Government Grants</b>	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.
<b>Termination Benefits</b>	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.
<b>Unsupported (Prudential) Borrowing</b>	Borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

## **Independent Auditor's Report**

### **Independent auditor's report to the members of Sheffield City Council**

We have audited the financial statements of Sheffield City Council for the year ended 31 March 2014 on pages 25 to 141. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Executive Director of Resources and auditor**

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

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Resources; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of

any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### **Matters on which we are required to report by exception**

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 13 to 23 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters

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

#### **Authority's responsibilities**

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

### **Auditor's responsibilities**

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

### **Basis for qualified conclusion**

In considering the Council's arrangements for challenging how it secures economy, efficiency and effectiveness we consider that weaknesses in the management and leadership of the Adult Social Care Service identified by an internal review and the service inefficiencies that have been uncovered by the review are significant enough to justify the qualification of our overall assessment of the Council's arrangements against this criteria. We recognise that the Council is taking effective action to address the issues identified.

**Qualified conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Sheffield City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

**Certificate**

We certify that we have completed the audit of the financial statements of Sheffield City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

**Susan Sunderland**

**For and on behalf of KPMG LLP, Appointed Auditor**

Chartered Accountants – St Nicholas House, Park Row, Nottingham, NG1 6FQ

September 2014



## Resources

Finance Service

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finance@sheffield.gov.uk

www.sheffield.gov.uk



KPMG LLP  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

Dear Sirs,

### **Sheffield City Council - Audit for the year ended 31 March 2014**

This representation letter is provided in connection with your audit of the financial statements of Sheffield City Council ("the Council"), for the year ended 31 March 2014, for the purpose of expressing an opinion as to whether these:

- (i) give a true and fair view of the financial position of Sheffield City Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- (ii) have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

### **Financial statements**

- The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

- give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

The financial statements have been prepared on a going concern basis.

- Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
- All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 require adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements are agreed and summarised in Appendix 3 of the Report to Those Charged with Governance 2013/14.

### **Information provided**

- The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error. The Authority



has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- The Authority has disclosed to you all information in relation to:
  - fraud or suspected fraud that it is aware of and that affects the Authority and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The Authority has disclosed to you and has appropriately accounted for /or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Included in the financial statements are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

- The Authority has provided you with all information in relation to Digital Region Ltd that is relevant to the preparation of the financial statements, such as records,

documentation and other matters it is aware of. All transactions in relation to Digital Region Ltd have been recorded in the financial statements.

- On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that:

- all significant retirement benefits, including any arrangements that:
  - are statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - are funded or unfunded; and
  - are approved or unapproved,have been identified and properly accounted for; and
- all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 25th September 2014.

Yours faithfully,

Signed:

Name: Eugene Walker  
Position: Interim Executive Director of Resources  
Date: 25<sup>th</sup> September 2014

Signed:

Name: Cllr Ray Satur  
Position: Chair of Audit Committee  
Date: 25<sup>th</sup> September 2014





# Contents

The contacts at KPMG in connection with this report are:

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Sue Sunderland the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 4448 330.

### This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Council; and
- our assessment of the Council's arrangements to secure value for money.

### Scope of this report

This report summarises the key findings arising from:

- our audit work at Sheffield City Council ('the Council') in relation to the Council's 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

### Financial statements

Our *External Audit Plan 2013/14*, presented to you in February 2014, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during March 2014 (interim audit) and July/August 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

### VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;

- considering the results of any relevant work by the Council and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

### Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

### Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.



## Section two Headlines

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

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<b>Proposed audit opinion</b>	We anticipate issuing an unqualified audit opinion on the Council's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
<b>Audit adjustments</b>	Our audit has not identified any audit adjustments above materiality.
<b>Key financial statements audit risks</b>	We have worked with officers throughout the year to discuss specific risk areas. The Council addressed these issues appropriately.
<b>Accounts production and audit process</b>	<p>The Council has continued to produce good quality accounts, well supported by working papers. In particular for the past two years the Council has produced and made available its working papers electronically, which greatly facilitates our audit. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. These strong processes meant that only limited amendments were made following our audit.</p> <p>The Council has implemented most of the recommendations in our <i>ISA 260 Report 2012/13</i> relating to the financial statements.</p>



## Section two Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

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<b>Control environment</b>	The Council's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.
<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"><li>■ Whole Government Accounts</li></ul> <p>Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.</p>
<b>VFM conclusion and risk areas</b>	<p>In considering the Council's arrangements for challenging how it secures economy, efficiency and effectiveness, we consider that weaknesses in the management and leadership of the Adult Social Care Service identified by an internal review and the service inefficiencies that have been uncovered by the review are significant enough to justify the qualification of our overall assessment of the Council's arrangements against this criteria. We recognise that the Council is taking effective action to address the issues identified.</p> <p>We therefore anticipate issuing an except for VFM conclusion by 30 September 2014.</p>



## Section three

# Proposed opinion and audit differences

**We have identified no issues in the course of the audit that are considered to be material.**

### Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Council's financial statements following approval of the Statement of Accounts by the Audit Committee on 25 September 2014.

### 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 level for this year's audit was set at £30 million. Audit differences below £1.5m are not considered significant.

We did not identify any material misstatements. We identified one issue above £1.5m that has not been adjusted by management as it does not have a material effect on the financial statements. This is detailed at Appendix 3.

There is no net impact on the General Fund as a result of audit adjustments.





## Section three

# Proposed opinion and audit differences (continued)

We anticipate issuing an unqualified audit opinion in relation to the Council's financial statements by 30 September 2014.

The wording of your Annual Governance Statement accords with our understanding.

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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 the United Kingdom 2013/14* (*the Code*). We understand that the Council will be addressing these where significant.

### Annual Governance Statement

We have reviewed the 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.

## Section three

### Key financial statements audit risks

We have worked with officers throughout the year to discuss specific risk areas. The Council addressed these issues appropriately.



In our *External Audit Plan 2013/14*, presented to you in February 2014, we identified the key risks affecting the Council's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Council.

Additionally, we considered the risk of management override of

controls, which is a standard risk for all organisations.

Our 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, did not identify any issues in this area.

Key audit risk	Issue	Findings
	<p>The Council has a significant provision in its accounts in respect of the costs involved in winding-up Digital Region Limited (DRL), a joint venture between the four South Yorkshire local authorities to provide broadband services across South Yorkshire. Given the uncertainties in the winding-up process, and the possibility of further liabilities if the Council becomes exposed to the claw-back of grants, there is a risk that the provision is mis-stated.</p> <p>This area is also considered as a VFM risk later in this report.</p>	<p>The Council has a remaining provision in its accounts for the losses associated with Digital Region of £11.5m, having used £1.1m during 2013/14. Grant clawback from the EU has been resolved within the cost envelope allowed for by the Council. We are satisfied that this provision is appropriate, and that, to the best of the Council's knowledge, it is not currently exposed to material additional unforeseen liabilities.</p>
	<p>During 2013/14, the Local Government Pension Scheme for South Yorkshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Council'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.</p>	<p>We have obtained sufficient assurance that this exercise has resulted in materially correct entries being made in the Council's accounts. We have however noted that some improvements in the flow of pensions data between the Council and SY Pensions Authority can be made, as discussed in the <i>Controls over key financial systems</i> slide of this Report.</p>

Section three  
**Key financial statements audit risks (continued)**

Key audit risk	Issue	Findings
	(cont.) The pensions (IAS19) numbers included in the financial statements for 2013/14 are based on the output of this triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.	
	<p>The potential for impairment and valuation changes, particularly the accounting of schools transferring to Academy or Foundation status, makes this balance inherently risky due to the high level of judgement and estimation uncertainty. These changes in valuation are often very significant when considered in relation to Performance Materiality.</p> <p>Some elements can also involve complex accounting. This is usually a presentational issue rather than one that affects the General Fund.</p>	We have reviewed your accounting for PPE, including schools' disposals. We identified a few minor errors, only one of which was above our triviality threshold. We did not identify any material errors.
	<p>There are changes in the status of various bodies associated with the Council. Sheffield Homes was in-sourced in April 2013, the City Region Combined Authority takes over transport responsibilities from the Integrated Transport Authority from April 2014, the contract for housing and other maintenance will move from Kier LLP to a new provider from April 2014, and the Council's LA Housing Company is becoming more active.</p> <p>These changes will necessitate a thorough assessment of whether the Council should prepare group accounts, and of the more general accounting requirements for these bodies, including whether post balance sheet events notes are required.</p>	The Council considered whether group accounts are required for 2013/14, and is satisfied that they are not.

## Section three

# Accounts production and audit process

The Council has continued to produce good quality accounts, well supported by working papers. These strong processes meant that only limited amendments were made following our audit.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Council has implemented most of the recommendations in our *ISA 260 Report 2012/13*.

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Council's accounting practices and financial reporting. We also assessed the Council's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	<p>The Council has continued to produce good quality accounts, well supported by working papers. In particular for the past two years the Council has produced and made available its working papers electronically, which greatly facilitates our audit. These strong processes meant that only limited amendments were made following our audit.</p> <p>We consider that accounting practices are appropriate.</p>
<b>Completeness of draft accounts</b>	<p>We received a complete set of draft accounts on 27<sup>th</sup> June 2014, before the deadline of 30<sup>th</sup> June.</p>
<b>Quality of supporting working papers</b>	<p>Our <i>Accounts Audit Protocol</i>, which we issued in January 2014 and discussed with the Finance Manager (Financial Planning &amp; Accounting), set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was good, and met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
<b>Response to audit queries</b>	<p>Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p>

### Other Specific issue

#### NNDR additional work

On 1 April 2013 a new system of business rate retention began. Some of the guidance relating to the changed requirements was late in being issued.

This meant that the new national arrangements and associated pooling arrangements presented new accounting challenge for all councils this year and brought a risk that NNDR income and associated accounting entries may be misstated.

We reviewed the Authority's accounting treatment for business rates and found this to be in line with CIPFA guidance.

This work was additional to our original audit plan but is common issue across all local authorities, we are currently in discussion with the Audit Commission about how this additional work is to be funded but may result in a small additional audit fee.

#### Prior year recommendations

As part of our audit we have specifically followed up the Council's progress in addressing the recommendations in last years ISA 260 report.

The Council has implemented most of the recommendations in our *ISA 260 Report 2012/13*.

Appendix 2 provides further details.

Your organisational control environment is effective overall.

### Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Council's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

### Key findings

We consider that your organisational controls are effective overall.

Aspect	Assessment
<i>Organisational controls:</i>	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3

- Key:
- 1 Significant gaps in the control environment.
  - 2 Deficiencies in respect of individual controls.
  - 3 Generally sound control environment.

The controls over the majority of the key financial systems are sound.

However, we noted some weaknesses in respect of pensions data flows, the Credit Clearing Account, and journals.

### Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

### Key findings

Based on the work of your internal auditors and our own testing, the controls over the majority of the key financial systems are sound.

We noted some weaknesses in respect of individual financial systems:

- Pensions data flows: we reported to the Audit Committee in Dec 2010 that the Council was not providing SY Pensions Authority with timely and accurate pension data. Efforts to improve the position have been on-going since that time. We re-reviewed the position early in 2014 and concluded that some progress had been made since 2010, particularly in immediate past, and officers were optimistic that progress has been made in addressing the underlying issues. However this remains an area where improvements are required, and we made two recommendations in our follow-up report to that end.
- Credit Clearing Account. We have previously reported that there were uncleared reconciliation items within this account. The size of these items had been reduced to £0.8m as at the end of 2012/13. However no further progress has been made in clearing these items during 2013/14, so the same uncleared balance remains. We recommend that the balance on this account is cleared as a priority.

- From 1/4/2013 the Council discontinued its previous practice of requiring all journals to be authorised by an officer separate to the preparer. The Council recognises that this represents a diminution of the controls in this area, but believes that more general checking by budget holders provides an adequate safeguard. It has decided that the cost of operating this control, given the large number of journals produced by the Council, cannot be justified by the assurance it provides. Given the need for the Council to continue to make budgetary savings we accept this decision and are merely noting this matter for the Committee's attention. Our testing of a sample of journals during our final accounts did not reveal any issues.

Recommendations are included in Appendices 1 and 2.

Financial system	Controls Assessment
Property, Plant & Equipment	3
Cash	3
Pensions Liabilities	3
Other Key Processes	2

- Key:
- 1 Significant gaps in the control environment.
  - 2 Deficiencies in respect of individual controls.
  - 3 Generally sound control environment.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions 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 for the year ending 31 March 2014, 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 Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 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 Director of Finance for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

As part of this letter we have asked for specific representations covering the remaining liabilities of Digital Region Ltd.

### **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 Council's 2013/14 financial statements.

**Our VFM conclusion considers how the Council secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**In considering the Council's arrangements for challenging how it secures economy, efficiency and effectiveness, we consider the weaknesses in the management and leadership of the Adult Social Care Service identified by an internal review and the service inefficiencies that have been uncovered by the review are significant enough to justify the qualification of our overall assessment of the Council's arrangements against this criteria. We recognise that the Council is taking effective action to address the issues identified.**

### Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Council has proper arrangements in place for:

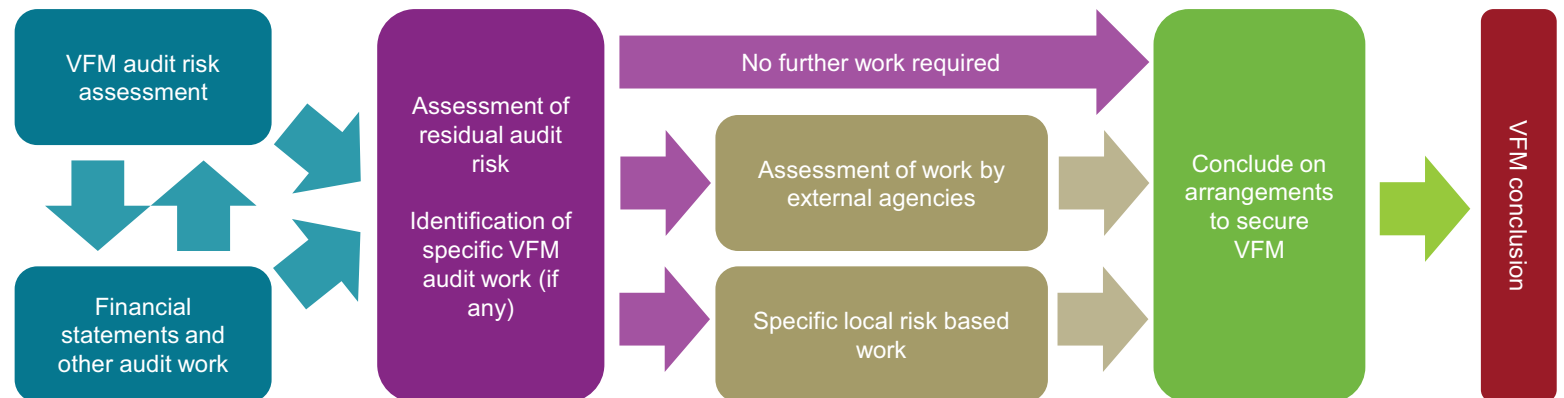
- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

### Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.



The following pages include further details of our VFM risk assessment and our specific risk-based work.

### Conclusion

In considering the Council's arrangements for challenging how it secures economy, efficiency and effectiveness, we consider that weaknesses in the management and leadership of the Adult Social Care Service identified by an internal review and the service inefficiencies that have been uncovered by the review are significant enough to justify the qualification of our overall assessment of the Council's arrangements against this criteria. We recognise that the Council is taking effective action to address the issues identified.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	X



We have identified a number of specific VFM risks.

The magnitude of the issues identified by the Council in relation to the Adult Social Care over-spend have meant that we are qualifying the economy, efficiency and effectiveness criteria of our VFM conclusion.

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### Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Council's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Council, inspectorates and review agencies in relation to these risk areas;

and

- completed specific local risk based work.

### Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.


We concluded that we needed to carry out additional work on some of these risks. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>In our Audit Plan for 2013/14 we included comments on the impact of significant overspends within the Councils' Adult Social Care service on the risk of the Council not achieving its savings plans. However since our Plan the Council has completed its own review of the causes of these over-spends, which has revealed a significant number of weaknesses. We have therefore treated this as a distinct risk area, and considered it separately to the impact of the overspend on the financial resilience of the Council.</p> <p>This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>The Council has carried out its own detailed and thorough review of the causes of the over-spends within Adult Social Care, and the result were reported to the Audit Committee in July 2014. This review made a significant number of recommendations. For example it found that poor and unreliable management information had impacted on service delivery and demand forecasting, and there was no clear understanding of the reasons for high unit costs in some areas, or control of cost escalations. There were weaknesses in governance and risk management arrangements, and improvements required in budgetary processes, and overall management control.</p> <p>Our assessment is that the weaknesses revealed by the over-spend and the resulting Council investigation, require us to qualify the economy, efficiency and effectiveness criterion of our VFM conclusion.</p> <p><b>Specific risk based work required: No</b></p> <p>Outside of our audit powers, we are providing assistance and challenge on the Council's improvement planning.</p>

We are satisfied external or internal scrutiny provides sufficient assurance that the Council's current arrangements for maintaining financial resilience are adequate.

The Council continues to have a good track record of delivering its demanding savings plans.



Future savings plans remain very challenging however, and will require difficult decisions on priorities, and close monitoring of the results of the decisions taken.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The Council continues to face the requirement to reduce its spend as Central Government funding reduces. The 2013/14 budget required £49.6m of savings to be found, and the Council's 2014/15 to 2018/19 financial strategy assumes that there will be £37m and £45m of reductions in Government funding in 2014/15 and 2015/16 respectively.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>The Council's final out-turn for 2013/14 was that actual spending was £0.4m over budget, less than 0.1% of the net revenue budget of £477m. This good overall position was achieved despite significant over-spends (of over £11m) within the Council's Adult Social Care Services. The Council identified that these overspends were occurring early in 2013/14, and took effective remedial action to contain the size of the overspend. Other areas of the Council then over-delivered against their budgets, allowing the Council to meet its overall savings target.</p> <p>The Council has set a balanced budget for 2014/15, incorporating £58.4m of agreed savings. The Council has a good track record in delivering against its overall savings targets, which demonstrates that its arrangements for maintaining financial resilience are sound. However continuing to deliver such demanding targets year on year is clearly demanding, and will require difficult decisions to be implemented, and close monitoring of the results and the impact on key services.</p> <p><b>Specific risk based work required: No</b></p>

Section four  
**Specific VFM risks (continued)**

We have carried out additional work monitoring the closure of Digital Region Ltd, and the negotiations over the settlement of sums due in respect of the closure of the SY Trading Standards Unit. We are satisfied that the Council continues to manage these risks appropriately.

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Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>Digital Region Limited (DRL) was a joint venture between the four South Yorkshire local authorities to provide broadband services across South Yorkshire. In the light of the ongoing cost of supporting DRL, the Council, in conjunction with the other shareholders, took the decision to wind up the company in August 2013. This decision was intended to limit the Council's exposure to future losses connected with DRL. It was also intended to lead to the overall cost being equal to or less than the provision of £12.6m included in the 2012/13 financial statements.</p> <p>This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>The process of winding up the company continues, and to date anticipated costs are being contained within the original estimates.</p> <p><b>Specific risk based work required: Yes</b></p> <p>We continue to liaise with the Council, and the other stakeholders, over the position, and remain satisfied that appropriate action is being taken.</p>
	<p>The Council has been seeking to recover costs arising from the closure of this unit from the other three SY authorities since criminal proceedings were concluded against parties involved in defrauding the unit in 2010.</p> <p>This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>Negotiations have been protracted, but a settlement agreeable to all parties was reached in July 2014, and the Council has now received the sums due from the other bodies.</p> <p><b>Specific risk based work required: Yes</b></p> <p>We have monitored progress towards reaching a settlement. We are satisfied that the settlement represents appropriate value for money for the taxpayers of South Yorkshire, particularly bearing in mind the high costs of failing to reach agreement and pursuing the matter through the courts.</p>

We have given our recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up this recommendation next year.

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Priority rating for recommendations		
<p><b>1</b> <i>Priority one:</i> 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.</p>	<p><b>2</b> <i>Priority two:</i> 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.</p>	<p><b>3</b> <i>Priority three:</i> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>2</b>	<p><b>Pensions data flows</b></p> <p>Some progress has been made in improving the timeliness and accuracy of pensions data passed to SY pensions Council since 2010, particularly in immediate past, and officers are optimistic that progress has been made in addressing the underlying issues. However this remains an area where improvements are required, so further work remains to be done.</p> <p><b>Recommendation</b></p> <p>The Council should liaise with SY Pensions Authority to ensure that continuing action is taken to address the issues in respect of data flows, and take further action if performance does not improve.</p>	

## Appendix 2: Follow up of prior year recommendations

The Council has implemented most of the recommendations in our *ISA 260 Report 2012/13*.

However the recommendation from September 2012 that the Credit Clearing Account be cleared has not yet been fully actioned, and no progress has been made on this recommendation since Sept 2013.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Progress	Status as at September 2014
1	1	The Council should ensure it has appropriate arrangements to manage the closure of Digital Region Ltd (DRL) to reduce the financial impact on the Council.	To date the Council, in conjunction with the other three SY Metropolitan Districts, has managed the closure of DRL appropriately.	Actioned (but continues to be relevant as the process of winding up DRL concludes).
2	1	The Council should commission a full independent review of the Digital Region Project to identify the lessons that should be learned. This review should be carried out as soon as possible and jointly with the other stakeholders.	A review was commissioned, and reported in June 2014.	Actioned.
3	2	Sept 2012. Our review (in 2011/12) identified that there had been delays reconciling the Credit Clearing Account, and there were £2.8m of uncleared items at December 2011. We recommended that the Director of Finance should ensure that reconciliation processes are being maintained despite staff turnover and reductions.	Update Sept 2013 The Council reviewed its reconciliation processes over the Credit Clearing Account, and has identified improvements in the process. Reconciliations are now carried out on a monthly basis. Since 2011/12 progress has also been made in clearing the backlog of uncleared items. This balance has now reduced to £0.8m, and officers are working to clear the remaining items.	The balance remains at £0.8m. Prompt action is needed to clear this balance.

**This appendix sets out the significant 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 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.

**Corrected audit differences**

There were no audit differences above triviality that were corrected in 2013/14.

**Uncorrected audit differences**

Revaluation gains (£1.9m) relating to the second revaluation of Carbrook Offices (00701) in 2013/14 have been recognised in the revaluation reserve. The Code (para 4.1.2.33) requires such gains to be reversed from the previous revaluation losses taken to the Surplus or Deficit on the Provision of Services. The amount is clearly not material and hence no amendments are required to the accounts.

In addition there were a few minor amendments made for items below the level we consider necessary to require separately reporting (£1.5m), and to correct minor presentational errors.

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Council.

**Requirements**

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the ‘Code’) which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

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 Audit Commission’s *Standing Guidance for Local Government Auditors* (‘Audit Commission 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. Audit Commission 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 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’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.**

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

#### **Auditor declaration**

In relation to the audit of the financial statements of Sheffield City Council for the financial year ending 31 March 2014, 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 Audit Commission's requirements in relation to independence and objectivity.





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# Audit Committee Report

<b>REPORT OF</b>	<b>Senior Finance Manager (Internal Audit)</b>	<b>DATE</b> 25 <sup>th</sup> September
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<b>SUBJECT</b>	Internal Audit Annual Report 2013/14
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<b>SUMMARY</b>	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).
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<b>RECOMMENDATIONS</b>	That the Audit Committee notes the content of the report and the opinion of the Chief Audit Executive (Senior Finance Manager).
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<b>FINANCIAL IMPLICATIONS CLEARED BY</b>	<b>No</b> K Inman	<b>PARAGRAPHS</b> 93
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**BACKGROUND PAPERS**

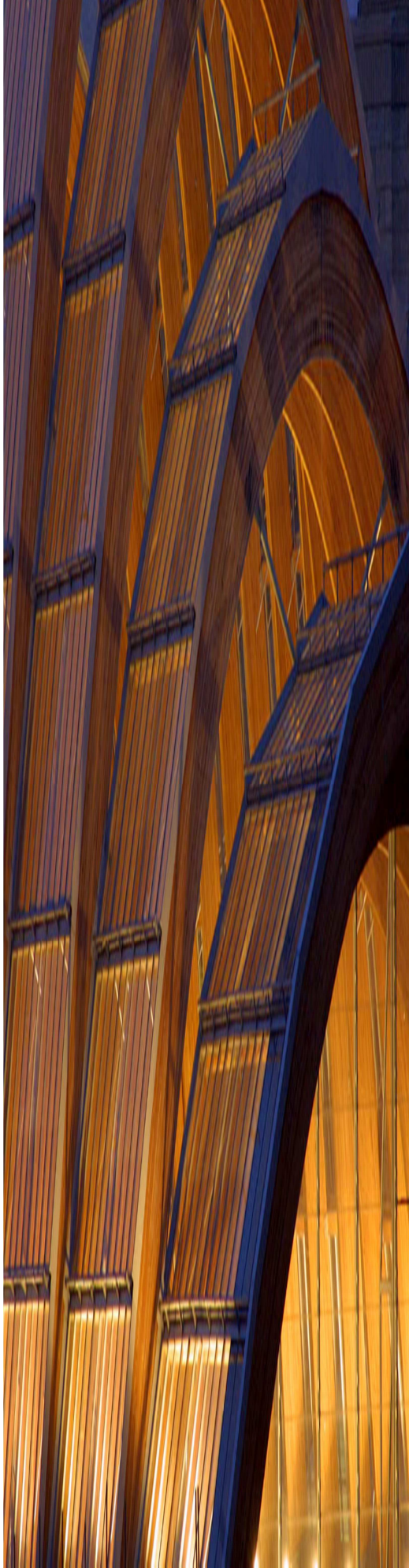
<b>CONTACT POINT FOR ACCESS</b>	<b>Kayleigh Inman</b>	<b>TEL NO.</b> 273 4435
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**CATEGORY OF  
REPORT**

Open

## Statutory and Council Policy Checklist

<b>Financial implications</b>
<del>YES</del> /NO      Cleared by: K Inman
<b>Legal implications</b>
<del>YES</del> /NO
<b>Equality of Opportunity implications</b>
<del>YES</del> /NO
<b>Tackling Health Inequalities implications</b>
<del>YES</del> /NO
<b>Human rights implications</b>
<del>YES</del> /NO
<b>Environmental and Sustainability implications</b>
<del>YES</del> /NO
<b>Economic impact</b>
<del>YES</del> /NO
<b>Community safety implications</b>
<del>YES</del> /NO
<b>Human resources implications</b>
<del>YES</del> /NO
<b>Property implications</b>
<del>YES</del> /NO
<b>Area(s) affected</b>
<b>Relevant Scrutiny Committee if decision called in</b>
Not applicable
<b>Is the item a matter which is reserved for approval by the City Council? <del>YES</del>/NO</b>
<b>Press release</b>
<del>YES</del> /NO



**Sheffield City Council**

**Finance**

**Internal Audit**

**Senior Finance Manager's**

**Internal Audit Annual Report  
2014**

**Kayleigh Inman  
Senior Finance Manager  
Finance  
Town Hall  
Sheffield  
S1 2HH**

**25<sup>th</sup> September 2014**

## **REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE**

25th September 2014

### **Purpose of the Report**

1. 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).

### **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. The aim of this report is to inform Members on the role of Internal Audit and the work undertaken during the past year and to support the statement prepared by the Council on its governance and internal control arrangements.
4. It is not the intention of this report to attempt to give a detailed summary of each of the audits that have been undertaken during the previous year. The aim is to give a broad review of the control arrangements.

### **Executive Summary of Audit Opinion**

5. From the work undertaken by Internal Audit during the year (2013/14), 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 Committee (July 2014) includes 3 items that were highlighted by management as areas of significant control weakness. These were Adult Social Care and Supporting Services, Capital Project Management and Consistency of Corporate Issues. Officers are responsible for putting in place action plans to address these areas and their activities (as in previous years) and therefore will continue to be monitored by the Audit Committee.
7. Internal Audit has undertaken a number of counter fraud investigations involving the Housing/Council Tax Benefit claims of households containing Council employees. In addition, Internal Audit has investigated or assisted service managers to investigate other allegations of irregularity and associated disciplinary procedures throughout Council services (refer to para 46, 72 - 75 for further details).

8. Work to strengthen the Council's counter fraud framework continued during the year in order to reduce the likelihood and impact of irregularity. The service has co-ordinated the responses to the data matches received from the Audit Commission as part of the biennial National Fraud Initiative (NFI). This has resulted in a number of irregularities and issues being raised which have required investigation.
9. Internal Audit undertook planned pro-active initiatives to seek assurance that the selected processes contained robust counter fraud controls and, made recommendations where vulnerability was identified.
10. A total of 13 audit assignments (compared to 3 for 2012/13) were given an audit opinion of high risk of failing to deliver objectives and these have been reported to the Audit Committee. These audits will/have been subject to follow up reviews to consider improvements and compliance with audit recommendations, and the outcomes of follow-up work is also reported to the Audit Committee via the high opinion recommendation tracker.
11. The increase in high risk audit opinion reports may be due to reduced resources across portfolio's impacting on effective service delivery and the adequacy of key controls. Also the reduction in staff numbers has resulted in the loss of key skills and knowledge across all portfolios and a significant increase in workloads. Internal Audit will continue to monitor this situation and follow-up on the recommendations made to improve the control environment.
12. From the routine planned internal audit work undertaken and reported upon during 2013/14, 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. 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.
14. As the Senior Finance Manager (Internal Audit) of the Council I am unaware of any other significant control weaknesses that have not been included within the Council's Annual Governance Statement.

### **Legislation Surrounding Internal Audit**

15. The Internal Audit section is an integral part of the Finance Service, which contributes to satisfying the Acting 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 Acting 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 in relation to internal control”

Other statutory requirements are:

- The Acting Executive Director - Resources also has responsibility, under the Local Government Finance Act 1988 (Section 114), to ensure that all expenditure of the Council is legal. It is a requirement that Internal Audit should have regard to the legality of expenditure when carrying out audit work.
- Paragraph 136 of Circular 7/88 issued under Section 34 of the Education Reform Act 1988 states “...the Secretary of State will expect the accounts of schools with delegated budgets to be subject to regular internal audit and to be available for inspection as necessary by the LEA’s external auditors”. This Act has subsequently been strengthened by the Schools’ Standards and Framework Act 1998 and schedule 14 to the Act (last updated December 2010).
- The Accounts and Audit Regulation 2006 (last updated 2011) requires that ‘the accounting control system determined in accordance with paragraph 1b must include measures i) to ensure that the financial transactions of the body are recorded as soon as, and as accurately as, reasonably practicable ii) to enable the prevention and detection of inaccuracies and fraud, and the reconstitution of any lost records, and iii) to ensure that risk is appropriately managed’.

### **Professional Requirements**

16. 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, Conditions of Service, Codes of Conduct for Members and Officers and other procedural rules.



17. The Internal Audit Section also has to meet the standards laid down by professional bodies such as the CIPFA and Institute of Internal Auditors (IIA).
18. 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. For the financial year 2013/14 Sheffield City Councils' Internal Audit service complied with the majority of the requirements of the PSIAS. Refer to para 24 below for details of the areas of non-compliance.
19. An aspect of the PSIAS is a requirement to comply with a member approved Charter and Terms of Reference (ToR). The Internal Audit Charter was revised to reflect the PSIAS requirements and was submitted and agreed by members of the Audit Committee in September 2013. A copy of the Charter is included at Appendix A for information.
20. The PSIAS lays down the standards of professional practice, which have to be met by Internal Audit. The standards have been split into 2 sections, Attribute and Performance Standards. The Attribute Standards cover:
  - Purpose, Authority and Responsibility
  - Independence and Objectivity
  - Proficiency and Due Professional Care
  - Quality Performance and Improvement Programme
21. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.
22. Internal Audit has taken positive steps to ensure that it complies with the PSIAS requirements. Some minor changes are required to documents and processes, for example, the periodic assessment of compliance with the PSIAS will be incorporated into the annual 'quality audit' using a self-assessment methodology. Also we are exploring the feasibility of 'peer reviews' within the Core Cities Chief Auditors Group for independent external assessments.
23. The only areas 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), and the remuneration of the CAE is determined by 'the Board' (Audit Committee).

24. At present the Senior Finance Manager reports to the Assistant Director Finance, who subsequently reports to the deputy S151 officer. This point has previously been brought to the attention of the Audit Committee. This issue is not considered to be significant as the 'Chief Audit Executive' has access to the S151 Officer and Chief Executive when this is required. Similarly remuneration is determined as per the Human Resources Pay Structure and Pay and Grading.

### **Review by External Audit**

25. External Audit continues to place 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.
26. External Audit has previously reviewed Internal Audit arrangements within local authorities to ensure compliance with the CIPFA Code of Practice (now the PSIAS). However, External Audit is no longer required to perform an in-depth triennial review of Internal Audit.
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 2013/14 (which was reduced by 3%) as outlined in the table below, which also summarises the end of year budget position. The increasing reductions and pressures continue to compress days available for audit work.

	£	£	£
	Outturn	Budget	Variance
Employees	513,000	596,000	(83,000)
Transport	1,000	2,000	(1,000)
Supplies /Services	7,000	4,000	3,000
Total	521,000	602,000	(81,000)

29. Comparative statistics collated from South and West Yorkshire 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. Comparisons undertaken with other Core Cites in the past have showed similar results.

30. The core cities comparison has also identified that the coverage per auditor within Sheffield City Council is significantly higher than other similar authorities (refer to table below).

<b>Core City</b>	<b>£m Net Revenue Costs (NRC) per Full Time Equivalent (FTE)</b>
Sheffield	69.12
Birmingham	62.58
Manchester	58.13
Liverpool	57.35
Nottingham	54.31
Newcastle	48.2
Leeds	40.23
Bristol	38.38

### **Structure**

31. The current structure of the section is shown in Appendix B to this report. In 2013/14, the structure was made up of 13.29 WTE. This has reduced in 2014/15, with the current total being 12.11 WTE. The Internal Audit structure has reduced by 37.5% compared to 2011/12, and this is considered to be the minimum level the authority can reduce to maintain an 'adequate service'.
32. 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), Chartered Institute of Internal Auditors (CIIA), and Association of Accounting Technicians (AAT).
33. Internal Audit is included in the training and development arrangements for Resources Finance, and a service wide training and development plan is produced annually.
34. The 2013/14 original tactical plan contained 148 reviews. At the mid-year point, 18 reviews were deferred due to resource reductions. A further 6 new areas were added to the original tactical plan during the year. The service completed 86% of its revised plan. As Senior Finance Manager I am confident that enough coverage has taken place during the year for me to give a reasonable assurance on the Council's overall control arrangements at the end of the 2013/14 financial year.

## **Planning Processes**

35. Historically, Internal Audit plans have been developed in line with the risk assessment model for evaluating and ranking the auditable areas. This system was adequate when Internal Audit resources were sufficient to at least cover the highest scoring risk areas, the so called 'A' risk audits. However, since the reduction of 37.5% in workforce and increasing financial risk across the authority arising from budget reductions, this approach identified that significant numbers of 'A' rated audits were being excluded from the plan.
36. The table below highlights the reduction in the number of audit days since 2010/11.

	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
Total Audit Days	4242	3118	2670	2252	1918

37. The new planning strategy, (presented to Audit Committee May 2012) commenced for the 2012/13 Internal Audit planning cycle and internal audit work focussed on some specific key areas of activity (i.e. Risk Management, Annual Governance Statement, Performance Management Framework etc) which could provide assurance that risk and internal control issues are being properly managed by Directors in service areas.
38. The 2014/15 tactical plan has seen a reduction in the number of audits planned in these areas. This reduction occurred because we adopted a strategic overview approach in the first year (12/13) followed by detailed portfolio testing to validate/confirm the adequacy of internal controls in place in the second year (13/14). We consider the audit coverage in these areas over the last few years sufficient and therefore, for 2014/15 the number of audits has reduced to 7 compliance audits in total across all the Main Corporate Systems.
39. We have revised our approach further for 2014/15, to concentrate on key strategic processes and therefore we will be undertaking 4 audits in each Portfolio in relation to Outcome Planning, Business Planning, Budget Setting and Implementation of Savings and Directors Assurance.
40. The audit plan is discussed with Senior Managers and ultimately agreed with the Acting Executive Director - Resources.
41. 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.

42. 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.
43. Internal Audit has now moved to a 15 month model to measure the completion of the audit plan. The audit plan delivery for 2013/14 is as follows:

<b>Audit Area</b>	<b>Revised plan</b>	<b>Completed</b>
CYPF	21	19
Place	21	20
Communities	32	23
Resources & ICT	36	30
Main Financial Systems	9	9
Partnerships and Contracts	1	1
Risk Management	2	2
Annual Governance Statement	2	2
Performance Plus	2	2
Projects and Programmes	0	0
Benefits	2	1
Pro-active Work	8	8
<b>Total (Planned Reviews)</b>	<b>136</b>	<b>117</b>
Investigations		30
<b>Total</b>		<b>147</b>

44. A total of 117 reviews were completed out of a revised plan of 136 or 86%, many of the remaining reviews were deferred/deleted due to issues that only became apparent towards the end of the year after the plan had been agreed.
45. In addition, Internal Audit completed 13 re-active investigations and assisted managers to conduct a further 17 re-active investigations. Of the 30 investigations, 10 related to Benefit investigations. 3 of the 30 investigations were ongoing from the previous period, with 27 new referrals. 19 investigations were concluded during this period with in excess of £577,600 being recovered. There were also 3 resignations and 2 dismissals resulting from these investigations. Internal Audit also interrogated the data matches generated from the NFI, along with co-ordinating and monitoring the NFI data match work undertaken by other teams across the Council.
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. Dependant 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	13 reports
Medium High	12 reports
Medium Low	36 reports
Low	6 reports

In addition, Internal Audit undertook 22 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 and Archives and Archaeology Accounts work. Furthermore, 28 pieces of follow-up work were completed during 2013/14, which did not generate a revised audit opinion.

51. 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 Committee to enable managers to justify their actions.

### **Review Process/ Quality Control**

52. Internal Audit has a robust process of quality control that ensures that all of the reports produced are of a high and consistent standard.

53. The Council's Internal Audit section was accredited for a number of years by the British Standards Institute (BSI). Budget pressures have impacted on this independent accreditation, which has not been maintained since January 2011. In order to ensure the service is still meeting the requirements consistent with the BSI quality standard, an internal review is undertaken annually - thus despite not retaining the official accreditation, we have sought to ensure that the quality control processes used within the section are of a robust standard.

### **Reporting Arrangements**

54. All audit assignments are subject to formal feedback to management in an appropriate format. Draft reports are sent to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions, timeframe for implementation and comments will be issued to the Directors/ Head of Service of the service under review. Internal Audit also performs follow-up reviews to track implementation of recommendations.

55. In order to formalise this process, Internal Audit has an agreed protocol. This document (Appendix C) sets out the roles, responsibilities and processes that have been agreed to deliver the maximum benefit to the Council.

### **Reviewing the Service**

56. 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:

- The Internal Audit service 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 61). The questions are analysed and submitted and used as part of the Core Cities comparisons.

57. The achievement of the performance targets is shown in the table below:

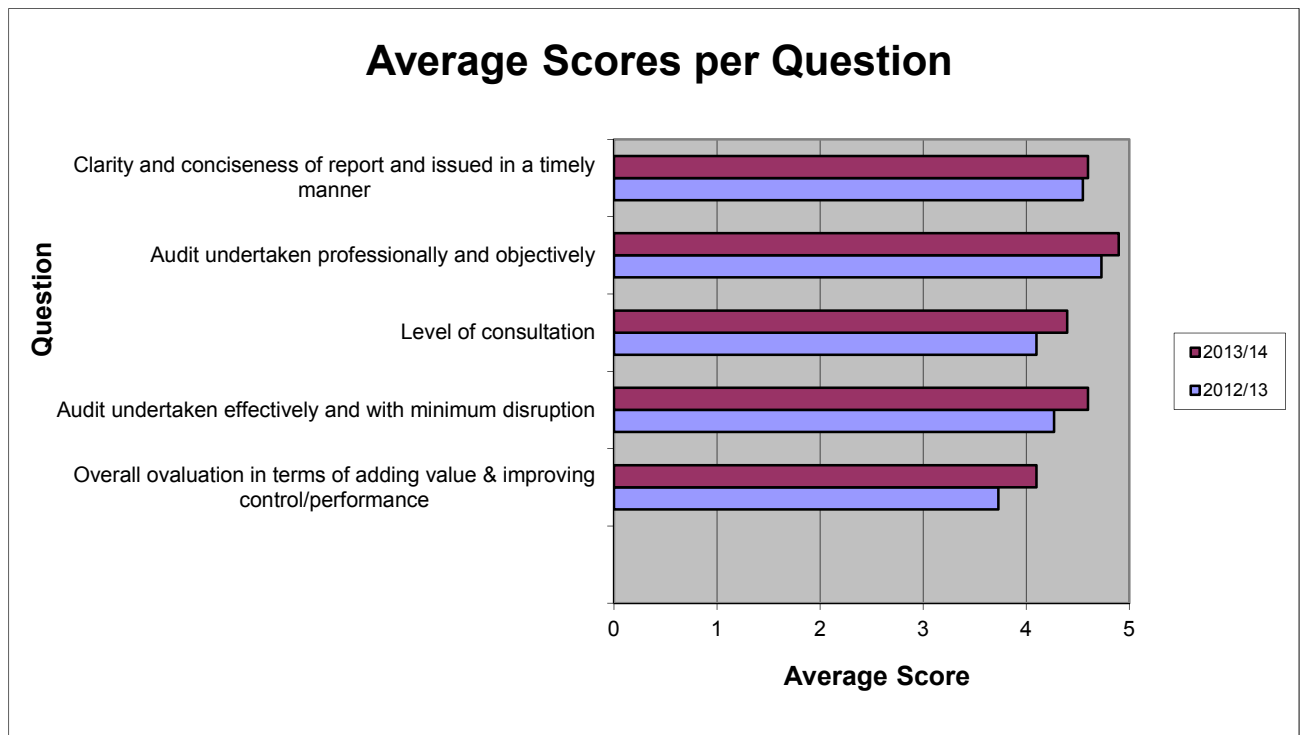
<b>PERFORMANCE TARGETS</b>	2013/14 Target	2013/14 Achievement	2012/13 Achievement
▪ Progress work to agreed work programme	90%	86%	85%
▪ Final reports to be issued within 3 months of the Terms of Reference being agreed.	80%	56%	59%
▪ Quality measures – Average >85% scoring good or better on customer questionnaire (for details see graph overleaf).	85%	100%	95%

58. The figures above show an improvement on the previous year in relation to the customer feedback questionnaires and the performance figure for progressing work to agreed work programme. There was a slight deterioration in the other target area. This has been examined by management within Internal Audit and action is being undertaken to help address the issues, for example through the development of an escalation policy. Changes within portfolios due to spending cuts across the Council, staff reductions and changing/increased workloads have had an impact on delivery of Final reports within the 3 month target.

59. In addition to the 86% of the audit programme being completed for 2013/14 we have undertaken a further 10% unplanned work, demonstrating audit productivity is high. Examples of the unplanned productive pieces of work are the Adult Social Care Management review and the Parking Services Investigation.



60. 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. Also performance is monitored during supervision on all audits and any training and development issues are identified at an early stage for appropriate action. A blank copy of the full audit questionnaire is shown at Appendix D.



61. The individual scores for questions when compared with the previous year are higher and provide positive assurance that the service is well regarded. The overall score is above target and Internal Audit will strive to continue and maintain this position.

62. Internal Audit managers review the performance indicators on a quarterly basis and determine what action can be taken. The targets set are challenging and where targets are not achieved action is still undertaken and documented to try to further improve outcomes.

63. 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.

## **Service Reviews**

64. During the year Internal Audit has undertaken risk based audit (RBA) reviews across the broad range of Council Services. Galileo (audit management, working paper and reporting system) is used for the majority of the risk based audits and has been further utilised to audit projects, project management and ICT application reviews. The following sections outline the main blocks of work undertaken that are not portfolio/service specific.

## **Main Financial Systems**

65. As part of the audit review cycle Internal Audit undertakes a programme of reviews that cover the main financial systems of the Council. The work in these areas has been examined by the Council's External Auditors and reliance is placed upon this work for the Council's annual accounts. This method of working reduces duplication of work and means that External Audit does not undertake further expensive checking in these areas.

66. The key systems covered are noted below:-

### **Payroll**

This audit covered the controls within the Payroll system to ensure payments and deductions are made accurately and are supported with appropriate documentation. The overall opinion given was Medium-High. The 14/15 audit will consider progress against the previously agreed recommendations as well as areas from the annual rolling programme.

### **Debtors**

This audit covered the controls within the Council's OEO system and reconciliation processes in place. As per our rolling programme, Internal Audit followed up the previously agreed recommendations and a sample of debtor accounts was included. A number of recommendations were made and agreed and an overall opinion of Medium-Low was given.

### **Creditors – Purchase to payment (P2P)**

This audit covered the P2P process and controls and made three recommendations which were agreed. The overall opinion given was Medium-Low.

### **Council Tax**

The annual Council Tax audit concluded with a Medium-Low opinion, and a number of recommendations were made and agreed. At the time of the review management were reviewing the performance targets and this will be revisited as part of the 14/15 Council Tax audit.

### **National Non Domestic Rates (NNDR)**

The 13/14 audit review was finalised in July 2013 and was given a Medium-High opinion. The NNDR review for 2014/15 will consider progress against the previously agreed recommendations as well as areas from the annual rolling programme.

### **CYPF Financial Reporting**

As part of the rolling programme of portfolio focussed audits, a budgetary reporting and controls audit was undertaken for the CYPF portfolio. Three recommendations were agreed mainly around the allocation and reviewing of budgets. The audit concluded with a Medium-Low opinion, therefore the controls are largely in place with scope to improve their operation.

### **Housing and Council Tax Benefit System**

The Benefits Service and the Council Tax Service are contracted out to Capita and administered on a joint IT system. A risk based audit and an annual transaction testing review were conducted on the Benefits Service (Housing and Council Tax Benefit) during the year. From the work completed it was found that controls in the Benefit Service are basically sound however recommendations for improvement were agreed with the Contract Administrator (Revenue and Benefits Client Team) and Capita.

Nationally, Housing and Council Tax Benefits are subject to a significant level of fraudulent activity and a team of counter fraud specialists is employed by Capita to deter, investigate and sanction incidents that occur within Sheffield. The level of counter fraud activity is summarised later in this report.

The Department of Work and Pensions (DWP) has proposed that Local Authority Housing Benefit investigations staff will in future be incorporated into a Single Fraud investigation Service working with the policies and priorities of the DWP. This transfer will take place in March 2015. With effect from April 2013 Council Tax Benefit was replaced by Council Tax Support and responsibility for investigation of any fraud allegations in this area will remain with the Local Authority.

### **Schools**

67. Effective from April 2011, Internal Audit has revised the approach taken to school audits with the introduction of themed reviews. Themes are based on areas previously included within the detailed schools programme. Additionally, risk management issues surrounding certain non-financial areas were assessed and identified.

68. In 2013/14, Internal Audit carried out themed reviews of the following areas :

- School Governing Body
- School Payroll – Use of Independent Providers
- School Payroll – Starters, Leavers and Amendments to pay
- School Attendance – Multi Agency Support Teams (MAST)

69. The Financial Management Standard in Schools (FMSiS) was withdrawn by the Secretary of State with effect from 15 November 2010. Schools now have the Schools Financial Value Standard (SFVS) in place, which although not externally assessed like FMSiS, is expected to inform the regular internal audit processes of local authorities. Consideration has been given to the questions and responses included within the SFVS when devising themes to review for 2013/14. Also, prior to themed reviews commencing the SFVS self-assessment returns are examined to help select the sample schools to visit.

70. For the 2013/14 financial year, in the Dedicated Schools Grant (DSG) Outturn Statement, the Director of Finance has given a general assurance that they have a system of audit in place which gives them adequate assurance over school's standards of financial management and the regularity and propriety of their spending.

### **Counter Fraud**

71. During 2013/14 Internal Audit had a part-time member of staff within the section that undertook counter fraud work in addition to an audit programme. They dealt with potential fraud allegations made against employees and council Members and provided advice and assistance to managers in all portfolios. Pro-active counter fraud exercises were undertaken, which were intended to strengthen the Council's control framework and maintained links to the Police and other statutory investigative services. As a result of the reduction in resources counter fraud activity has been reduced and has successfully merged with the functions of the remaining Resources Team. The Audit Manager for fraud has now retired and his role has been amalgamated into the work of the other Audit Managers.

72. The Council provides data from its systems to the Audit Commission that is matched with data from other public bodies as part of the biennial NFI. Data matches from this process are then filtered, followed-up and action taken as appropriate. In the current year Internal Audit has been involved in co-ordinating the response to the data matches received as part of the 2012/13 NFI exercise. A separate matching exercise was undertaken using data matching of Single Person Discounts on Council tax.

73. The Housing and Council Tax Benefit system remains the service area most vulnerable to fraud. Capita are responsible for the investigation of benefit fraud in the majority of cases. Internal Audit conducts investigations for alleged offences which may have been committed by Council employees or Members. Allegations of Housing Benefit fraud are received from various sources including the NFI, benefits processing staff and reports from the general public. In the year 342 investigations took place, which resulted in 156 cases of Housing/Council Tax benefit fraud being identified and referred to the sanction panel this resulted in 89 prosecutions in the year.
74. As highlighted in the Council's Counter Fraud policies, the management of fraud risk does not rest with Internal Audit. The role of Internal Audit is to deliver an opinion on the whole of the Council's risk management, control and governance processes. In relation to fraud this includes an opinion of the adequacy of arrangements for managing the risk of fraud and ensuring that the organisation actively promotes an anti-fraud culture. Internal Auditors are vigilant to the potential of fraud and strive to ensure that there are strategies, policies and controls in place to minimise the occurrence or impact of fraud.

#### **ICT Audit**

75. During the year a number of reviews were undertaken and recommendations made for which a generally positive response was received.
76. Internal Audit has also used computer auditors from Salford City Council who have a large team that provides computer audit services to undertake additional work in this area to augment the in-house provision.

#### **Projects and Programmes (part of the Main Corporate Systems Suite)**

77. Following Programme Management audits undertaken in other portfolios, two audits were scheduled to review arrangements in Place and Resources portfolio, however these audits were deferred due to pending changes in the corporate process. Both audits will be undertaken as part of the 14/15 audit plan.

#### **Performance Management Framework (PMF) (part of the Main Corporate Systems Suite)**

78. As part of the rolling programme of audits undertaken on service planning in portfolios, the Service Business Planning process within the Resources Portfolio was completed. Additionally, the reporting and escalation processes within CYPF Portfolio were audited, including the use of the corporate Performance Plus system (again this audit has previously been carried out within the other portfolios). These reports

were issued with a Low and Medium-Low opinion; meaning that controls were in place and were for the most part operating soundly.

79. PMF reviews have now been undertaken in the corporate centre and in all portfolios, therefore there are no PMF reviews in the audit plan for 14/15. As part of the planning for 15/16 the approach will be reviewed.

#### **Partnerships and Contracts (part of the Main Corporate Systems Suite)**

80. A review was undertaken on the transition arrangements for the Construction and Building Services element of the Kier Limited Liability Partnership (LLP) contract which ceased in April 2014. The review focussed on the project management arrangements and governance in place for the project which was overseeing the transition from Kier LLP to Kier Services. This report was issued with a Medium-Low opinion.

81. An audit in relation to the Integrated Waste Management Contract (Veolia) – client monitoring arrangements was undertaken and a High audit opinion provided. The key actions related to the management, development, implementation and monitor of strategies to promote the achievement of NI 192 (national household waste recycling target). Submission of the draft Waste Management Strategy for approval to PLT, EMT and Cabinet. Furthermore, management need to work towards the resolution of the contractual disputes and the identification of the Business Improvement Plan savings.

#### **Risk Management (part of the Main Corporate Systems Suite)**

82. There are positive and practical benefits in reducing the Councils exposure to risk, these include mitigating or reducing the costs and impact should an event occur, developing processes so that adverse operational events are less likely to occur, and implementing strategies which will allow services to continue should an adverse event happen.

83. Similar to previous year's portfolio testing a review was undertaken around risk management compliance in the Resources Portfolio. The overall opinion assigned to the audit was Medium-Low.

84. In addition an audit covering the quality of risk mitigation was completed, resulting in a Medium-High opinion. The findings related to the quality of detail held within portfolio risk management plans.

85. Risk Management reviews have now been undertaken in the corporate centre and in all portfolios, therefore there are no Risk Management reviews in the audit plan for 14/15. As part of the planning for 15/16 the approach will be reviewed.

86. In June 2014 Internal Audit staff were provided with access to the Risk Management Sharepoint site – which means that up to date risk management information is now more readily available and can be used to inform individual audit work going forward.

### **Sheffield City Council's – Annual Governance Statement**

87. Sheffield City Council is responsible for ensuring that its business is conducted in accordance with legislation and that proper standards of control are maintained, and that public funds and assets are safeguarded and properly accounted for and are used economically, efficiently and effectively. The 2006 Accounts and Audit Regulations (last updated 2011) place a requirement on the Council to produce an Annual Governance Statement.

88. Two audits were delivered in relation to the AGS process and portfolio testing. These reports were issued with Low and Medium-Low opinions; meaning that the controls were in place and were for the most part operating soundly.

### **Chief Audit Executive (Senior Finance Managers) Opinion**

89. 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.

90. From the work undertaken by Internal Audit during the year I am satisfied that the core systems include control arrangements which are adequate to allow the Council to conduct its business appropriately.

### **FINANCIAL IMPLICATIONS**

91. There are no direct financial implications arising from the report.

### **EQUAL OPPORTUNITIES IMPLICATIONS**

92. There are no equal opportunities implications arising from the report.

### **RECOMMENDATIONS**

93. That the Audit Committee notes the content of the report and the opinion of the Chief Audit Executive (Senior Finance Manager).

**Kayleigh Inman**  
**Chief Audit Executive (Senior Finance Manager)**





**APPENDIX A**

**SHEFFIELD CITY COUNCIL**

**INTERNAL AUDIT CHARTER**

## **SHEFFIELD CITY COUNCIL**

### **INTERNAL AUDIT CHARTER**

#### **Definition and Objectives**

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operation. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness or risk management, control and governance processes.

#### **Purpose, Authority and Responsibility**

Internal Audit forms part of the Resources Portfolio. The Senior Finance Manager (Internal Audit) reports to the Assistant Director of Finance, who in turn reports to the Director of Resources.

The Senior Finance Manager is the designated 'Chief Audit Executive', as defined in the Public Sector Internal Auditing Standards. 'The Board' is defined as the Audit Committee and 'Senior Management' is defined as the Executive Management Team.

The Assistant Director of Finance and Senior Finance Manager reports to the Audit Committee on a quarterly basis. There are a number of standard items reported including the Annual Audit Plan, an annual opinion on the standard of internal control within the authority and regular updates on the implementation of high opinion audit report recommendations.

#### **Independence and Objectivity**

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations. The Senior Finance Manager, Finance Managers (Internal Audit) and Internal Auditors have no operational responsibilities.

The Assistant Director of Finance is responsible for the Business Partnering Function for Communities Portfolio. Should the need arise the Senior Finance Manager can report directly to the Director of Finance, the Executive Director Resources, or the Chief Executive. Reports can also be made to the Chair of the Audit Committee if required.

The Senior Finance Manager will confirm to the Audit Committee on an annual basis, within the Annual Report, the organisational independence of the Internal Audit Service.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance.

The Scope for Internal Audit is the control environment comprising risk management, control and governance. This effectively includes all of the Council's operations, resources, services and responsibilities in relation to other bodies. This description shows the very wide potential scope of Internal Audit. In order to turn this generic description into actual subjects for audit, a risk assessment methodology is applied that allows all high-risk subjects to be identified. The Council's fundamental financial systems are subject to a degree of inspection on an annual basis, whilst Internal Audit also identifies other financial and non-financial systems and functions as important areas for review.

Internal auditors will maintain an impartial, unbiased attitude and avoid any conflicts of interest in the performance of audit assignments.

Accountability for the implementation of recommendations made by Internal Audit lies with management, who either accept and implement the advice or formally reject it. A report is made to the Audit Committee of any 'high priority' recommendations that have been rejected by management.

### **Code of Ethics**

All our Internal Auditors must conform to the Code of Ethics (see Appendix A.1). The code promotes an ethical culture in a profession founded on the trust placed in its objective assurance about risk management, control and governance.

The Code of Ethics includes 2 essential components – The Principles and Rules of Conduct (which are an aid to interpreting the Principles into practical applications).

### **Statutory Role**

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2003, which state in respect of Internal Audit that:

“ A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body require:

- Make available such documents of the body which relate to its accounting and other records as appear to be necessary for the purpose of the audit; and
- Supply the body with such information and explanation as the body considers necessary for that purpose.”

The statutory role is recognised and endorsed within the Council's Financial Regulations, which provides the authority for access to officers, Members, documents and records and to require information and explanation as necessary.

### **Internal Audit Standards**

There are statutory requirements for Internal Audit to work in accordance with the 'proper audit practices' are in effect the standards for local authority internal audit. The guidance accompanying the Accounts and the Audit Regulations 2003 make it clear that the standards are those shown in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2003. Sheffield City Council has adopted the CIPFA standards.

With effect from 1<sup>st</sup> April 2013, the CIPFA Code of Practice has been subsumed in the new Public Sector Internal Auditing Standards. SCC is working towards compliance with this new Standard. Any non-compliance will be reported to the Audit Committee in the Annual Report.

### **Internal Audit Resources**

Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Senior Finance Manager and Assistant Director of Finance are responsible for appointing the staff of the Internal Audit section and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

The Assistant Director of Finance is responsible for ensuring that the resources of the Internal Audit section are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby she concluded that resources were insufficient, she must formally report the to the Section 151 Officer.

### **Engagement Planning**

For each audit assignment, Internal Auditors will develop and document a plan including the objectives of the review, the scope, timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model.

## **Reporting Accountabilities**

A written report will be prepared by the appropriate Auditor for every internal audit review. The report includes an opinion on the adequacy of controls in the area that has been audited.

The draft report will be discussed with the auditees and a response obtained for each recommendation stating their agreement/ non agreement to each recommendation and timeframe for implementation. The draft final report will include these management responses and acceptance to the audit recommendations and will be issued to the auditee and relevant Director of Service for final agreement. The auditee and Director of Service have 7 days to reply to the draft final report before it is issued as final.

Internal Audit reports are subject to a follow up, arranged in order to ascertain whether the action stated by management and their response to the report has been implemented.

## **Fraud and Corruption**

Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud or corruption. Internal Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal Audit may be requested by management to assist with fraud related work.

The Senior Finance Manager has made arrangements to be informed of all suspected or detected fraud, corruption or improprieties so that she can consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for her opinion on the internal control environment.

Updated June 2013.

**APPENDIX A.1**

**SHEFFIELD CITY COUNCIL  
CODE OF ETHICS**

## **CODE OF ETHICS**

### **1) Integrity**

#### **Principle**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

#### **Rules of Conduct**

Internal Auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility;
- 1.2 Shall observe the law and make disclosure expected by the law and the profession;
- 1.3 Shall not knowingly be a part to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation;
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

### **2) Objectivity**

#### **Principle**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balance assessment of all the relevant circumstances and are not unduly influence by their own interest or by others in forming judgements.

#### **Rules of Conduct**

Internal Auditors;

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement;
- 2.3 Shall disclose all material facts know to then that, if not disclosed, may distort the reporting of activities under review.

### **3) Confidentiality**

#### **Principle**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

#### **Rules of Conduct**

Internal auditors;

3.1 Shall be prudent in the use and protection of information acquired in the course of their duties;

3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation;

### **4) Competency**

#### **Principle**

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

#### **Rules of Conduct**

Internal auditors;

4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience;

4.2 Shall perform internal auditing services in accordance with the International Auditing Standards for the Professional Practice of Internal Auditing.

4.3 Shall continually improve their proficiency and effectiveness and quality of their service.

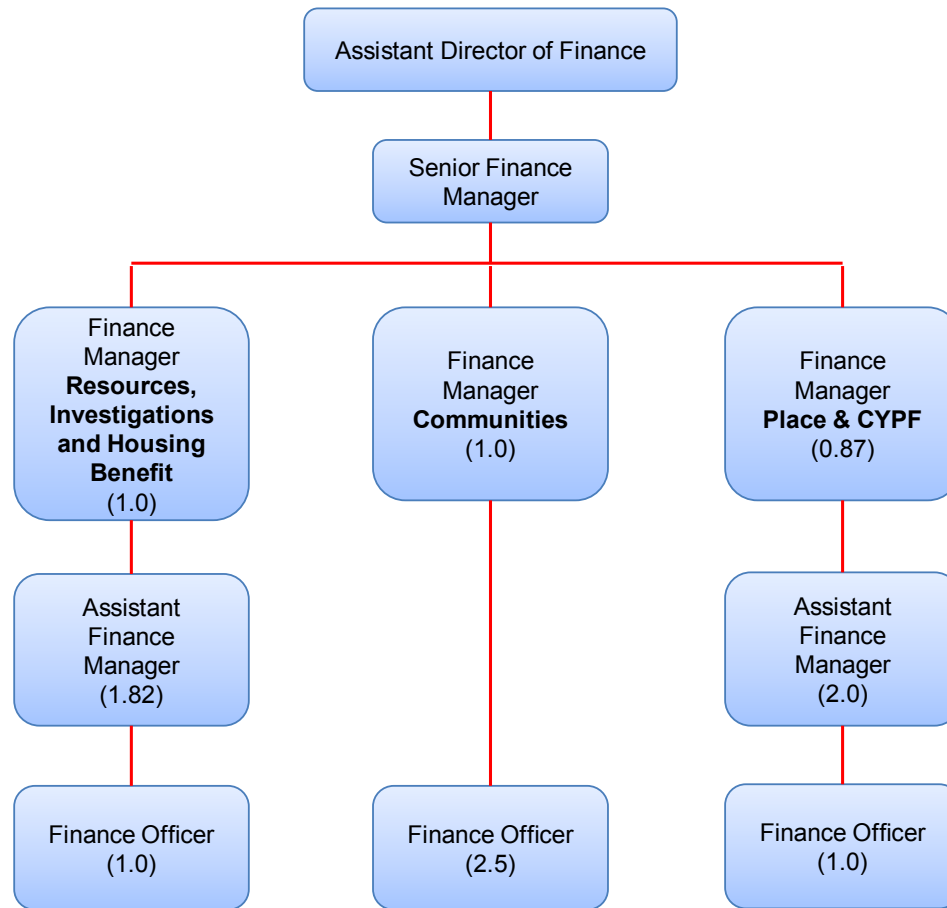


**APPENDIX B**

**SHEFFIELD CITY COUNCIL**

**INTERNAL AUDIT STRUCTURE**

# Internal Audit



**APPENDIX C**

**SHEFFIELD CITY COUNCIL**

**INTERNAL AUDIT PROTOCOL**



## ***INTERNAL AUDIT PROTOCOL***

### **Introduction**

This document sets out the roles, responsibilities and processes of stakeholders for the planning, conduct, reporting and follow up of planned audit work.

Internal Audit will work with Directors and senior managers to minimise impact on services during the planned audits to try to maximise value to the service.

### **Regulatory Framework**

Internal Audit operates within a statutory and professionally (The Public Sector Internal Audit Standards - PSIAS) regulated framework for the planning and conduct and reporting of audits. This regulatory framework is relevant to determining the scope and content of Internal Audit work.

Within this regulatory framework a Stakeholder consultation process has been established to include Directors, External Audit, Sheffield City Council Audit Committee and Service Managers. Final approval of the planned programme of work (the Audit Plan) rests with the Executive Director - Resources (Section 151 Officer).

The Audit Committee provides a non-executive scrutiny and governance function as recommended by PSIAS.

All references to Executive Directors within this protocol should be taken to include nominated representatives for each Portfolio/service area (PLT/SMT reps, Directors of Business Strategy etc.)

### **Protocol Objectives**

The objective of the protocol is to ensure that the audit planning, assignment, consultation and reporting processes are inclusive and effective and that audits are: -

- Relevant to organisational and service risks
- Efficiently carried out
- Delivered within agreed timescales
- Followed up consistently
- Reported within an agreed framework

### **Commitments from Internal Audit**

- Internal Audit will present draft plans for comment to Executive Directors by Mid March. Any considerations for the preferred timing of audits will be captured at this stage (or as part of the planning process with Directors and Assistant Directors). Any changes to draft plans arising from subsequent consultation with the Executive Director - Resources (Section 151 Officer) or the Audit Committee will be notified to Executive Directors.
- Interim review and progress meetings will be held with Executive Directors quarterly or as specified.
- The detailed timing of audits will be subject to forward planning with the portfolios specified representative quarterly in advance. There may be a few exceptions to this when unannounced visits are essential or where resourcing issues force changes.
- Internal Audit will undertake to deliver final reports within 3 calendar months of agreeing the terms of reference or otherwise agree a date with the auditee.
- Terms of reference (ToR) for each assignment will be discussed with the relevant manager. These will generally be agreed prior to the commencement of work. Occasionally however agreement may not be possible for example where there is a conflict of perceived risk between service managers and the Section 151 Officer.
- Agreed officers for the discussion of report findings and recommendations will be identified at the ToR stage – subject to the actual findings and recommendations raised.
- Significant areas of concern will be raised during the review.
- Audit requirements for the availability of key members of staff and access to records will be discussed at the initial meeting with the service manager who agrees the terms of reference. This will include an agreed date for discussion of the draft report.
- A client satisfaction questionnaire will be issued after each audit. The results are recorded as part of Internal Audits quarterly PI reporting and summarised in the Senior Finance Managers annual report to the audit committee (September).

### **Commitments from Client**

- Executive Directors/Directors will be responsible for informing Internal Audit of any material changes in Portfolio/Services risk profiles or preferred timing of planned work in their Portfolio.

- Management will be responsible for identifying any risks omitted from the terms of reference. This will proactively involve managers in the identification of risks.
- Managers are responsible for ensuring key staff and records are available as agreed or informing Internal Audit of potential delays at the earliest opportunity. Information must be supplied in a timely manner that permits the overall agreed date for the discussion meeting and final report to be met.
- Executive Directors/Directors will be responsible for ensuring that there is a process for implementing and following up a recommendation, to provide them with the required level of assurance.
- Management are requested to respond to draft reports within 5 working days to enable the 3 month target for the issue of final reports to be met.
- Management are requested to complete and return the client satisfaction questionnaires within 2 weeks of it being issued.

### **Closure of audits**

- Audits will normally be treated as completed after 3 months from the date of agreeing the terms of reference unless otherwise agreed. A final report will be issued with any material matters outstanding reported. Unresolved matters will be carried into the follow up and exception reporting procedures. They will also contribute towards the assessment of overall governance assurance for the Portfolio.

### **Reporting arrangements and follow up**

- Final audit reports will be sent to the Executive Director/Directors to note their responsibility for the agreed actions. Copies may be made available to the Sheffield City Council Audit Committee.
- Where it becomes apparent during the conduct of an audit that there is likely to be a high residual risk that does not have an agreed management response this will be notified to the relevant Director of Business Strategy. This is to assist management to consider options and provide responses within the agreed timescales. This would be strictly on the basis of “subject to review and conclusion of the audit”.
- Internal Audit will adhere to their follow up procedure in order to report on whether agreed recommendations have been implemented by management.

- It is the responsibility of Executive Directors to satisfy themselves that appropriate action has been taken and is effective. They should establish an internal procedure to achieve this.
- Exception reporting to the Audit Committee will highlight matters of concern relating to delays in the progress of audits, non-implementation of high risk recommendations or significant irregularities. A staged approach is to be taken.
  - Stage 1 - early warning that a watching brief is required because of significant unresolved issues. The Audit Committee will be asked to note Internal Audit concerns. Advance notice to be given to Portfolios and target dates for further action/responses to be set following discussion.
  - Stage 2 – continued and unresolved concerns by Internal Audit with an invitation to the Audit Committee to request direct management responses or attendance at a subsequent audit committee.

It is intended that such items will be few in number and relate to high risk issues such as those that have previously appeared on the Annual Governance Statement or the longer EMT action list.

Significant volumes of lower risk actions not implemented may result in general performance reporting to the audit committee.

**APPENDIX D**

**SHEFFIELD CITY COUNCIL**

**INTERNAL AUDIT**

**CLIENT QUESTIONNAIRE**



**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.	<input type="checkbox"/>
2. The level of consultation during the audit.	<input type="checkbox"/>
3. The audit was carried out effectively with minimum disruption.	<input type="checkbox"/>
4. The auditors were professional, objective and worked well with your team.	<input type="checkbox"/>
5. The final report was clear, concise, addressed the key issues and was issued in a timely manner.	<input type="checkbox"/>

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](mailto:Kayleigh.inman@sheffield.gov.uk)

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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## Audit Committee Report

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**Report of:** Interim Director of Legal and Governance

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**Date:** 25 September 2014

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**Subject:** Work Programme 2014/15

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**Author of Report:** Dave Ross

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### Summary:

The report provides details of a proposed outline work programme for the Committee for 2014/15

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### Recommendations:

That the Committee:

- (a) considers the outline Work Programme and identifies any further items for inclusion; and
  - (b) approves the work programme.
- 

### Background Papers:

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**Category of Report:** OPEN

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## Statutory and Council Policy Checklist

<b>Financial Implications</b>
NO Cleared by:
<b>Legal Implications</b>
NO Cleared by:
<b>Equality of Opportunity Implications</b>
NO Cleared by:
<b>Tackling Health Inequalities Implications</b>
NO
<b>Human rights Implications</b>
NO:
<b>Environmental and Sustainability implications</b>
NO
<b>Economic impact</b>
NO
<b>Community safety implications</b>
NO
<b>Human resources implications</b>
NO
<b>Property implications</b>
NO
<b>Area(s) affected</b>
NONE
<b>Relevant Cabinet Portfolio Leader</b>
NOT APPLICABLE
<b>Relevant Scrutiny Committee if decision called in</b>
NOT APPLICABLE
<b>Is the item a matter which is reserved for approval by the City Council?</b>
NO
<b>Press release</b>
NO



**WORK PROGRAMME**

**1. Purpose of Report**

1.1 To consider an outline work programme for the Committee for 2014/15 and to identify any further items for inclusion.

**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 is based around the attached terms of reference and 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.

2.2 An outline programme for 2014/15 is set out below. Members are asked to identify any further items for inclusion.

<b>Date</b>	<b>Item</b>	<b>Author</b>
13 November 2014	Annual Audit Letter 2013/14	Sue Sunderland (Director, KPMG)
13 November 2014	Systems Review (arising from the Management Review of Adult Social Care)	Chief Executive
13 November 2014	Strategic Risk Management/ Corporate Risk Register	Richard Garrad (Corporate Risk Manager)
13 November 2014	Revised Approach for Capital Delivery and Reporting	Dan Ladbury (Head of Capital Delivery)
13 November 2014	Digital Region Review Report	KPMG
11 December 2014	Adult Social Care Management Review Progress Report	Laura Pattman (Assistant Director of Finance)
8 January 2015	Progress report on the recommendations from the External Auditor's Annual Governance Report	Allan Rainford (Deputy Director of Finance)
8 January 2015	Annual Grants Report 2013/14	Sue Sunderland (Director, KPMG)

8 January 2015	Annual Governance Statement Progress Report	Gillian Duckworth (Interim Director of Legal and Governance)
8 January 2015	Progress on Audit Reports with a High Opinion	Laura Pattman (Assistant Director of Finance)
8 January 2015	Financial/Commercial Monitoring of External Relationships - Progress Report	Director of Finance/Andrew Kidder
12 February 2015	Additional meeting if required	
12 March 2015	Additional meeting if required	
9 April 2015	External Audit Plan 2014/15	Sue Sunderland (Director, KPMG)
9 April 2015	Annual Audit Fee Letter 2015/16	Sue Sunderland (Director, KPMG)
9 April 2015	Internal Audit Plan 2015/16	Laura Pattman (Assistant Director of Finance)
9 April 2015	Audit Commission Report on Protecting the Protecting the Public Purse/Update on Counter fraud initiatives	Laura Pattman (Assistant Director of Finance)
9 April 2015	International Auditing Standards – Compliance with Internal Control/counter Fraud	Laura Pattman (Assistant Director of Finance)
9 April 2015	Strategic Risk Management/ Corporate Risk Register	Richard Garrad (Corporate Risk Manager)

### 3. Recommendation

#### 3.1 That the Committee:-

- (a) considers the outline Work Programme and identifies any further items for inclusion; and
- (b) approves the work programme.

**Interim Director of Legal and Governance**

## **Audit Committee Terms of Reference (Revised February 2012)**

- (1) To approve the Council's Statement of Accounts (which includes the Annual Governance Statement) in accordance with the Accounts and Audit Regulations 2003 as amended.
- (2) To consider and accept the Annual Letter from the Auditor or the Audit Commission in accordance with the Accounts and Audit Regulations 2003 as amended and to monitor the Council's response to any issues of concern identified.

### *Audit Activity*

- (3) To consider the Chief Internal Auditor's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- (4) To consider summaries of specific internal audit reports as requested.
- (5) To consider reports dealing with the management and performance of the internal audit service.
- (6) To consider any report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- (7) To consider specific reports as agreed with the external auditor.
- (8) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (9) To liaise with the Audit Commission over the appointment of the Council's external auditor.

### *Regulatory Framework and Risk Management*

- (10) To maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour (except in relation to those matters which are within the Terms of Reference of the Standards Committee e.g. code of conduct and behaviour of Members).

- (11) To monitor the effective development and operation of risk management and corporate governance in the Council.
- (12) To monitor Council policies on “Raising Concerns at Work” and the anti-fraud and anti-corruption strategy and the Council’s complaints process.
- (13) To oversee the production of the Council’s Annual Governance Statement and monitor progress on any issues.
- (14) To consider the Council’s arrangements for corporate governance and any necessary actions to ensure compliance with best practice.
- (15) To consider the Council’s compliance with its own and other published standards and controls.

*Accounts*

- (16) To consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.